Danish Ministry of Foreign Affairs
DANIDA

FINAL

Programme Support Document
Support to Economic Integration in East Africa
2012 – 2014

November 2011
Ref.No. 104.Østafrika.3

COVER PAGE

Countries:	Partner States of the East African Community (Burundi, Kenya, Rwanda, Tanzania and Uganda)
Programme title:	Regional Economic Integration Support Programme in East Africa (REISP)
Implementing partners:	The EAC Secretariat and TradeMark East Africa (TMEA)
Start date and duration:	1 January 2012 – 3 years
Support budget:	DKK 160 million Component 1: EAC Partnership Fund DKK 18 million Component 2: TradeMark East Africa DKK 120 million Component 3: Business Across Borders (BizAB) DKK 6 million Unallocated: DKK 10 million Monitoring, reviews, preparation of next phase: DKK 6 million

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TradeMark East Africa EAC Secretariat

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Danish Ministry of Foreign Affairs

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ABBREVIATIONS

AfDB	African Development Bank
BSPS	Business Sector Programme Support
BizAB	Business Across Borders Programme
COMESA	Common Market for Eastern and Southern Africa
CET	Common External Tariff
CSO	Civil Society Organisation
Danida	Danish International Development Assistance
DFID	UK's Department for International Development
DP	Development Partner
EAC	East African Community
EC	European Commission
EPA	Economic Partnership Agreement
GDP	Gross Domestic Product
GTZ	German Technical Cooperation Agency, - now GIZ: German International Cooperation Agency
IFC	International Finance Corporation
ISMCC	International Strategy, Monitoring and Coordination Consultant
JICA	Japan International Cooperation Agency
KFW	German Development Finance Corporation
MDAs	Ministries, Departments and Agencies
MFA	Ministry of Foreign Affairs (of Denmark)
MoU	Memorandum of Understanding
NOC	National Oversight Committee
PF	Partnership Fund (of EAC)
PIC	Programme Investment Committee
PSO	Private Sector Organisation
RDE	Royal Danish Embassy
REISP	Regional Economic Integration Support Programme
SADC	Southern Africa Development Community
SME	Small and Medium Enterprises
TA	Technical Assistance
TMEA	TradeMark East Africa

1. Introduction

According to strategy for Denmark's development cooperation "Freedom from Poverty, Freedom to Change" and from the strategic framework for "Growth and Development", Denmark wishes to put more emphasis on supporting regional development. Areas of support would include promotion of cross-border infrastructure projects, efficiency improvements at border crossing and furthering the gradual liberalisation and harmonisation of trade rules, among other things in terms of tariff rates. The rationale for this being that greater regional economic integration will create larger domestic markets. In this way the potential for specialisation and economic growth will increase and thereby also the competitiveness of the individual regions in the global markets. Therefore, in 2010 the Africa Department of the Danish Ministry of Foreign Affairs (in the following called MFA-AFR) commissioned a Programme Identification & Scoping Study in late 2010. The study recommended potential entry points for Danish support to regional economic integration in East Africa. In March 2011, MFA-AFR presented a Concept Note to MFA's internal Program Committee – thereafter, a process consultant was engaged to formulate draft Programme Support Documents for the proposed support to EAC. A draft Programme Support Document and a draft Component Description were issued in August 2011. These documents were basis for an appraisal headed by the Technical Advisory Services of MFA in August 2011. On the basis of the recommendations made in the appraisal report and internal consultations, a thorough revision of the programme support document was made in September/October 2011. Based on a recommendation in the appraisal report the two documents have been merged into one Programme Support Document following Danida Guidelines for Programme Management dated July 2011.

2. Justification

The common rationale for regional economic integration is that it allows for pooling of sub-optimally utilized resources and fragmented markets. It thus promotes economies of scale, more specialization and increased competitiveness. A further rationale is that greater regional economic integration also has political benefits, since it is likely to provide disincentives for regional political conflicts. The integration may be more or less deep. The deeper the integration achieved, the greater the benefits that are likely to be generated. Economic integration will only yield substantial benefits where it entails a full integration of partner countries' infrastructure and markets, adoption of common regulatory systems, common sets of standards, etc.

The EAC integration is planned to take place at the deeper level of a Common Market, building on a shallower initial phase of a Customs Union. Further steps beyond a Common Market are also envisaged, including a Monetary Union and a Political Federation. Implementation of a Common Market is more difficult than introducing a Customs Union. It is technically more complicated and requires more political sacrifice – and therefore, more commitment from partners and considerable capacity to ensure coordination of many activities across a range of institutions. However, in terms of economic growth and employment generation it is from a Common Market that the main gains can be expected.

The implementation of the EAC Customs Union introduced in 2005 has moved significantly until today with all partner countries phasing in a Common External Tariff (CET), as well as common Rules of Origin. Areas where further work is required include removal of some Non-Tariff Barriers, full harmonization of customs procedures, establishment of a regional revenue authority and revenue sharing scheme, as well as removal of restrictions on intra-EAC food exports. The introduction of the Customs Union has seen intra-EAC trade increase in volume but from a very low point of departure and at a slower pace than partner countries' increases in trade with the rest of the world. For Tanzania, the share of total exports destined for and imports deriving from the EAC have remained below 6.5%. Uganda has seen its share of imports from EAC substantially fall, from just under a quarter in 2004/5 to below 10% in 2009. Only Kenya is dependent to any significant extent on the EAC as a market.

The main lesson is that deeper economic integration is all the more important. It is against this background that Danida wishes to focus the support to regional economic integration on the creation of a Common Market in the EAC. The implication is that the programme will focus on activities related to the Customs Union, as well as on activities related to the implementation of the Common Market Protocol – with the overall aim of reducing transport costs in the region. These are the most challenging areas of EAC economic integration, but also the areas promising most in terms of economic growth.

Deeper economic integration may be supported in several ways. The rationale of Component 1, 2 and 3 of REISP is found in the respective mandate and capacity of the partner institutions as well as in the added value of fostering more business across borders in the region. The EAC Secretariat (Component 1) is a policy institution operating at the regional level with a mandate to implement decisions taken by the EAC Council of Ministers. The EAC Secretariat, however, does not have executive powers to enforce implementation of these decisions in the member countries and is also challenged by limited financial and human resource capacity. Thus, while the EAC Secretariat is playing an important role at the regional level, it is equally important to persuade partner countries at national level of the benefits of deeper economic integration, and to support and coordinate dialogues and capacity building interventions both at the EAC Secretariat and partner country level. Undertaking such activities is the mandate of TradeMark East Africa (TMEA) (Component 2). It operates at the regional level, but it also supports interventions at the country level where it is represented in all five EAC countries.

