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Institutional Requirements for Active Industrial Policy in the Context of EAC

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Institutional Requirements for Active Industrial Policy in the Context of EAC

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Outline

- ❑ Background of East African Community
- ❑ Manufacturing Performance
- ❑ Policy Framework Governing Industrialisation in EAC
- ❑ Industrialization Performance Targets in EAC
- ❑ Existing and Proposed Institution Framework
- ❑ The Roles of soft and hard institutions in industrialisation
- ❑ Regional Initiatives to support Industrialization
- ❑ Lessons from other countries
- ❑ Policy Recommendations
- ❑ Conclusion

About the East African Community

- o **Partner States** - Burundi, Kenya, Rwanda, Tanzania, Uganda & South Sudan
- o **Vision** - A prosperous, competitive, secure and politically united East Africa.
- o **Mission** - To widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investment.

EAC Milestones



Cont.....

GDP per capita, current prices, US dollars

Partner State	2000	2001	2002	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Burundi	105.8	97.4	89.7	105.8	97.4	89.7	82.6	91.9	104.7	124.5	118.5	163.5	161.4	173.0	264.0
Tanzania	310.0	306.4	313.9	310.0	306.4	313.9	330.5	353.3	392.9	381.9	443.8	524.8	525.2	546.7	553.1
Uganda	265.9	267.7	272.8		267.7	272.8	279.1	323.4	372.9	396.0	465.9	543.7	539.6	557.5	549.2
Kenya	430.2	420.2	412.2	430.2	420.2	412.2	464.0	493.9	560.8	622.7	726.0	829.9	811.2	836.2	862.4
Rwanda	-	212.0	202.0	-	212.0	202.0	214.0	230.0	207.1	331.0	365.0	493.6	520.3	540.0	594.8
EAST AFRICA									402.7	448.6	535.2	634.2	649.4	691.1	732.3

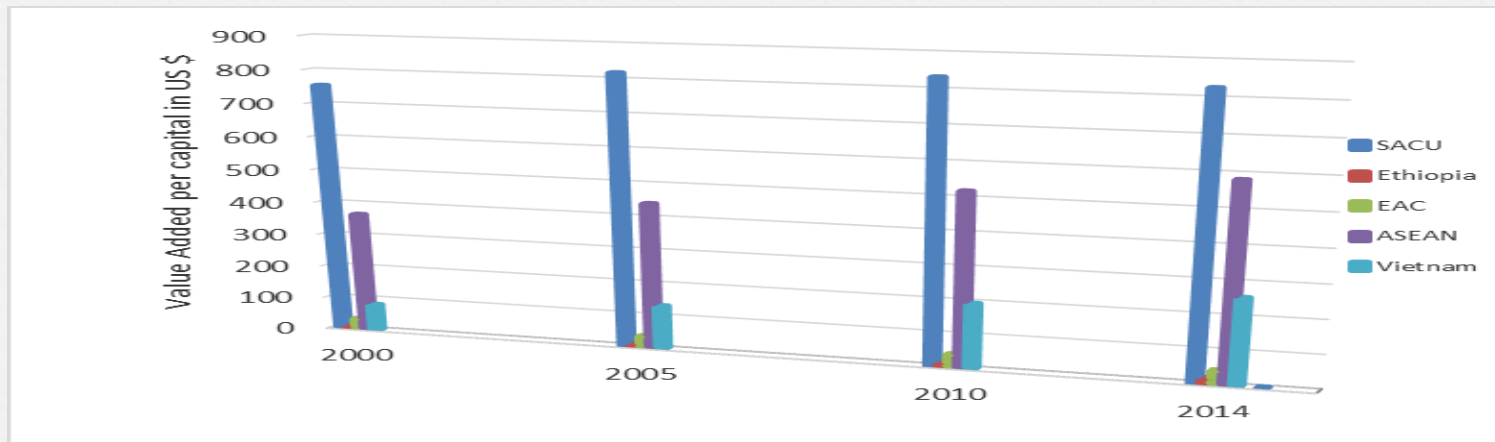
Manufacturing Performance

- Manufacturing Value Added (MVA) is a key indicator to measure industrial performance as it captures the sector's depth and the existence of industry-specific capabilities at the macro level

Manufacturing Value Added (Constant 2005 US\$)					
Region	2000	2005	2010	2013	Compound Annual Growth Rate (%)
SACU	38,075,148,842	44,339,842,187	48,462,130,883	51,161,163,133	2%
Ethiopia	463,103,047	600,582,378	943,884,584	1,348,008,423	9%
EAC	3,295,535,975	4,118,963,198	5,444,270,196	6,207,873,593	5%
ASEAN	190,197,030,398	246,301,809,690	307,802,796,598	349,342,136,303	5%
Vietnam	6,252,759,215	10,848,471,155	16,897,267,299	21,320,160,231	10%

Cont.

