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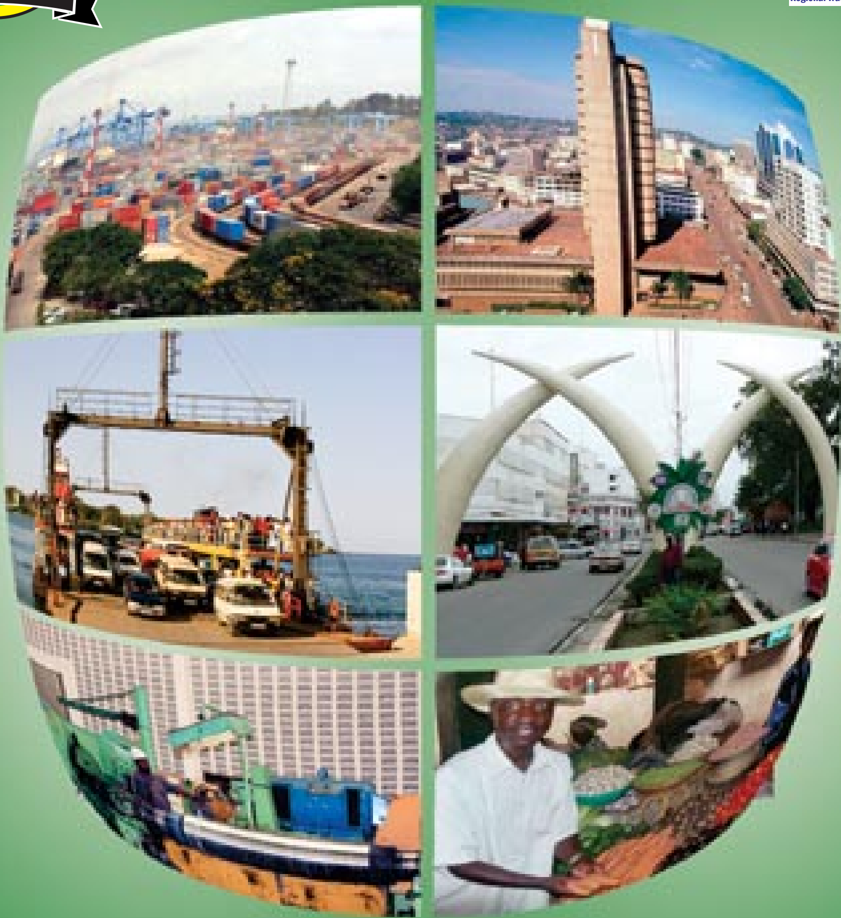

Deepening Regional Integration through greater Private Sector Involvement

EAST AFRICAN BUSINESS COUNCIL

The Voice of The Private Sector in East Africa

The East African Community (EAC) Treaty of 1999 places great emphasis on fostering a regional integration process that is people-centred but private sector driven and internationally competitive

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CONTENTS

FOREWORD

Reginald Mengi, Chairman, EABC

In recognition of the role played by the Private Sector in achieving sustainable development for the region, the East African Community (EAC) Treaty of 1999 places great emphasis on fostering a regional integration process that is people-centred but private sector driven and internationally competitive.

The Treaty places private sector development at the heart of its strategy for accelerating regional growth, creating wealth and reducing poverty. It is the East African Business Council (EABC)'s contention that for this vision to be realised for the private sector, which is inherently driven by a profit motive, it is imperative that the EAC governments continually work towards ensuring that enabling policies, which are conducive to enhancing opportunity for return on investment and that enable firms to be competitive, both regionally and internationally, are in place.

With the establishment of the East African Community, the expectation of the Private Sector once the Customs Union was created was that it would herald opportunities for trade and investment and would improve production and productivity of private sector firms in the region; that the Common Market and Monetary Union will consolidate these opportunities, while the Political Federation will cement permanently the opportunities which accrue from the integration process. Ultimately, these incremental stages would ensure that the business community increasingly becomes more competitive, both regionally and internationally as it takes advantage of the opportunities.

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Our expectations as the private sector remain steadfast and it is on the strength of this that this short brief seeks to highlight the benefits that have accrued thus far from regional integration, as contained in the recent EABC Studies on the Impact of the Customs Union on Businesses in the EAC region.

The brief also outlines the challenges to full realisation of the potential benefits and our recommendations on the strategies and incentive framework needed to facilitate and promote the private sector in a direction consistent with a 'people- centred and private-sector driven' approach.

EABC appreciates the support the private sector has received from EAC governments in the regional integration process. We affirm our support for the integration process and remain willing to partner with our governments to fully realize the benefits of regional integration.

Mr. Charles Mbogori
Executive Director

MESSAGE

As the regionally recognised voice of business associations and corporate institutions in the EAC region, EABC's guiding vision is to be an effective change agent for fostering an enabling business environment for a diversified, competitive, export-led, integrated and sustainable economy. Our members are drawn from all the 5 EAC Partner States and include main national associations such as manufacturers, employers chambers of commerce and apex private sector bodies; business facilitators such as bureaus of standards and port authorities and individual corporates. Our main objective is to ensure that the private sector is competitive enough to full take advantage of the opportunities created by the integration process.