In addition to supporting deeper economic integration at the macro and meso level (Component 1 and 2), it is considered important to support the micro level by fostering more business across borders in the EAC. The underlying assumption of REISP is that growth and employment are created by enterprises expanding their activities across borders in bigger markets.

Exploiting a more conducive and unified regional business environment is more challenging for smaller than for larger companies. Therefore, REISP intends to support initiatives that will allow also small and medium enterprises (SMEs) to benefit from economic integration. Initiatives supported at the micro level, for example through strengthening of value chains, may foster business across borders. It may also provide REISP with valuable information about the results of the economic integration and hence provide a "reality check" of the economic integration process.

Supporting deeper integration is important and well in line with the Danish priorities as mentioned above and also in line with policies for EAC economic integration of the five member countries.

3. Summary of Design

This REISP is designed within Danida's Strategic Framework for the priority theme: "Growth & Employment". The support is directed at promoting the development of the regional market in East Africa and facilitating real economic integration. It is one of the instruments and approaches of the Strategic Framework to support the integration in the EAC and to enhance the impact and synergies of regional and country programmes (in Kenya, Tanzania, and Uganda) through coordinated support.

REISP will focus on full completion of the Customs Union as well as implementation of the Common Market Protocol. These are the areas of EAC integration promising most in terms of economic growth. Successful support to EAC economic integration has specific challenges that need to be recognized in programme implementation. Key issues include empowerment of the EAC Secretariat but perhaps even more importantly how to persuade partner countries of the benefits of deeper integration, and how to coordinate and make dialogues and interventions that have to take place both at EAC Secretariat and partner country level.

The REISP contains three components, viz.

1. Support to the EAC Partnership Fund, presented in Chapter 6.1. This is a Danish contribution to a basket fund.
2. Support to TradeMark East Africa (TMEA), presented in Chapter 6.2. This is un-earmarked core budget support to TMEA's regional window.
3. Business Across Borders (BizAB), presented in Chapter 6.3. This is an intervention supporting regional value chain development administered by TMEA.

REISP is designed to contribute to achieve the targets of the programmes supported. Measurable targets include that the rates in the real GDP growth per annum in the EAC region will increase from an average of 6.3% from 2005-8[1] to an average of 7% or higher per annum. Furthermore, it is expected that the percentage of women and men living on less than US$ 1.25 per day in the EAC region will be halved from 1990 where it was 60.7% to 30% in 2015, which is also the MDG goal. TMEA has formulated more specific targets for their support to EAC economic integration namely:

- 15% reduction in transport time in East Africa
- 5% increase in export values from EAC countries
- Increase of 25% in the share of intra-regional trade
- Implementation of EAC Customs and Common Market with significant reduction of Non Tariff Barriers
- Harmonisation of Rules of Origin, standards, and transport regulations across Tripartite (SADC, COMESA, EAC)
- Number of EAC citizens aware of regional integration up from 50.8 to 76.3 million.

The EAC Secretariat has not formulated similar indicators in its development plans, but as the targets formulated by TMEA among others will be reached by supporting the EAC Secretariat's development plan it is fair to argue that the Danish support to the PF will also contribute to substantially achieving these targets. For Component C specific targets will be finally formulated within the first year of implementation. Under the assumption that other donors will also contribute to this component, it can is expected that economic growth within in 5-6 value chains will be 10% above trend rate and that more than 100,000 jobs will be created /sustained.

It is expected that the Danida supported national private sector development programmes in Kenya, Tanzania and Uganda will be other entry points for Denmark to contribute to these targets.

[1] In 2008-10 the growth rates have been lower due the international financial crises

REISP is a three year programme with a budget of DKK 160 million commencing 1 January 2012. It is expected that an additional budget will be made available after 30 June 2014. This is in particular a critical assumption for the design of the pilot intervention of Component 3.

4. Regional Context

4.1 Economic and Social Context of East Africa

The EAC was re-established by Kenya, Tanzania and Uganda in 2000 as a Regional Economic Community (REC). In 2007, Rwanda and Burundi joined. The integration process has been defined in four stages: (i) a Customs Union with Common External Tariffs (CET) and free movement of goods within the EAC; this was achieved in 2010 but Non Tariff Barriers continue to hinder free and low-cost movements; (ii) a Common Market aiming at one regional market for labour, capital and land; a Protocol was signed in 2009 and implementation has been initiated; (iii) a Monetary Union where the aim is to sign a protocol within the next five years; and (iv) eventually a Political Federation.

Combined the five Partner States have a population of 130 million and a Gross Domestic Product of US$ 75 billion of which Kenya accounts for about 40%. Individually, the countries have small economies, with limited opportunities for economies of scale and specialisation in their potential comparative advantages. The cost of moving goods across the borders and to or from the ports in Mombasa and Dar es Salaam are high but are being reduced with the Customs Union and other programmes.

Food and agricultural commodities account for a large part of the movements and lower transport and handling costs will in particular benefit farmers and poor households since food accounts for the major part of their household expenditure.

In principle, a free market for food will also help to level out and address local food surpluses and deficits. The agricultural potential in the EAC area is highly different and the influence of weather over a season varies within the region. In 2011, the northern parts of Kenya, some northern areas of Uganda and the African horn are experiencing severe drought while high potential agricultural surplus areas, for example in Tanzania, have normal conditions. However, the Tanzanian government has in this situation introduced a ban on food exports in order to avoid that the Tanzanian surplus is absorbed by the deficit areas, thereby increasing Tanzanian food prices. The other EAC partner states consider that the Tanzanian export ban is against EAC's spirit of solidarity and a free regional market.

With the exception of Burundi, the Partner States have during the last decade achieved relatively high economic growth and progress in reducing poverty. Apart from some sceptics, there is generally a perception that socioeconomic development can be accelerated through economic integration and there is a political will to further integrate within EAC and beyond. In June 2011, the heads of state of the 26 countries that are members of EAC, the Common Market for Southern and Eastern Africa (COMESA) and the Southern Africa Development Community (SADC) agreed to move towards a Tripartite Free Trade Area[2].