- o MVA Per capital of EAC and Comparators, this shows the region/country's capacity to add value in the manufacturing process



- o While SACU's MVA per capita in 2014 stood at 825 USD, that of ASEAN was 636 USD; Vietnam was 254 USD; EAC was 41 USD; and that of Ethiopia's manufacturing production capacities is significantly lower than that of EAC (16 USD)

Cont..

Value added by activity at current prices, million US dollars

	2010					2011				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
GDP at market prices	2,084	22,915	17,019	28,155	5,629	2,297	23,877	18,089	34,059	6,376
Taxes less subsidies on products	172	2,126	1,432	4,016	427	190	2,209	1,468	3,980	509
GDP at basic prices	1,912	20,789	15,586	24,139	5,202	2,107	21,669	16,621	30,078	5,867
Agriculture & Forestry	821	5,522	3,117	6,905	1,794	870	5,654	3,598	8,176	2,036
Fishing	10	326	473	185	19	6	345	543	170	22
Mining & Quarrying	12	761	55	223	36	15	799	63	232	80
Manufacturing	267	2,057	1,347	3,209	374	308	2,215	1,532	3,217	420
Electricity & Water Supply	15	486	676	772	12	25	491	579	294	14
Construction	66	1,823	2,152	1,376	420	84	1,902	2,367	1,408	527
Wholesale & retail	119	2,774	2,249	3,306	741	131	2,925	3,123	3,614	819
Hotels & Restaurant	248	535	765	537	117	242	545	896	569	120
Transport & Communication	54	1,659	1,568	3,147	439	67	1,786	819	3,295	479

Cont....

Employment in Manufacturing and Contribution of Manufacturing to GDP

Indicator	Partner State/Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Employment in Manufacturing Number	Burundi	-	-	-	-	-	-	-	-	-	-	-			
	Tanzania	78,301	78,190	80,514	86,606	89,223	129,319	121,973	107,386	108,460	109,545	115,022	120,774.0	126,882.0	
	Uganda	-	-	-	-	-	-	-	-	-	139,097	-			
	Kenya	216,586	229,746	239,755	241,979	247,500	254,900	256,112	264,095	266,400	270,300	275,700	2 70,900	2 79,400	287,400.0
	Rwanda	-	-	-	-	-	-	45,907	-	-	-	-	-		
Contribution of Manufacturing to GDP	Burundi	-	-	-	-	-	-	-	0.0	0.0	12.8	13.4	9.4	10.5	
	Tanzania	8	8	8	8	8	8	8	7.8	9.0	9.0	9.3	8.4	8.5	
	Uganda	7	7	7	7	7	7	7	7.2	8.0	7.6	8.5	10.0	9.8	9.3
	Kenya	10	10	10	10	11	10	10	10.8	9.9	9.9	9.4	10.9	10.4	10.0
	Rwanda	7	7	6	6	6	6	5	6.4	6.4	7.0	6.6	5.9	5.1	

Policy Framework Governing Industrialization in EAC

The EAC Industrialization Policy and Strategy (2012 – 2032)

- The overall objective of the Industrialization Policy and Strategy is to enhance industrial production and productivity and accelerate the structural transformation of the economies of the EAC in order to enable sustainable wealth creation, improved incomes and a higher standard of living for the Region's people.
- The Action Plan (2012 – 2017) to guide the implementation of the Industrialization Policy and Strategy is in place

Cont.....

The EAC Treaty

- The need for a regional cooperation in the field of industrial development is espoused in the EAC Treaty under Articles 79 & 80.
- Under the EAC Treaty, Partner States undertook to:
 - Promote self-sustaining and balanced industrial growth
 - Improve competitiveness of industrial sector to enhance expansion of trade in industrial goods within the community and for exports
 - Encourage the development of indigenous entrepreneurs

Cont..

EAC Custom Union Protocol

- To promote economic development and diversification in industrialization in the Community.

4th EAC Development Strategy

- Has development objective of promotion of balanced and globally competitive Industry on the region and specifically calls for the Review and implementation of the EAC Industrialization Strategy.

EAC-COMESA-SADC Tripartite Free Trade area

- The Community jointly with COMESA and SADC has further initiated a process of widening integration in an effort to implement the Lagos Plan of Action.

Cont..