Our activities at EABC are therefore focussed on leveraging, from a regionally agreed position, any and all issues that affect such competitiveness. These activities include, among others:

- Lobbying at the highest level possible; from the EAC Secretariat level, individual Ministers; Presidents and to the Summit, with a view to, among others ensure the smooth implementation of the Customs Union protocol; commitment to agreed policies and to articulate the concerns of the private sector to those with power to make decisions.
- An annual Business Climate Index, which aims at improving progress in removal of non tariff barriers like customs/business registration/licensing procedures among others; and improvement in the business perception on key areas like transport, access to finance, business support services and energy among others.
- Participation in the on-going Common Market and Economic Partnership Agreement (EPA) negotiations to ensure that the private sector's interests are fully articulated;
- In the Banking Sector, we are currently carrying out surveys at the national and regional levels to identify impediments in the sector and the appropriate response;
- In the energy sector, we are planning an Energy Conference for 3-6 December 2008; aimed at addressing how we can enhance private sector investment in grid /off grid and renewable energy, (which is a key contributor to uncompetitiveness of our industries due to the high price of electricity, its unreliability and its poor quality).
- Many other areas including the problem of counterfeits, corruption; HIV/AIDS pandemic, infrastructure development, to name a few.

We encourage all private sector associations and companies to join EABC to ensure our voice is strong and truly representative

We encourage all private sector associations and companies to join EABC to ensure that when we address and support governments in improving the environment for doing business, our voice is strong and truly representative.

The Coca-Cola Company has enjoyed presence and continued expansion in Africa since 1928. Coca-Cola East and Central Africa, headquartered in Nairobi, covers 27 countries on the continent comprising Angola, Botswana, Burundi, Comoros, Congo Brazzaville, Congo DRC, Djibouti, Ethiopia, Eritrea, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mayotte, Mozambique, Namibia, Re-Union, Rwanda, Seychelles, Somalia, St Helena, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

In the countries where we are represented, each operation is a local business. Our beverages are produced locally by African enterprises and distributed by small-scale business people. Our product range and marketing reflect the tastes and lifestyles of every country in which we operate.

As a leading and responsible corporate citizen, we partner with communities across the 27 countries to promote sustainability. We have been running The Coca-Cola Africa Foundation (TCCAF) since 2001 to manage the community investments of the Coca-Cola System in Africa. TCCAF has invested substantially in the areas of education, health and the environment. The Foundation continues to leverage the System's unparalleled manufacturing and distribution network, to access some of Africa's most remote locations during disaster relief efforts across the continent.

Crucially, the TCCAF has supported the implementation of a fully integrated System-wide response to the HIV-AIDS crisis in our markets, ensuring that all employees and their families have informed access to critical medical services. Indeed, our position as one of the largest private sector employers in East and Central Africa enabled us to roll out the most extensive HIV-AIDS program, covering all Company and Bottler employees and their families.

One of our strengths at Coca-Cola is marketing, founded on the quality of our consumer insights. We asked our consumers what they identified as priority areas for the continent's development. Our research revealed that TCCAF's current focus on **Health, Education** and **Environment** reflected the importance of these factors in improving communities' quality of life. It also suggested that TCCAF would benefit from increasing its activities in the area of employment. Consequently, **Entrepreneurship** now forms one of the 4 key strategic priority areas for TCCAF.

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1.0 INTRODUCTION

Regional integration is now universally accepted as a major vehicle for economic, social and political transformation of countries. Africa has shown the way forward in regard to regional integration. It plays host to various regional groupings – EAC, SADC, ECOWAS etc. Indeed, the continent has so embraced regional integration that a new challenge has arisen; some countries have enlisted as members of multiple groupings without prior analysis of possible conflicts.

Regional integration is not supposed to be an end in itself; it is a means to improve the welfare of the citizens of the countries involved by facilitating trade and movement of factors of production, including labour, in advanced integration schemes, thereby maximizing economic growth and creation of wealth.

Indeed, the expectation of the private sector when the East African Community was created was that the Customs Union would herald opportunities for trade and investment - both local and foreign; the Common Market and Monetary Union would consolidate these opportunities, while the Political Federation would permanently cement the opportunities which accrue from the integration process. The business community is expected to be more competitive regionally and internationally. Is regional integration playing this role in the region? What role can the private sector play to enhance the effectiveness of regional integration in the region?

This Briefing Paper explores these questions by presenting a summary of evidence from two studies recently commissioned by the East African Business Council, under the Regional Trade Facilitation Programme (RTFP), and from other sources. The two studies commissioned by the EABC were on the impact of the EAC Customs Union on businesses, and a border survey of Non-tariff Barriers (NTBs). The importance of taking early and regular stock on the impact regional integration is having on businesses and thus the welfare of citizens cannot be overemphasized. The same is true regarding the Non-tariff Barriers that often negate the impact of tariff reforms undertaken painstakingly by leaders of the countries involved in the integration schemes. The business community needs a clear understanding of the effects of the EAC Customs Union in order to engage on issues geared towards enhancement of the effectiveness of the EAC trade regime.