On the Human Development Index, Kenya is close to moving into the group with "medium human development" while the other four countries are placed in the lower end of the group with "low human development". However, Uganda, Tanzania and Rwanda have in recent years achieved higher rates of GDP growth than Kenya.

[2] Tanzania is a member of SADC while Kenya, Uganda, Rwanda and Burundi are members of COMESA

Limited but growing intra-EAC trade: Though the five countries share borders that cut through families and ethnic groups, the formal trade between the countries has been relatively modest, typically 10-15% of their total trade, but it is increasing and intra-EAC exports now constitute about 19% of total exports (intra-EAC imports is less than 10%). The major part of the region's exports is still comprised of mining products and agricultural commodities for the markets in the EU, the US, the Middle East and China and India while manufactured goods and energy products are imported, with the exception of Kenya which has substantial exports of manufactured goods and food products. In 2008, Kenya accounted for about 61% of total intra-EAC exports (down from 80% in the 1980s).

Since introduction of the Customs Union in 2005, official intra-EAC trade has grown rapidly in absolute terms, from US$ 1,979 million in 2004 to US$ 3,339 million in 2008[3], but not relative to growth in trade with rest of the world. However, in addition to the recorded trade, there is a substantial informal trade across the borders. Kenya has a major and growing surplus in its trade with the other EAC states (US$ 1 billion in 2009) while Tanzania since 2007 has turned a deficit into surplus, - from a minus of US$ 49 million in 2001 to a plus of US$ 96 million in 2007, though declining to a plus of just US$ 6.5 million in 2009. The three other countries, in particular Rwanda, have major deficits in their intra-EAC trade. Uganda, however, exports food products and energy to the rest of the region, and with the exploitation of the Lake Albert oil reserves, Uganda is likely to become an oil exporter to the region.

While Rwanda and Burundi have major deficits in their trade in goods, they are becoming exporters of modern services (software development, call centres, outsourced business services etc) which unlike traditional services (trade, hotels, public administration) are tradable across borders and unlike goods, independent of the poor road infrastructure. Between 1995 and 2008, Burundi and Rwanda recorded growth in their services export of more than 25% per year (though from a low base). Implementation of the EAC Common Market Protocol is likely to further boost the trade in modern services which generally have high participation of women and youth.

Also Kenya has significant service exports to the region in the form of financial services, accounting services, and ICT services. In the area of mobile-phone-based money transfer, Kenya is a world leader with the M-PESA system through which Kenyans transfer some 20% of GDP. M-PESA is now being exported to the other EAC countries while its use for business and transactions is being continuously widened. Major investments are being undertaking in improving internet connectivity in the EAC, significantly reducing the price while increasing the speed. Some analysts have presented evidence that modern services (in developing countries) provide higher labour productivity than manufacturing and they consider it as a realistic option that some countries (Rwanda and Burundi could be candidates) may "jump the manufacturing stage" and move directly from an agricultural economy to an economy driven by modern services[4].

Limited but growing cross-border investments: Foreign Direct Investments (FDI) into the region increased over the last decade (from less than US$ 1 billion to more than US$ 3 billion) though net inflows stagnated during the global financial crisis in 2009. Uganda and Tanzania are the

[3] EAC Development Strategy, 2011/12 – 2015/16), Draft Bridged Version, p. 11
[4] The Economist, May 21 2011 issue, p. 76 – 78. And, Ejaz Ghani, Arti Grover, Homi Kharas (World Bank), 4 May 2011: *Service with a smile: A new growth engine for poor countries*

largest recipients of FDI, mainly for the oil and mining sectors[5]. Rwanda has recently experienced a significant increase in FDI inflows partly because of improved climate for doing business, and Rwanda also invests across the border into Kenya. Though Kenya is relatively highly ranked on the World Bank's list of the overall ease of doing business, FDI inflows are relatively modest, except for 2007 where FDI jumped to US$ 728 million largely due to privatisation sales in the telecommunications sector and investments in railways. The relatively low level of FDI into Kenya may partly be explained by lack of discovered mineral resources and the highly competitive environment in the manufacturing and services sectors. Many companies from Tanzania, Uganda etc find it too difficult to compete in the Kenyan market. (The number of investment projects from other EAC countries into Kenya grew from three in 2004 to five in 2008 but their value declined from US$ 5 million to US$ 2 million).

Foreign Direct Investment, Net Inflows

USD million	**2006**	**2009**
Tanzania	597	415
Kenya	51	141
Uganda	644	603
Rwanda	11	119
Burundi	0.03	0.3
Total	**3,309**	**3,287**

Source: World Bank Data Base

Cross-border private investments (CBI) in the EAC constitute a small but increasing share (5-10%) of total FDI inflows and are primarily in the form of Kenyan investments in the manufacturing, tourism, transport, retailing and banking sectors of the EAC other countries. The manufacturing sectors are the main recipients of CBI followed by finance and insurance. For example in the banking industry, some Kenyan banks (KCB, Equity Bank etc) are developing regional coverage and Kenyan retail companies such as Nakumatt Holdings and Uchumi are establishing supermarkets in the other EAC countries.

Cross-border investments have suffered mainly due to poor infrastructure and the high cost of doing business, insecurity and low investor confidence. However, a number of initiatives have been undertaken to create an environment, which is conducive to cross-border investments, including:

a) consensus and confidence-building measures, such as meetings on various issues and sectoral coordination committees;

b) signing of an MoU on defence cooperation as a step towards guaranteeing peace which is necessary for trade and investment to grow;

c) harmonization and rationalization of legal and judicial frameworks; and

d) development of regional physical infrastructure.

Recently, there are indications that cross-border investments are beginning to pick up and also, that firms are increasingly basing their business plans on the regional market (rather than the local national markets) in order to benefit from economies of scale.

Cross-border investments within the region are important for four main reasons: (i) they transfer skills and technology; (ii) they create employment; (iii) they counteract regional trade imbalances; and (iv) they increase the capacity for extra-regional exports.