EAC Common Market Protocol

- Article 44 of the Protocol calls upon Partner states to adopt common principles to, among others:
 - ▣ Promote linkages among industry and other economic sectors within the community
 - ▣ Promote industrial research and development, transfer, acquisition, adaptation, and development of modern technologies
 - ▣ Promote value addition and product diversification to improve resource utilization
 - ▣ Promote sustainable industrial development that includes environmental protection, management, and efficient resource utilization
 - ▣ Facilitate the development of SMEs, promote indigenous entrepreneurs
 - ▣ Promote knowledge-based industries
 - ▣ Disseminate and exchange industrial and technological information

Industrialization Performance Targets in EAC

- Theme: Structural Transformation of the Manufacturing Sector through High Value Addition and Diversification.
- The strategy focuses on the Manufacturing sector in the region. See UN(ISIC) Codes, Rev.3.1
- Based on comparative and competitive advantage.
 - Emphasis strategic regional value chains with long backward and forward linkages with the rest of the economy thereby increasing employment and quality of jobs (Agro-processing, Iron & steel, Extractive & mineral processing, Pharmaceuticals, Renewable energy & bio-fuels and Petrochemicals and gas processing)
- Recognizes that access to high quality education, R&D and Innovation is vital for strengthening the productivity of the labour force and accelerating growth
- Market led-Private Sector Approach

Objective	Present 2011	Target 2032
Diversifying the manufacturing base and raising local value added	Estimated value of 8.62%	To at least 40%
Manufacturing industry's contribution to the regional GDP	Currently at an average of 9.7%	To an average of 25%
Manufacturing based employment	456,000	About 2.3 million
GDP per capita	\$ 558	\$ 1,300
Transforming micro small and medium enterprises into viable and sustainable business	Contribution 20%	Contribute 50 % of manufacturing GDP
Increasing manufactured value added per capita	\$ 50	\$ 258

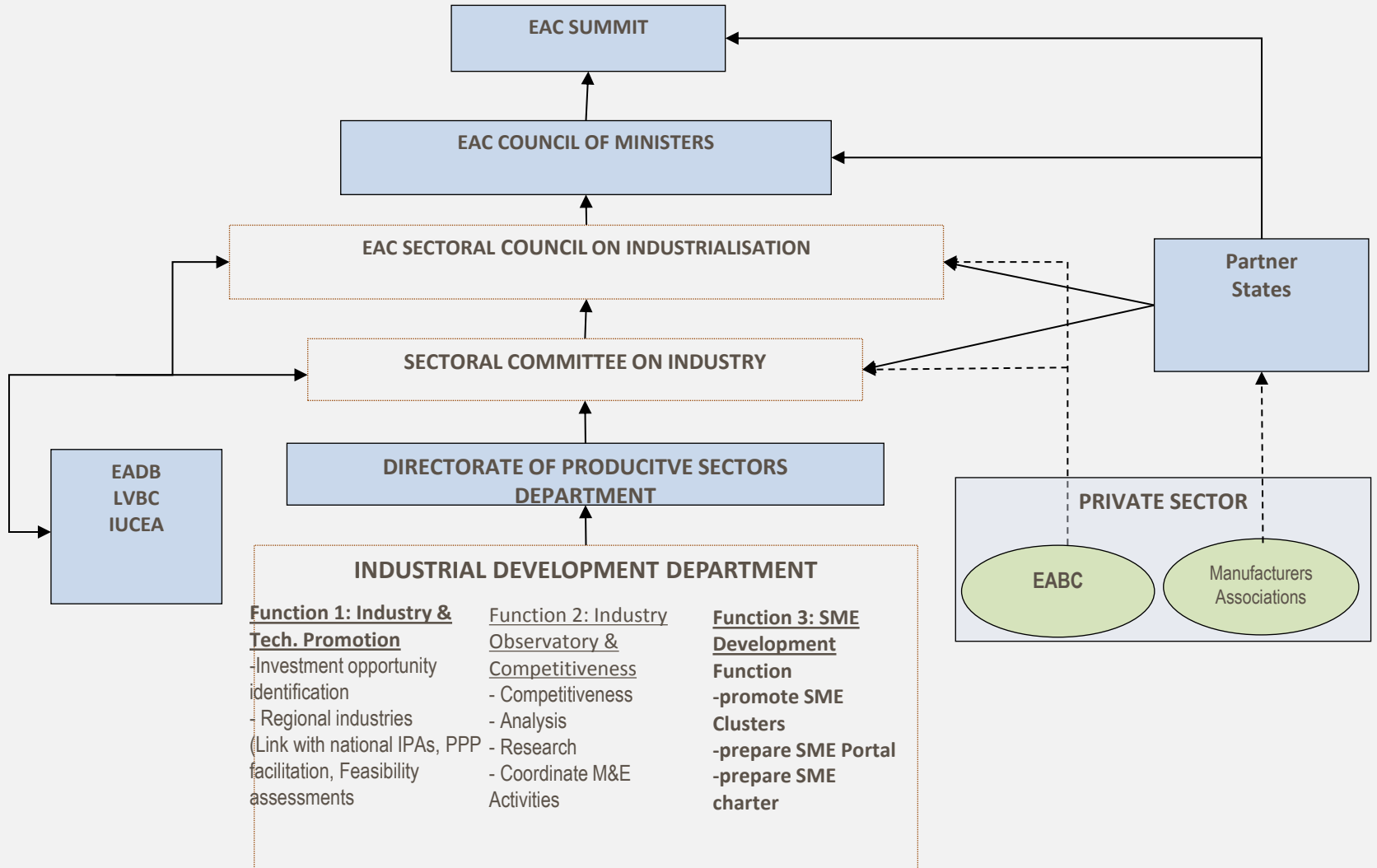
Strengthens Institutional capabilities to deliver support services