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The two studies were based on a questionnaire-aided survey of businesses, traders and public officials working at border points in East Africa. Under the impact study, a sample of 86 companies drawn from sectors accounting for 80% of intra-EAC exports was interviewed in early 2008 to gauge the impact the EAC Customs Union has had on their businesses. The border survey was conducted in April 2008 to assess the nature and severity of Non-tariff Barriers affecting cross-border trade. The survey covered 12 border posts including two ports: Mutukula Uganda, Mutukula Tanzania, Bujumbura Burundi, Gatuna Rwanda, Gatuna Uganda, Kanyaru Burundi, Kanyaru Rwanda, Kigoma Tanzania, Malaba Uganda, Malaba Kenya, Namanga Tanzania and Namanga Kenya. A total of 231 respondents, comprising of 84 truck drivers, 82 cross border traders and 65 clearing agents were surveyed. In addition, government officials at the border provided secondary information for corroborating information received from the other respondents. The draft reports of both studies were subjected to national and regional validation workshops.

The purpose of this paper is to brief EABC members and the governments of the Partner States on the achievements and impact of regional integration, particularly the East African Community, so far; and the challenges of both tariff and non-tariff barriers, impeding full realization of integration benefits. In addition, the paper highlights the role of the private sector in the search for practical and innovative solutions towards improvement of trade logistics and the business environment in East Africa. In this regard, besides impact and other issues, the Briefing Paper reports on the other activities EABC is doing or is planning to do in the foreseeable future.

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2.0 BENEFITS OF REGIONAL INTEGRATION

The Eastern and Southern Africa region has several regional integration arrangements in addition to membership into the continental African Union (AU). These include the East African Community (EAC), COMESA, IGAD and SADC. These arrangements are at different stages in their development. What benefits have been realized from these arrangements so far? Taking the EAC as an example for illustration, it is evident that benefits are being received but not as much as would have been desired; there are challenges that hinder full realization of the benefits.

Efforts to revive the EAC can be traced to the 1993 Agreement Establishing the Permanent Tripartite Commission for East African Co-operation. In 1999, this was upgraded into a Treaty for the Establishment of the East African Community. Since then, key milestones have been reached and achievements made, including:

1. Establishment of sectoral councils and committees to articulate each of the co-operation areas agreed upon;
2. Launching of the Second East African Community Development Strategy (2001-2005) by the Heads of State on 24 April 2001;
3. Commissioning of the EAC Statistical Database;
4. Launching of the EAC Customs Union on 1st January 2005;
5. Establishment of various organisations including EABC to facilitate the participation of civil society, professionals, women and the private sector in the regional integration process.

Taking the EAC as an example for illustration, it is evident that benefits are being received but not as much as would have been desired; there are challenges that hinder full realization of the benefits

6. Joining of Rwanda and Burundi into the Customs Union in July 2007 (though they are expected to start implementing the provisions of the Customs Union in July 2009).

7. Plans to introduce a common currency, the East African Shilling by 2009 and a political federation by 2012.

In addition to these, some of the specific and important achievements made to date include:

1. Internal tariff elimination in accordance to the EAC Customs Union Protocol Implementation is on course. Imports from Tanzania and Uganda into Kenya are not attracting any duty, while import duties on Kenya's exports to Uganda and Tanzania are gradually being reduced in accordance to the schedules attached to the protocol.

2. Reduction of non-tariff barriers on cross-border trade;

3. Completion of important studies:
    a. Cross-border trade in agricultural products;
    b. EAC Industrial Development Strategy;
    c. Assessment of the status of Lake Victoria ports; and
    d. Development of Regional Tourism in East Africa (Phase I).

4. Harmonization of 207 standards and specifications for goods and services, out of which 91 East African Standards have been adopted and the WTO notified (EAC Website).

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5. Enactment of the Standards Quality Measurement and Testing Law in 2007, paving the way for mutual recognition of standard marks from national bureaus of standards.

6. Initiation of harmonization of investment incentives and codes, and publication of the Investors Guide to East Africa;

7. Progress in harmonization of customs policies and procedures, including adoption of a standardized single entry document, and harmonization of the last two digits of the Customs Classification Code;

8. Harmonization of banking rules and regulations, VAT rates, and pre-shipment requirements; institutionalization of pre- and post-budget consultations, and regular sharing of information; and implementation of the Tripartite Agreement on Avoidance of Double Taxation.

9. Harmonization of capital market policies and Stock Exchange trading practices under the auspices of the East African Securities Regulatory Authorities (EASRA) and the Capital Markets Development Committee.

10. Progress in the area of transport and communications, including implementation of the East African Road Network Project, establishment of task forces to harmonize road transit charges and address road safety, identification of regional railway transport projects, various projects in posts and telecommunications, implementation of the East African Civil Aviation Safety Project, and various projects on inland waterways transport.

11. Identification of projects on East African Energy Master Plan, development of an EAC Power Master Plan, and initiation of a regional interconnectivity project.

12. Progress in various other sectors including agriculture, environment, tourism and development of Lake Victoria and its basin. For instance, there is an ongoing study to assist in the development of a comprehensive East African Agricultural and Rural Development Strategy and an EAC Tourist Council has been established, among other interventions.

13. Progress on social issues including development of a Regional Programme on HIV/AIDS Control, revitalization of the Inter-University Council for East Africa (IUCEA), and development of a Regional Gender and Community Development Strategy and Programme.