<u>No loss in revenue</u>: Prior to the Customs Union there were some fears that a system of Common External Tariffs (CET) and the move towards abolishing all internal customs tariffs would result in a loss of revenue and imbalances between the countries. The 2009 Impact study (Evarist

[5] It should be noted that the net FDI figures of the World Bank data base differ from the gross figures provided in UNCTAD's World Investment Report which for some years provide much higher figures for gross FDI inflow into Kenya.

Mugisa et al) found (in Tanzania, Uganda, Kenya) no evidence to that effect, rather the contrary. For all three countries, the annual rate of increase in total revenue, as well as in the revenue from import duties, accelerated after the introduction of the Customs Union in 2005.

4.2 Economic and Social Impacts of the Integration Process

While there are some studies (as referred to above) that attempt to determine emerging impacts on trade, investments and government revenue of the Customs Union, there is yet no overall assessment of how the integration process and its next steps (including implementation of the Common Market and a Monetary Union) may impact on the socio-economic development of the individual partner states and the different socio-economic groups within the partner states. However, there is an expectation among the partner states that there may be winners and losers, and the Treaty therefore opens for introduction of compensatory measures[6].

The evolving framework for economic integration will open doors for new dynamic processes and exploitation of comparative advantages which are difficult to foresee and assess at this stage. Nevertheless, some qualified guesses may be discussed. First, it appears likely that in particular the poor food consumers will benefit from removal of internal tariffs and Non Tariff Barriers (NTBs), which contribute to making basic food more costly than it should be. Basic food items, including staples such as maize, have significant weight in the intra-EAC transport and trade, and they account for the major part of the budget of poor households. Therefore, poor consumers will in particular benefit from the lower costs of bringing food from the farm-gate or port to the consumer, without necessarily putting pressure on farmers' prices. Further reductions in the relatively high food prices (as compared to some Asian countries) may be obtained from specialisation and exploitation of comparative advantages. However, this assumes that traditional perceptions of food security and related export restrictions are abandoned, so as to allow maize, wheat, rice etc to be cultivated and exported from where it is most advantageous to do so.

Low cost of food is a precondition to making the manufacturing and services sectors internationally competitive as low food costs will reduce the pressure on wages. This is partly behind the export success of the Asian tiger economies.

Second, the high costs of getting export goods to (and imported goods from) the ports in Mombasa and Dar es Salaam penalize exporters while it "protects" producers of items that substitute imports. Therefore, a reduction of these costs through various measures will tend to favour exporters (including many small farmers producing tea, coffee, cotton, etc) whereas there may be a negative impact on producers substituting imports. These effects will be more significant for producers of bulky, low value to weight items (e.g. rice and maize) and for producers located far from the ports.

With respect to the spatial dimensions of economic development, it is not obvious that one can use the Chinese experience as a model and expect that Nairobi and some coastal centres will represent the economic growth dynamos while the hinterlands will constitute a low-growth periphery. Uganda, with its large oil reserves in the Lake Albert basin, South Sudan with its oil reserves, and Eastern Congo with its mines, vast purchasing power, and limited own supply of food and other products could move the gravity of EAC's economic development in-land and towards the west.

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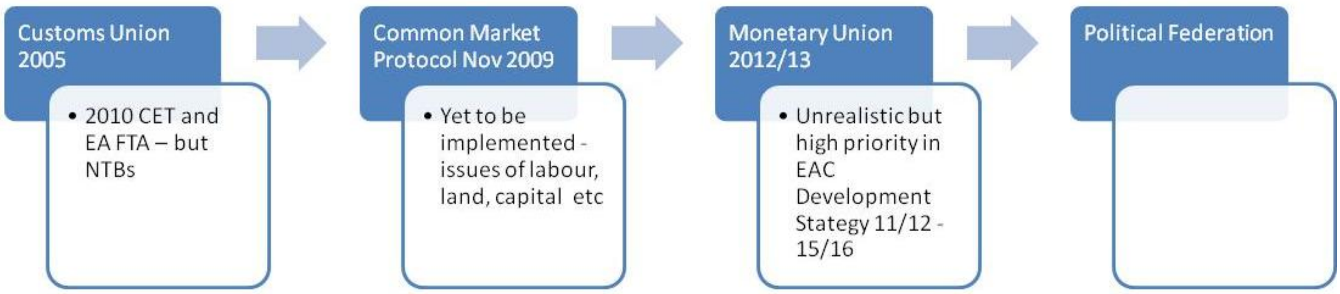
[6] It is envisaged that the Evaluation Department of Danida will collaborate with TMEA to support more comprehensive and ongoing analyses of the impact of the EAC regional integration – both across and within countries in the region.

4.3 The EAC Institutional Framework

History and Process: After re-establishment of the EAC in 2000, the planned integration process has been laid out and comprises four major milestones as illustrated below:

EAC Integration Process – Plans and Achievements



The Customs Union introduced in 2005 was by 2010 largely implemented. A system of Common External Tariffs is in operation, 0% on imported raw materials and capital goods, 10% for intermediate goods, and 25% for finished goods. No custom tariffs are applied on goods crossing the borders between the EAC states but a number of Non Tariff Barriers still apply complicating movements across borders and on the roads.

The Common Market Protocol signed in November 2009 is still in the early stages of implementation and progress varies between the countries. Under the Protocol, there are no detailed common regulations which the Partner States are obliged to comply with. Furthermore, unlike the EU, the EAC Secretariat has no powers, such as the Commission, and can only kindly request the Partner States to implement the Protocols approved by the Heads of State (there are discussions of the option of upgrading the Secretariat to a "Commission" sometime in the future). Some Partner States (e.g. Rwanda) have a relatively positive attitude towards liberalising their labour, land and capital markets, while others, e.g. Tanzania (and in particular Zanzibar), are resisting such liberalisation.

The Monetary Union is considered as the next step in the integration process even though it may take many years to partly implement the Common Market Protocol. The target is to agree on a Protocol for the Monetary Union by 2012/13. Many observers assess, however, that it may take many years before one common currency is introduced. While there is progress on coordinating monetary policies, prudential regulations for the financial sector, etc., a single currency does assume better harmonisation of fiscal policies and economic development.

The Political Federation is the end goal but currently the Partner States refrain from setting a target year for this ambitious milestone.