Strengthen Research, Development Technology and Innovation

EXISTING & PROPOSED INSTITUTIONAL FRAMEWORKS

- A number of key institutions have been earmarked for establishment under the approved policy including:
 - Sectoral Council on Industrialization
 - Sectoral Committee on Industry (does exist)
 - Inter-ministerial coordination forum

Cont..



The Role of Institutions in Industrialisation

Hard Institutions

- The existing of clear institutional setting of specific industries and sectors in any country leads to development i.e. *coordination framework, supporting institutions-research centre, training institutions, financial institutional etc*
- Fundamental towards achieving sustainable industrialisation through their intermediation role i.e provision of finance capital, technical support or strengthening network cohesion

Cont...

- Institutions that encourage innovation and dissemination of useful knowledge beyond the patent system;
- Institutions that devoted to research and technology issues; and
- Mechanic institute to provide technical and scientific knowledge;

Soft Institutions

- This covers laws/policies/strategies
- Provides clear mandate to hard institutions
i.e promote and monitor industrialization

Cont...

- Institutions setting is a necessary but NOT sufficient condition to drive the industrialization.
- Institutional failures arise from deficiencies in labor laws, regulatory framework, legal contractual system, and intellectual property rights, among others, that lead to a reduction of the economic performance of the productive sector

Regional Initiatives to Support Industrialization

- o Formulation of Bill on industrialization *to among others, provide legal framework for the implementation of the EAC Industrialization Policy and Strategy.***
- o Centre of Excellences i.e. process of establishing a regional Centre for Adaptation & Transfer of Manufacturing & Industrial Technologies (CATMIT) *which is to serve as a regional reservoir for cutting edge manufacturing and industrial technologies and processes; knowledge management platform on regionally available technologies, and centre for capacity building on technology management, selection, prospecting (foresight) and road mapping; and provide support towards technological upgrading of SMEs and selected manufacturing value chains***

Cont...

- Cooperation in Industrial Research, Technology and Innovation (network of Research Centers), which aims at ***promoting industrial research and development and transfer, acquisition, adaptation, and development of modern technology, training, management, and consultancy services for the region***
- Charter on MSMEs development: ***This is an important instrument which provides Partner States with a framework for creating harmonized business environment for MSMEs development***

Cont....

- o Formulation of regional policies on textile and leather;
- o Establishment of an Industrialization Development Fund
- o Regulatory Authorities i.e. competent authority, responsible for matters relating to industrialization
- o Strengthening Capacity of the Secretariat i.e. TMEA and UNIDO

Lessons from Other Countries

- Agility and freedom to adopt new strategies i.e South Korea, Malaysia
- Human capabilities development i.e investments in education in primary and secondary schools, tertiary institutions and innovations
- Strong leadership, commitment, and stellar execution are key to the success of the industrialization process i.e Malaysia

Cont...

- Required requisite capabilities and discipline
- Clear Government strategy and resource allocation i.e Malaysia, South Korea
- Need for disciplined and prudent macro-economic management and maintaining coherence and creation of synergies in policy implementation i.e Singapore
- Land use and management
- Involvement of the private preferential support and financial resources i.e South Korea

Policy Recommendations

For Industrialization to happen:

- ❑ To develop diverse productive capacities in the EAC, such as business financing capacities, entrepreneurial capacities, knowledge and skills capacities, institutional/organizational capacities, physical infrastructure, technological capacities, etc.,
- ❑ To devise policies and strategies, which promote and attract mutually beneficial investments, by providing protection to investors, while also safeguarding the interests of indigenous and local communities;

Cont...

- o Industrial skills: The development of skills and technological capacity
- o Infrastructure development
- o Quality and standards of industrial production:
- o Financing industrial development
- o Embracing involvement of private sector is necessary
- o Focus on sectors and activities of strong comparative and competitive advantages

Conclusion

□ Areas that needs more Research

1. There is a need to study the modes of local production of the EAC countries, in order to determine why the local potential is not being harnessed to achieve critical mass of sustainable development;
2. Study is required on best practices in investment models in industries and investments models should be based on research;
3. Studies on value addition opportunities based on the value chains studies undertaken
4. Study in the value chain cooperation through approaches like cluster development, export consortium, sub-contracting–supply arrangements, or bulk procurement

Asanteni sana!

Thank you very much for your
attention!

Merci beaucoup!

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