14. Major milestones on immigration, including the introduction of the East African Passports and Temporary Passes, re-introduction of the Interstate Passes, abolition of charges for temporary importation of private vehicles across the borders, and the establishment of special immigration counters at the airports for East African travelers.

15. Development of the EAC Private Sector Development strategy in line with EAC Treaty's recognition that the private sector should be at the heart of the EAC strategy for accelerating regional growth, creating wealth, elimination of poverty and enhancing international competitiveness.

While the EAC integration process is progressing well, at least going by the pace of institutional development, the question remains whether the desired benefits are being achieved.

While the EAC integration process is progressing well, at least going by the pace of institutional development, the question remains whether the desired benefits are being achieved. As stated in the introduction,

the EAC is not an end in itself. One of the studies commissioned by the EABC set out to find out whether one of the key EAC institutions, the Customs Union, is delivering the expected benefits.

The level of awareness about the existence of the EAC customs union is quite high among members of the business community in the region

The overall goal of the EAC Customs Union (EAC CU) is to deepen the integration process through liberalization and promotion of intra-regional trade. Improvement of production efficiency in response to intra-regional competition; enhancement of domestic, cross border and foreign investment; and promotion of industrial diversification and economic development are the other expected benefits.

Implementation of the Customs Union is on course in accordance with the road map agreed upon between the EAC Partner States. The focus has been on implementation of the EAC common external tariff (CET), internal tariff elimination, enforcement of the EAC Customs Management Act, enforcement of the Rules of Origin, harmonization of standards, elimination of NTBs and adoption of the competition policy and law, among others.

Awareness of Customs Union is high but low on some of the provisions

The level of awareness about the existence of the EAC customs union is quite high among members of the business community in the region, at 100% in Uganda, 92% in Tanzania and 88% in Kenya. However, the level of awareness in Burundi and Rwanda is much lower, at 50% and 40%

(Above) Ferry carrying goods and passangers. (Below) A housing estate. (Extreme Right) A ship waiting for goods to be offloaded. A technician in a workshop, Namanga and Lunga Lunga border stations.

respectively. This underscores the immediate need for EAC Customs Union publicity and an awareness program for the two countries.
Awareness of the existence of duty drawback scheme is quite high in Tanzania and Uganda, at 75% and 86%, respectively. In Kenya, however, the level of awareness was very low at 32%. About 63%, 40% and 18% of the respondent companies in Kenya, Tanzania and Uganda, respectively, reported having received refunds under the scheme.

Awareness about the asymmetry principle needs to be improved. About 31% of Kenyan companies termed it as unfair, while 40% in Tanzania and 14% in Uganda did not know that the principle had been implemented.

Implementation of the EAC Customs Union viewed largely as successful

The study found that, according to companies operating in the region, the most attractive aspects of the Customs Union are elimination of intra-EAC tariffs and agreement on common external tariffs, which combined accounted for 78%, 82% and 90% of all the attractive aspects cited by companies from Kenya, Tanzania and Uganda respectively.

Response on "*whether the EAC Customs Union had been successfully implemented*" was overwhelmingly in the affirmative among 79%, 84% and 93% of respondent companies in Kenya, Tanzania and Uganda, respectively.

The business community viewed all the features (CET, elimination of internal tariffs, common customs clearance system) of the EAC Customs Union to be relevant. In addition, there is an overwhelming support for the principle of asymmetry, with 73% of businesses in Kenya, 67% in Tanzania and 75% in Uganda, supporting the principle.
While implementation is viewed as having been largely successful, the study found only modest benefits from the Customs Union:

The survey along 12 border posts identified several improvements in trade facilitation including security, infrastructure, the time taken to obtain and cost of imigration documents

Movement of goods among EAC members has improved

Free movement of goods within the EAC has been a major boost to businesses, a position supported by 77%, 73% and 46% of companies in Uganda, Kenya and Tanzania respectively. Moreover, the survey along 12 border posts identified several improvements in trade facilitation including security, infrastructure, the time taken to obtain and cost of immigration documents,

Intra-EAC Export chain

Kenya's exports to the EAC region are evenly distributed among Uganda, Tanzania and Rwanda, at about 26% of the total to each of the destinations. Kenya is the destination for 44% of Tanzania's exports into the EAC region, while Uganda absorbs 28% of the exports. Rwanda and

Burundi absorb 14% each. The main export destination for Uganda's exports is Rwanda accounting for almost 36%, followed by Tanzania at 25% and Burundi at 21%.

Burundi's exports within the EAC region mainly go to Rwanda, which takes 58% of the total. Kenya, Uganda and Tanzania take up 14 % each. For Rwanda, the main export destination within the EAC is Kenya, accounting for 56% of the total. Each of the other EAC countries receives 11%.

Businesses reported significant imports from the EAC region too. Companies in Burundi, Rwanda and Uganda use considerable imports from the EAC region estimated at 43%, 32% and 22% in that order.

Import chain

Businesses within the EAC region source most of their imports from outside the EAC according to this survey's findings. This ranges from 43% in Burundi to 75% in Tanzania. Europe is a significant source of imports for EAC countries, with the share in total imports ranging between 7% and 14%.