At the same time as efforts are being made to deepen the integration process, there are also developments that are widening the process, thematically and in terms of geographical coverage. EAC policies and strategies are being formulated and adopted for various sectors, subsectors and themes, raising concerns about increasing width and shallowness (limited implementation). Geographically, the EAC was expanded with Burundi and Rwanda in 2007, and expectations are that South Sudan may become a member once a fully recognised state. There are similar, though less realistic, speculations about eastern DRC. Finally, some partner states may prefer width to depth as they give higher priority to creating a free trade area for SADC-EAC-COMESA and eventually for Africa, than having a common market and currency for EAC. For example, there is considerable resistance with Tanzania to creation of a common market for capital, labour and land.

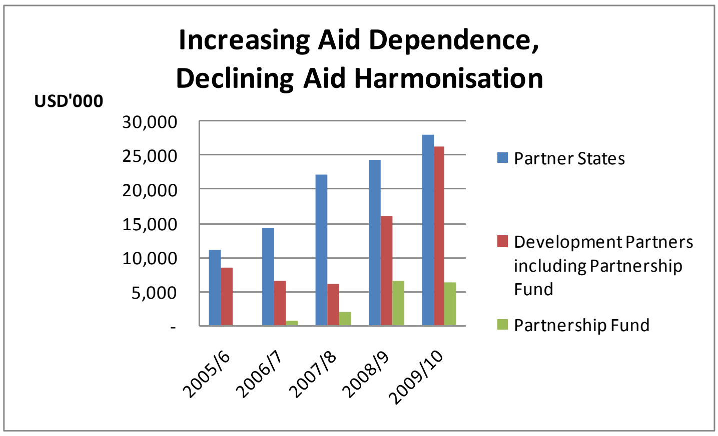
EAC Institutions: Since 2000, a number of common institutions have emerged, with the EAC Secretariat in Arusha being at the core of the administrative framework. The Secretariat has no supra-national powers, but services the regional inter-governmental cooperation between the five Partner States. The option of upgrading the Secretariat to a commission, similar to the European Commission, is being discussed but is not likely within the next five years.

The East African Legislative Assembly (EALA) and the EAC Court of Justice have relatively limited powers, though it appears that EALA is becoming increasingly active. Complaints from citizens and enterprises to the Court need to pass through the Council with unanimity, unlikely when one of the partner states is "accused".

While the Secretariat has a multitude of departments, it has a total of about 250 staff only[7]. Therefore, the staffing/capacity of many departments is relatively limited with some departments being one-person-departments. Ordinary Secretariat staff is on 5-year contracts that are only renewable once. There are country quotas (in particular to ensure employment of staff from the new members, Burundi and Rwanda).

The Secretariat as well as EAC's entire institutional machinery generally faces a financial constraint.

Funding of EAC



Funding is obtained through equal contributions from the Partner States as well as from contributions from the development partners. Currently the contribution per Partner State is about US$ 5.8 million per year, i.e. Burundi has to try to pay the same amount as Kenya which has an economy that is 23 times larger. The share of the budget financed by the Partner States has been declining and in FY 2010/11, development partners are financing 52% of the budget.

[7] The European Commission has a 32,140 staff serving an area of 500 million people. Applying the same relation to EAC would imply an EAC Secretariat of some 8,400 staff.

However, on a positive note it should be highlighted that the Partner States generally pay their mandatory contributions which is not the case in other regional organisations such as the AU.

Development partners provide their funding either bilaterally and/or since 2006 through the Partnership Fund which is a basket fund established to harmonise the support and reduce transaction costs. During its first years, the Partnership Fund accounted for an increasing share of the total funding from development partners but since 2009, this share has been declining (for further details on the Partnership Fund, please refer to Chapter 6).

A new fund, the EAC Development Fund, has recently been approved and day-to-day management will be done by the East African Development Bank (EADB). The Development Fund will provide financing of investments of a regional nature, amongst others in:

i. Infrastructure
ii. Development of the industrial capacity of EAC
iii. Energy production and supply
iv. ICT
v. Agriculture and food security
vi. Environment and natural resources
vii. The services sectors
viii. Legal, institutional and judicial reforms, and
ix. Cross-cutting issues in the region

It is also being considered to include in the Development Fund a structural adjustment mechanism to compensate Partner States which have registered losses in the integration process.

It is proposed that the initial "seed capital" of the Development Fund will be established from equal contributions from the Partner States which will then be complemented by "innovative mechanisms of mobilizing additional resources", such as a percentage of the CET revenue or a community tax/levy. In addition, funds will be sourced from development partners, equity investments from the private sector, and credit enhancement facilities from multilateral agencies such as guarantees, on-lending facilities, and equity investments.

EAC Development Strategies are used as one of the means of implementing the Treaty. In fact, the first Development Strategy (1997-2000) pre-dates the Treaty and focused on re-launching EAC. The second Strategy (2001-2005) prioritised the establishment of the Customs Union while the third Strategy (2006-2010) focused on introduction of the Common Market.

The fourth Development Strategy (2011/12 – 2015/16) was approved in August 2011. The fourth strategy focuses on implementation of the EAC Common Market and establishment of the EAC Monetary Union. However, a number of strategic interventions are also included to lay the foundations for a Political Federation, develop regional infrastructure (road, rail, energy, ICT, air and maritime transport), develop and strengthen the productive sectors (agriculture, industry, tourism), and harmonise and strengthen the education and social services sectors. Finally, the fourth Strategy priorities support for strengthening the EAC institutional machinery, including a stronger role for EALA and the EAC Court of Justice.

An area of work for the EAC institutions in the medium term is likely to be the development of a Tripartite Free Trade Area. The tripartite area covers EAC and two other Regional Economic Communities i.e. the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). Tanzania is a member of SADC while the other four EAC members are members of COMESA. EAC, COMESA and SADC have 26 member countries (from Egypt to South Africa), with a total population of 527 million and a total GDP of US$ 624 billion. In June 2011, the heads of state of the countries in the three regional economic communities – the socalled Tripartite – met in South Africa and defined guidelines and time frames for their Secretariats to harmonise policies, programmes and regulations in the areas of trade, customs and infrastructure development.

5. Programme Objectives

This REISP is designed to assist the efforts to promote economic integration in EAC, and the development objective of the support is accordingly defined as:

- Acceleration of economic growth and poverty reduction in East Africa through regional economic integration.