Businesses reported significant imports from the EAC region too. Companies in Burundi, Rwanda and Uganda use considerable imports from the EAC region estimated at 43%, 32% and 22% in that order. Imports by Kenyan and Tanzanian businesses from the EAC region were rather low, estimated at 6% and 5% of total imports, respectively. Only companies in Kenya and Rwanda reported sourcing imports from the COMESA region (non-EAC countries).

Companies in all the five EAC countries reported the SADC region (Non-COMESA/EAC countries) as a source of imports, with most of the imports coming from South Africa. The main importers from SADC are Kenyan and Tanzanian businesses, with the region accounting for 18% and 17% of their total exports, respectively. The two most important determinants of the source of imports, according to the companies are product quality and cost.

Trade along 12 Border Posts

Indeed, the survey carried out on 12 border posts shows that formal and informal trade across the borders is quite substantial. In 2007, the total value of exports that was declared stood at US$ 2.012 billion while the total value of imports declared was US$ 13.39 billion for the same period. In addition, trade worth US$ 31.6 million went unrecorded. Various goods were being traded, with the most popular products being cereals and prepared foodstuffs, which were being transported across eight borders, and domestic appliances, traded across seven borders. Sugar, beer, textiles, petroleum products, packaging materials, plastics, machinery and mechanical equipments featured in five borders. Other popular products included office supplies, consumer goods, detergents and steel.

Business has expanded

Kenyan companies reported about 86% business expansion since the launch of EAC Customs Union in 2005, while companies in Tanzania and Uganda reported expansion of 78% and 60% respectively.

Some growth in business turnover has occurred

Ugandan companies reported that the EAC Customs Union increased their business turnover by 48%. In Kenya and Tanzania only 28% and 25% of the respondent companies, respectively, cited some impact on their business turnover. However, turnover is largely driven by domestic trade activities. In Kenya, Tanzania and Uganda, 91%, 65% and 86% of companies reported domestic trade activities as accounting for 51% to 100% of their total annual turnover.

In 2007, the total value of exports that was declared stood at US$ 2.012 billion while the total value of imports declared was US$ 13.39 billion for the same period. In addition, trade worth US$ 31.6 million went unrecorded

Given the liberal trade regime, which EAC Customs Union has introduced in the region, a higher impact on business turnover would have been expected, especially in Kenya and Tanzania. There is therefore unexploited intra-EAC export potential.

Capacity utilization may have improved

Excess capacity is a major hindrance to competitiveness of businesses in Burundi and Rwanda, where 40% to 50% of the companies reported operating at between 10% and 30% capacity. The problem is less severe in the other EAC states where businesses operate between 81% and 100% in Kenya, Uganda and Tanzania.

Minimal if any impact on investments flows

The domestic market is the primary source of investment capital for almost all EAC states, with 80%, 71%, 75% and 77% of total investment capital in Burundi, Kenya, Rwanda and Tanzania, respectively, sourced locally. EAC Customs Union has not had a major impact on intra-regional investments.

Sourcing of inputs from the EAC market is still low

In spite of the Customs Union, companies tend to source their inputs from either the domestic market or from the rest of the world (with each of the two sources accounting for an average of 39% of all inputs), with the EAC accounting for only 15% of inputs.

3.0 CHALLENGES TO FULL REALIZATION OF POTENTIAL BENEFITS

Three broad set of challenges impede the full realization of the potential benefits of the EAC Customs Union. These are domestic supply capacity limitations, weaknesses in the instruments of the customs union and persistence of non-tariff barriers.

Serious domestic supply capacity limitations

External factors hindering businesses from taking full advantage of the EAC Customs Union varied across the five EAC countries. Electricity, fuel and transport costs are the most notable, accounting for about 70% of all the external factors cited.

In spite of the Customs Union, companies tend to source their inputs from either the domestic market or from the rest of the world

The least attractive aspects of the customs union include some of its instruments

Some of the aspects of the EAC Customs Union cited as least attractive by companies are: -

- EAC sensitive list
- Application of the EAC rules of origin
- The common external tariff structure

Some examples from the motor industry are illustrative some of these problems. First, instead of strict enforcement of the 25% CET rate for finished products, the EAC has on occasions arbitrarily suspended it. This, for example, happened with respect to the Dar es Salaam Rapid Transit (DART) project where import duty on buses (with capacity of more than 25 seats) was reduced to 10% from July 2007 to June 2009. It also happened when refrigerated trucks, insulated tankers and garbage/refuse collection trucks were exempted from import duty.

With respect to the application of the EAC rules of origin, the COMESA rule on goods of economic importance was dropped within the EAC without explanation. In addition, there has been delay in implementation of the rule on substantial transformation since June 2005, and the new change of tariff heading schedule has not been gazetted yet.

Moreover, the big volume of unrecorded trade found to be taking place in 12 border posts was attributed to export/import restrictions on food stuff, tariffs on non-EAC originating products and inability of cross border traders to meet the requirements of Customs Declaration Form, which was considered to be complicated. EABC and the EAC Secretariat should explore this further in preparation for the review of the EAC trade regime by year 2010, as envisaged in the EAC Customs Union protocol.