Three components will contribute to achieving the development objective, namely

Component 1: EAC Partnership Fund. The immediate objective is "Promote implementation of the Treaty with a view to enhance integration and socio-economic development of the EAC".

Component 2: TradeMark East Africa. The immediate objective is "Generate regional economic integration and trade competitiveness in East Africa".

Component 3: Regional trade promotion (BizAB). The immediate objective is "Accelerate private sector development in East Africa through strengthened regional value chains"

The objectives for Component 1 and 2 are identical with the objectives of the strategic plans of EAC Partnership Fund and of TradeMark East Africa, respectively. The objective for Component 3 is formulated together with TMEA and it is expected that this objective – or a similar objective – will be included in the TMEA strategy after the BizAB programme is defined.

It is expected that REISP, as mentioned earlier, will contribute substantially to achieving the targets of the programmes supported, namely that the rates in the real GDP growth per annum in the EAC region will increase to an average of 7% or higher per annum. Furthermore, it is expected that the percentage of women and men living on less than US$ 1.25 per day in the EAC region will be halved from 1990 where it was 60.7% to 30% in 2015, which is also the MDG goal.

Essentially, the support to the first two components, the EAC Partnership Fund and the TMEA, are financial contributions (budget support) to already existing multi-donor frameworks, building on previous Danish support for the two institutions. Component 3 is a pilot programme to explore how support to selected value chains that have a potential to expand to the regional level could be used to facilitate enhanced trade across the borders through. This support will also be managed by TMEA. Presently, initiatives defined in Component 3 are not part of the portfolio of TMEA, but it is expected that this will be the case when the component has been fully designed. The interventions envisioned of Component 3 are well in line with the overall objective of TMEA.

6. Description of the Components

6.1. Component 1: Support to EAC Partnership Fund (PF)

The Danish support to the PF is basically "basket funding" of the EAC Secretariat's activities. The basis for the Danish support is the EAC Development Strategy for 2011/12 – 2015/16 approved by the member states in August 2011. The EAC Secretariat is responsible for implementing the development strategies. The Development Strategy for 2011/12 – 2015/16 has an indicative budget of about US$ 1.3 billion which includes activities both at regional and national levels. The strategy points at a number of funding options to be further explored including funding directly through the member states, private public partnerships and donor support. Up to now, most funds for supporting the EAC Secretariat activities have been acquired through three sources, namely 1) through fees from the member states, 2) from bilateral donor support and 3) from joint donor support through the PF.

The total budget for the EAC Secretariat for 2011/12 is about US$ 109 million which also includes US$ 44 million from the World Bank earmarked for Lake Victoria Basin Commission initiatives. The remaining US$ 65 million is planned to be financed through contributions from the member states with about US$ 30 million, through direct bilateral donor support with about US$ 28 million and through the PF with about US$ 7 million. The figures are indicative. Distribution between the three sources of financing between 2005/06 and 2009/10 is as follows:

EAC Budget and Financing

US$ '000	2005/06	2006/07	2007/08	2008/09	2009/10
Total EAC Budget	19,561	20,294	28,314	40,499	54,257
Financed by					
Partner States	11,102	14,365	22,184	24,377	28,034
Development Partners including Partnership Fund	8,460	6,559	6,129	16,121	26,224
Partnership Fund	-	641	1,923	6,611	6,227

While the harmonised support through the PF increased its share of the total DP support up to 2008/09, the trend since then has been negative. Furthermore, the share of the EAC budget that is financed by the DPs has been increasing; in FY 2002/03 it was 15% while in FY 2010/11 it reached 52%. In 2011/12 the PF is expected to cover about 10% of the of the total EAC budget.

According to the EAC Treaty (Article 132 (4)) each of the five Partner States shall provide an equal annual contribution which at present is close to US$ 6 million, used exclusively for financing the core part of the recurrent budget such as salaries and statutory meetings. Recently, the DPs have also financed an increasing part of the recurrent budget as the contributions of the Partner States currently only cover about 80% of salaries and statutory meetings.

The DP support that is channelled directly and bilaterally to the EAC has recently increased in absolute terms and in relation to the contributions to the PF. The main contributors of funds, which are not channelled through the Partnership Fund, include the EU, Germany including GIZ (formerly GTZ) and KfW (funding the new EAC Head Quarters), Norway, Sweden, the World Bank including the IFC, TMEA, and the African Capacity Building Foundation.

<u>The EAC Partnership Fund</u> was established as a basket fund in September 2006 by six Development Partners (DPs) with the purpose of

a) Promoting implementation of the Treaty with a view to enhance regional integration and socio-economic development of the EAC through funding of activities for EAC's development
b) Facilitating planning and accounting of Development Partners' funds by disbursing into common basket fund.

Since 2006, the Partnership Fund has grown by almost 10 times - in 2006/07, the six founding DPs provided US$ 0.641 million while 12 DPs contributed US$ 6.2 million in 2009/10. From the original six signatories to the Partnership Fund, membership has increased to 12: Belgium, Canada, Denmark, Finland, France, Germany, Japan, Norway, Sweden and the United Kingdom. The World Bank and the European Union are non-contributing members and there are on-going discussions with TradeMark East Africa to become a contributing member. DFID/UK has been the largest contributor followed by Germany, Sweden and Canada. Denmark has supported PF from 2007 to 2009 with an amount of US$ 1.4 million based on a MoU signed in 2007. As mentioned, the expected budget for PF for 2011/12 is about US$ 7 million.

The major part of the budget has been used to finance studies, related to the different stages of the integration process, and consultancies for various tasks, for example assisting with the formulation of the EAC Development Strategy. Studies are usually contracted to private consultants by the EAC Secretariat. The support for capacity building of EAC has included support for the CDAP, but does also include the financing of a part of the operational and staff costs of the RMO. The Fund also makes small contributions (US$ 20,000 p.a.) for conducting the Steering Committee meetings and the annual Roundtable Conference between the Partner States and the Development Partners.

Key Areas Supported by the EAC Partnership Fund

	Support areas	%
1	Studies	32
2	Capacity Building of EAC	26
3	Common Market Negotiations	15
4	Fast Tracking Integration of Rwanda and Burundi	7
5	EPA Negotiations	5
6	Cross Cutting Issues	5
7	EAC Communication, Publicity and Outreach	5
8	Sensitization Programme in Partner States	4
9	Trade Facilitation in EAC	1

The PF supported the entire negotiation process for the Common Market which resulted in the signing of the Protocol in November 2009. The support for cross-cutting issues has comprised various activities, amongst others support for mainstreaming gender into EAC Policy and Strategy.