Another weakness of the customs union that makes it difficult for companies to exploit the full potential of integration is inadequate content of information on the customs union. Availability of information on EAC Customs Union instruments among businesses is rather low and at worst unavailable for some companies in Burundi, Rwanda and Uganda. The leading sources of information on EAC Customs Union are Associations of Manufacturers, EAC Website and the EAC Secretariat, Business workshops/seminars and the media. EABC should therefore develop and implement an outreach strategy to enable the business community take advantage of regional integration.

Unpredictability of and inadequate support by the policy environment has been another impediment for businesses in the region. Often, governments of Partner States have been perceived as lacking consistent commitment to the EAC and of making unpredictable policy changes and unilateral decisions, especially with respect to the common external tariff.
Moreover, government policy in the region hardly favours locally manufactured goods. There is the additional challenge of poor harmonization of regulations in the region. Thus, for instance, regional motor vehicle assembly regulations are yet to be developed in spite of requests by the industry.

Non-tariff barriers (NTBs) are making the EAC Customs Union unattractive, according to 25% of companies in Kenya and Tanzania, and 23% in Uganda

Non-Tariff Barriers (NTBs) persist in spite of the implementation of the customs union

Non-tariff barriers (NTBs) are making the EAC Customs Union unattractive, according to 25% of companies in Kenya and Tanzania, and 23% in Uganda. NTBs manifest themselves in various forms ranging from administrative and legislative measures to infrastructure hindrances. A NTB Monitoring Mechanism was developed jointly by EABC / EAC and was adopted by the Council of Ministers in August 2006.

The border study identified the following NTBs and weaknesses on East Africa's border points:

1. The number of customs declarations was found to be positively correlated with the number of customs officials, implying that inadequate staffing may partly explain the large volume of unrecorded trade.

2. Immigration records indicate glaring discrepancies between the number of people recorded as having exited from country A to country B and those recorded by country B as having entered from country A. From the 12 border posts, the discrepancy totaled about 100,000 people in 2007. The study team found glaring discrepancies in borders such as Namanga Tanzania and Namanga Kenya, where Kenya's figures of those exiting were much higher than Tanzania's figure of entrée's by 207,000 people! The same case applies to Tanzania figures of those exiting which are lower than Kenya's figure of entrees by 217,000. Other border posts where such discrepancies were spotted are Malaba Kenya/Uganda and Kanyaru Rwanda/ Burundi. However, there was no correlation found between the number of entrées and exitees recorded and staffing level.

3. Some border posts have only one or no officials trained on sanitary and phyto-sanitary (SPS) issues. In addition, only half of the border posts have health officials. Lack of SPS officials at the border posts poses serious risk of transmission of animal and plant diseases incase of outbreaks. Moreover, for border posts where only one member of staff was responsible for SPS, there are chances that either plant or animal SPS issues may not have been covered, depending on the area the staff member is trained and experienced in. Tanzania and Kenya have these officials in all their border posts while Rwanda and Burundi have none in any of their border posts.

Over half of the border posts either do not have Bureau of Standards departments or where they exist they are not staffed, yet these are critical in the promotion of intra-regional trade.

4. Over half of the border posts either do not have Bureau of Standards departments or where they exist they are not staffed, yet these are critical in the promotion of intra-regional trade. Kenya has posted Bureau of Standards officials in all its border offices. Burundi has posted an exceedingly high number of officials in its Bujumbura office compared to the other border offices. It has been reported that despite the enactment of the Standards Quality Measurement and Testing Law in 2007, mutual recognition of standards is not being implemented in Tanzania because of new Tanzania Food & Drugs Authority (TFDA) requirements. There is also delay in harmonization of standards in the region, for example, harmonization of motor vehicle safety standards, emission level standards, and standards and testing procedures for used vehicles.

5. While security and infrastructure at the border posts have improved considerably, there are notable challenges. These include generally poor infrastructure that imposes high cost to business, inadequate inspection bays in almost half of the border posts; poor state of about 58% of the parking bays; a few of the roads that require repair; and lack of essential services such as banking and fuel/filling stations in more than half of the border posts. Only 5 out of the 12 border posts surveyed had banks within walking distance and only two had filling stations that are operational.

...use of the EAC simplified certificate of origin and customs declaration forms should therefore be expedited

6. Trade facilitation has improved considerably in all border posts. On average, it takes 21 minutes for immigration clearance of traders and truck drivers. The average for clearing agents is 27 minutes. The borders reported as having the least duration for clearance of truck drivers were Mutukula, Tanzania, Bujumbura, Burundi and Namanga, Kenya where clearance was reported as taking six

minutes. The borders reported as having the shortest clearance time for traders are Bujumbura, Burundi, Kigoma, Tanzania, Malaba, Kenya, and Namanga, Kenya and Tanzania, where immigration clearance took six minutes. This could be used as a benchmark for other border stations.

7. The complexity of the Customs Declaration Form affects their use by cross-border traders. On average, 57% and 75% of all truck drivers and cross border traders, respectively had customs declaration forms at the start of their journey. Because of the complexity of the form, traders often resorted to breaking bulk so that goods could get cleared using forms used for clearance of non-commercial goods. This use of the EAC simplified certificate of origin and customs declaration forms should therefore be expedited. On average, it takes 115 minutes for customs to clear trucks across the borders, while it takes an average of 44 minutes and 45 minutes for customs officials to clear traders and clearing agents.