The support for negotiations, conferences and workshops has been criticized for financing "meetings in expensive hotels and high travel costs" – an issue that is being addressed, amongst others by TMEA which is in the process of installing video conferencing equipment to reduce travel and meeting costs. However, it is important that the Steering Committee and the EAC Secretariat monitor use of funds in order to ensure "value for money". The Steering Committee has revised the principles for staff travel, per diems rates, etc. but there is room for rationalizing meetings and conferences and for making them more cost-effective, e.g. through more intensive use of ICT.

<u>The process for identifying projects and activities to be supported by the PF is as follows</u>: Based on the overall strategic 5-year plan, the EAC Secretariat prepares an annual business plan, which after several consultations with partner countries is approved by the EAC Council of Ministers. The EAC Secretariat subsequently secures funding of the approved activities from one of the three financing windows, i.e. i) contribution from the member states and ii) bilateral direct

support and iii) funding through the PF. The EAC departments responsible for implementing the activities selected for funding from the PF are then requested to prepare more comprehensive proposals that will be presented to the Steering Committee of the PF after recommendation by the Resource Mobilization Office (RMO) of EAC. When approved by the Steering Committee funds will be released to the concerned EAC Department.

The requests and the approved funding are guided by the EAC Development Strategies. The fourth Development Strategy (2011/12 – 2015/16) focuses on consolidation of the benefits of a fully fledged Customs Union, including enhancing market access and trade competitiveness; implementation of the Common Market; concluding and establishing the Monetary Union while laying the foundation for a Political Federation. In the Steering Committee of the PF, Danida will priorities support to initiatives related to consolidation of the Customs Union and implementation of the Common Market Protocol.

Management and Oversight: Day-to-day management of the Fund is undertaken by the Resource Mobilization Office (RMO) which reports directly to the Office of the Secretary General. RMO is headed by a Principal Resource Mobilization Officer, who is supported by two programme assistants. Finances are handled by the EAC Financial Office. An accountant was recruited in July 2010 specifically dedicated to handling the accounts of the Partnership Fund, following the recommendation of an External Review (see below).

In addition to the Partnership Fund, RMO coordinates the EU-financed Regional Integration Support Programme (RISP), other bilateral projects as well as the process of establishing the EAC Development Fund. RMO's main functions include: (i) mobilisation of donor funds; (ii) administration and monitoring of donor funds, including screening of financial requests to ensure compliance with guidelines for use of funds; and (iii) reporting, including financial reporting, to DPs on the use of their funds.

At the EAC level, the Fund is managed by the Partnership Fund Management Committee (PFMC) which prioritises proposals for funding, which are then submitted to the Steering Committee for approval or revision.

Oversight and guidance is provided by a Steering Committee comprising the signatories to the Fund, including Denmark. Germany is presently chairing the Steering Committee. Also non-contributing members are participating in the Steering Committee. The Steering Committee meets three times in a year. The Steering Committee is an important forum for donor coordination and Denmark will work for better coordination of DPs, among others to consider the criteria for prioritizing project proposals to be supported by the PF.

An External Audit is commissioned at the end of each fiscal year, and sent to all members and published as part of the Annual Report on the Partnership Fund. The Fund is also audited by the EAC Audit Commission in line with the EAC Financial Rules and Regulations. Clean audit reports have been obtained through all years.

After two years of operation, an external review was commissioned during 2009/10 to evaluate the relevance and effectiveness of the Partnership Fund. The review focused on the Funds' impact, management structure, disbursements, and regulations. Some of the key recommendations have now been implemented, including: (i) recruitment of a dedicated accountant; (ii) integration of the PF process and cycle into the EAC planning and budgeting cycle; (iii) the development of a Resource Mobilization Policy and Strategy; and (iv) the ongoing review of the Partnership Fund Regulations.

Danida is concerned that the EAC Secretariat failed to pass the Fiduciary Risk Assessments (FRA) carried out by DFID in 2006 and 2008. As mentioned, a number of capacity development activities have been implemented since then including funding by TMEA of five international consultants and eight non-permanent staff members in the EAC Secretariat. While most procedures and manuals now seem to be in place, these have yet to be implemented and utilized by the EAC staff. The next FRA is planned to be undertaken in 2012, but it is still uncertain if the Secretariat will be able to pass.

A review and revision of the regulations for the Partnership Fund is ongoing. At the same time, CDAP is producing improvements in the financial management and procurement functions of the Secretariat which are expected to lead to a positive Fiduciary Risk Assessment. These two processes may change the role of the Fund's secretariat, i.e. the RMO, with respect to its role in financial management and procurement – the stronger the Secretariat, the less the need for the RMO to play a pro-active or "watchdog" role. This could lead to a situation where it would be adequate for DPs to provide their support as general budget support (core funding) for the Secretariat.

The Danish member of the Steering Committee will follow the management issues closely.

<u>Specific measures to address other issues</u>
In the past, the Partnership Fund has supported a number of cross-cutting activities and it is expected that such support will continue. One of the eight objectives of the EAC Treaty is to mainstream gender in all development contexts. In the past, support has been provided for a number of gender-related activities and with support of the Fund, EAC's Sectoral Committee on Gender and Community Development has adopted Terms of Reference for mainstreaming gender into EAC policies and programmes, and presented these to the EAC Council of Ministers.

The Partnership Fund has supported the process of developing an EAC policy and strategy for Persons with Disabilities (PWDs), including the first EAC Regional Conference on PWDs which developed a Draft Policy and Strategy on PWDs.

The Partnership Fund has supported the process of developing an EAC Climate Change Master Plan. A Climate Change Working Group is in place to promote and oversee this work. Continued support for developing and implementing the Master Plan is foreseen in the next years. Support may also be provided to activities related to the EAC Protocol on Environment and Natural Resources and the Protocol on Sustainable Management of the Lake Victoria Basin. The Danish member of the Steering Committee will support that these issues get high priority.