8. Clearance by SPS officials, Standard Bureaus officials and Police still takes more than 1 hour. On average, it takes truck drivers 96 minutes to clear through Veterinary, Phyto-sanitary, Standards and Police inspections. Traders take up to 109 minutes, while clearing agents take 117 minutes.

9. Although the use of clearing agents is prevalent (about 93% among truck drivers and 59.4% among cross-border traders), there are problems, including imposition of a surcharge when delays in clearance of goods occur; intentional delay by the agents in clearance of containers; frequent misplacement of client documents; and high charges.

10. Up to 20 barriers in form of police checks were encountered on transit routes to the borders. Of the total number of truck drivers, 75% reported having encountered up to 10 barriers on the transit routes, while 11% of the truck drivers reported having encountered between 11 and 15 barriers. About 6% of the drivers contended with 20 barriers.

11. There are other problems faced by truck drivers and traders at the border posts (see table below).Weighbridges in the region are designed to measure the weight when vehicles are stationary, which causes congestion as compared to those weighbridges which read the weight while the vehicle is in motion (at 60KMP). The problem of different axle-load limits also needs to be harmonized while congestion at the ports of Dar and Mombasa should be addressed.

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Poor road network	High taxation
Understaffing in the offices	Inadequate number of computers
Trucks not allowed to carry cargo on return journey	Storage problems for perishable goods
High taxes and duties	Limited carrying capacity of vessels
Exhortation for bribes	Delays by police checks
Failure of banks to open on weekends	Buses fail to wait for passengers to clear with border officials
Restrictions on importation and/or exportation of foods	Presentation of forged documents
Delays by border officials	Delays at weighbridges

12. Lack of a formal mechanism through which truck drivers, cross border traders and clearing agents can report the NTBs and other barriers they encounter. All the respondents came out strongly in support of establishing a formal mechanism through which they could relay their problems.

4.0 RECOMMENDATIONS

All stakeholders including Partner State governments, the East African Community Secretariat and other EAC institutions such as the East African Business Council, the private sector and the civil society need to take urgent and concerted efforts to address domestic supply capacity challenges, the weaknesses in the EAC structures and the persistent non-tariff barriers in order for the full potential of regional integration to be realized. The Heads of State are urged to provide leadership in this process. The following specific recommendations should be considered.

4.1 RECOMMENDATIONS TO PARTNER STATE GOVERNMENTS

All stakeholders need to take urgent and concerted efforts to address domestic supply capacity challenges, the weaknesses in the EAC structures and the persistent non-tariff barriers in order for the full potential of regional integration to be realized

Partner State governments, led by the Heads of State, can hasten the full realization of regional integration potential by:

i) Sustaining the political goodwill and commitment, and dedicating the resources required to improve the effectiveness of regional integration schemes and removal of the remaining non-tariff barriers. Partner State governments should consider heavy sanctions on those who violate the EAC Protocol; facilitation of issuance of a single East African visa; early conclusion of the Protocol for the East Africa Common Market; and inclusion of peace initiatives in regional integration efforts;

ii) Domesticating regional laws such as the Standards Quality Measurement and Testing Law and removing any conflicts with domestic law, and sensitization of producers, distributors and

CTI Confederation of Tanzania Industries

the voice of industry

CTI's main aim is to ensure that there is a conducive legal, financial and economic environment within which industry can operate effectively, prosper and contribute to national wealth and development. With Outreach offices in Arusha/Moshi, Mwanza and Tanga to service upcountry members, CTI has its headquarters in Dar es Salaam; at the address below:

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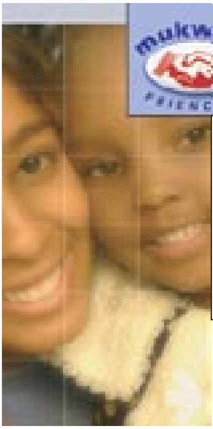

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consumers on these regional laws;

iii) Harmonization of various policies and laws that have cross-border impact. These include double taxation and labour laws.

iv) Establishment of efficient and adequately manned one-stop border posts in all EAC borders; introduction of 24 hour/7 days a week working schedules at the posts; international benchmarking of the speed of customs clearance and computerization of customs clearance systems; adequate staffing with SPS, Standards and other officials; establishing modalities for collaboration between partner states to reduce the processes that are duplicated at the border posts; and by improving infrastructure further at the posts, including investment in weighbridges that take the weight while the vehicles are in motion, and improvement of facilities at the ports of Mombasa and Dar es salaam;

v) Implementing the reforms and making the infrastructure and other investments required to address domestic supply challenges;

vi) Speeding up the implementation of strategic infrastructure projects such as the ports of Mombasa and Dar es salaam; putting in place the modalities for public private partnerships (such as the required managerial and regulatory capacity, specification of roles for the private and public sectors) to facilitate participation of the private sector; and concluding national power purchase agreements to pave the way for private sector participation in energy generation;

vii) Providing support to the energy forum planned by EABC in November 2008, through active participation and provision of information required by potential investors;

Integration of the role of the private sector would be enhanced if EAC were to involve EABC in all policy decisions with business impact

viii) Providing the necessary support and incentives the private sector requires to exploit the potential presented by regional integration schemes. In addition, integration of the role of the private sector would be enhanced if EAC were to involve EABC in all policy decisions with business impact; and

ix) Working with continental organizations to fast track the harmonization process for the three Trading Blocs namely EAC, SADC and COMESA in order to address the concerns associated with multiple memberships, in accordance with Section 112 of EAC Customs Management Act, 2004.

x) Empowering the EAC Secretariat further through one or more of the following measures proposed by companies: -
   - Shifting some of the powers from governments to the secretariat, proposed by 44%, 70%, 38% businesses in Kenya, Tanzania and Uganda, respectively.
   - Making the secretariat a commission with full funding and linked to the private sector, proposed by 17% and 13% of businesses in Kenya and Uganda, respectively.
   - Enhanced commitment from Partner States, proposed by 17% and 38% of respondent businesses in Kenya and Uganda respectively.

4.2 RECOMMENDATIONS TO EAC INSTITUTIONS

i) EAC Secretariat, in partnership with other stakeholders like EABC, should enhance awareness of the customs union by:
   - Developing a comprehensive publicity program including dissemination of the relevant and updated information on the Customs Union
   - Developing and implementing a Training Program on EAC Customs Union trade instruments and regulatory requirements

EAC Secretariat, in partnership with other stakeholders like EABC, should enhance awareness of the customs union

ii) EABC should contribute to the enhancement of intra-EAC trade by exploring the following strategies:
   - Identification of products with intra-EAC trade potential and developing a network of buyers and sellers for them;
   - Identification of products with intra-EAC trade potential and development of a network of buyers and suppliers.
   - Mapping of trade and regulatory requirements at national and regional level for each of the products.
   - Mainstreaming into EAC policy making organs policy/ regulatory requirements found to be inhibiting intra-EAC trade.
   - Initiating EABC/EAC periodic roundtables to monitor exploitation of the EAC market potential.

iii) As part of the EAC industrial development strategy, the EAC

Secretariat should, among other things and working in consultation with the EABC and Partner State governments, devise measures for enhancing utilization of capacity.

iv) The EAC Secretariat in collaboration with EABC should operationalize the monitoring and evaluation mechanism for the EAC Customs Union. This should include hastening of the implementation of the mechanism for identification, monitoring and elimination of Non-Tariff Barriers at the National level; regular assessment of the outcomes of the integration effort in terms of trade expansion and other benefits; and capacity building for National Monitoring Committees on NTBs.

v) EABC should work with the EAC Secretariat to facilitate participation of the private sector in EAC infrastructure development program focusing on energy, road, rail network, sea port, air connectivity and oil pipelines. The role the private sector played in initiating the regional fibre optic project, ESSAy, demonstrates the sector's capacity and preparedness for this.

vi) EAC should promote alternative sources of energy, especially renewable energy and smaller projects that do not require large capital outlay or long duration of implementation.

vii) Investment Capital
EABC, in collaboration with the EAC Secretariat and the financial sector, should consider developing a regional strategy to enhance attractiveness of the region to investment and to develop intra-regional investment capital modalities in support of regional integration agenda.

EABC, in collaboration with the EAC Secretariat and the financial sector, should consider developing a regional strategy to enhance attractiveness of the region to investment

viii) Adoption of measures by the business community and lobby groups to hold governments accountable for non-implementation of EAC customs union.

The private sector should be facilitated by governments and development partners to participate in the negotiations of EAC and to follow up on the decisions of Council which affect businesses in the EAC region.

ix) EAC Secretariat and/or EABC should consider the following further work:
- Carrying out a more comprehensive study on the impact of the EAC Customs Union.
- Developing a time bound action plan for implementation of recommendations.
- Supporting capacity building for Private Sector Business Associations in Burundi.

2008/9 EABC Activities

29-30 October 2008
East African International Business Forum, – *Kigali, Rwanda*

27 November – 6 December
East African Jua Kali Exhibition-*Venue to be confirmed*

03-06 December 2008
Conference – "Energy A Viable Business Opportunity" – *Zanzibar, Tanzania*

February 2009
Anti Illicit & Counterfeits Conference

April 2009
East African Media Summit-*Venue to be confirmed*

May 2009
East African 2nd Investment Forum – *Nairobi, Kenya*

May 2009
Top Leaders Forum-*Venue to be confirmed*

August 2009
Islamic Conference-*Venue to be confirmed*

Others
Involvements in the following areas
-Business Climate Index Survey; HIV/AIDS in Private Sector; Top Level Lobbying, Trade Fair and Common Market and EPA Negotiations. -*Venue to be confirmed*

General Motors East Africa

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General Motors East Africa Limited is certified to ISO 9001:2000 (quality management system) and ISO 14001:2004 (environment management system), the best known testimonials to world class quality and environmental standards respectively. GM East Africa has over 30 years experience in local assembly and service. Vehicles are engineered to suit local operating conditions with up to 50% local content on some models. GM East Africa continues to develop and modify designs to customer requirements.

Media information about GM can be found at http://www.media.com

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