<u>Budget:</u>
For the sake of predictability, the EAC Secretariat has requested donors to commit multi-year support. As mentioned above, Denmark is concerned that the EAC Secretariat has not passed the Fiduciary Risk Assessments (FRA). However, as other donors are providing direct support to the Fund, and as the external audits of the PF have come out positively, Denmark will provide the first (small) tranche of funds directly to the PF during 2012. However, disbursement of funds for 2013 and 2014 will be pending a positive FRA. In case the FRA scheduled for 2012 turns out negative, the Danish review mission scheduled for October 2012 will consider the implications for Danish support.

In light of the above considerations the Danish contribution to the PF will be similar to the contributions provided by Germany and Sweden that is around US$ 1 million per year over the three years.

Therefore a total Danish support of DKK 18 million is included under this Programme, allowing Denmark to make the following commitments for the period 2011/12 to 2013/14, with disbursements expected twice a year:

- DKK 3 million in January 2012 in support of FY 2011/12
- DKK 6 million in July 2012 in support of FY 2012/13
- DKK 6 million in July 2013 in support of FY 2013/14
- DKK 3 million in July 2014 in support of first half of FY 2014/15 (with anticipated further contributions from a new phase of Danish support to EAC regional integration)

Danish commitments and contributions will be made on the basis of a Memorandum of Understanding.

<u>Monitoring and Evaluation</u>: The RMO has a well-established system, including an Activity Implementation Progress Matrix, for monitoring delivery of outputs and activities. The monitoring system of the PF adequately captures activities and outputs whereas the impact of the activities is captured to a lesser extent. Hence, there is need for a more systematic assessment of outcomes and impacts of the supported activities. The Danish member of the Steering Committee will ensure that this issue will be considered by the RMO. Also, regular external reviews, e.g. every second year should be planned, preferably as joint reviews.

<u>Risks and Assumptions:</u> In the case of a negative FRA, some development partners may decide to reduce or withdraw their support to the PF. The implementation of the CDAP is mitigating this risk and it is expected that the EAC Secretariat will pass the FRA during 2012.

Financing of EAC is becoming increasingly dependent on contributions from development partners. The work initiated by EAC on finding new ways of financing the operations (e.g. a community levy, a percentage of the CET revenue etc.) demonstrates that also the partner states are concerned about this trend. It is assumed that solutions to the financing problem will be found so as to avoid that the ambitious plans for the future (Monetary Union, Development Fund etc.) do not solely depend on funding from the development partners.

There is a risk of conflicts over what type of activities should be supported through the PF. In this context, there could be conflicts over issues such as depth versus width, should implementation of the common market have priority over establishment of a monetary union, should the Partnership Fund play a role in making the new Development Fund operational, etc. Mitigating measures would be that the DPs to a larger extent than now coordinate their views in the Steering Committee.

In this context, there seems to be a need for clarifying and coordinating the roles of the Partnership Fund and TMEA. As TMEA is attracting significant resources, there could be a risk of overlap and competition between TMEA and the PF, rather than creating synergies. The presence of the same development partners in both the PF Steering Committee and the PIC should work to mitigate this risk. Also, the presence of TMEA in the PF Steering Committee as an observer, as well as the proposed membership of the EAC Secretary General in the PIC, would minimize this risk.

6.2 Component 2: Support to TradeMark East Africa (TMEA)

The Danish support to TMEA is basically "core financing" of activities within the regional window of TMEA. The basis for the support is the Medium Term Strategic Plan 2010-2016 with business plans developed for each year. TMEA's programme period was originally five years (2010-2014), but it has been extended to 2016 thus covering a total of seven years (2010-2016). The total programme budget is US$ 375 million of which US$ 179 million has been secured.

In February 2010, TMEA issued its first Medium Term Strategic Plan. It builds on five country level Programme Memoranda (one for each Partner State), one Memorandum for PSOs and CSOs, and one for the support to the regional EAC institutions. It outlines the strategic directions for the four core programmes and the ambitions for raising contributions from new partners such as China, India and Brazil, in particular for the transport corridor work. It also highlights the close coordination with the DFID-initiated sister project, TradeMark Southern Africa, in order to generate synergies in support of the COMESA-SADC-EAC cooperation.

Four donors are presently supporting TMEA including UK, Sweden, Belgium and Denmark. The Netherlands are planning to provide support and more donors are expected to join. Denmark has already approved two appropriations to TMEA including DKK 10 million from MFA-AFR in 2009, as well as DKK 60 million under the Business Sector Programme Support (BSPS) in Kenya.

TMEA was established in 2009 by DFID/UK as a multi-donor financing facility to "lower barriers to trade by increasing the efficiency of transport corridors and reducing administrative costs by cutting red tape". This includes streamlining of export and import processes, trade facilitation, and reducing transaction costs along economic corridors including establishment of one-stop border posts. Another important part of the mandate is to support development of the capacity of: (i) the EAC relevant Ministries, Departments and Agencies (MDAs) in the Partner States; (ii) the EAC organs; and (iii) Private Sector Organisations (PSOs) and Civil Society Organisations (CSOs) to engage in the integration process and undertake advocacy related to EAC issues.

TMEA only started its support programmes in May 2010. Since then, preparations were made for introduction of the Automated System for Secured Electronic Transit (ASSET) which will provide an alternative to transit bonds, by allowing duties and taxes to be collected at the port of entry. Preparations were also made for an integrated single window border management and for construction of one-stop border posts. Preparatory studies were undertaken in Dar es Salaam port and in the main transport corridors. Under the Capacity Development Action Plan for the EAC Secretariat, improvements were achieved in the areas of financial management and procurement. In the five partner states, the process of developing the capacity of the EAC ministries was initiated. Finally, a number of activities were implemented to strengthen the capacity, advocacy and networks of PSOs (including the East African Business Council) and CSOs.

<u>Establishment and Purpose</u>: TMEA was registered in Kenya on 23 June 2009 as a Company Limited by Guarantee to lead and manage a scaled-up programme of harmonized aid delivery in support of regional trade and economic integration in East Africa. KPMG serves as custodian and formal owner of TMEA. On 17 May 2010, it registered a Company Limited by Guarantee in Rwanda, serving as the TMEA's Kigali office, and during 2010 it established country offices in Bujumbura, Dar es Salaam, and Kampala as well as a liaison office at EAC in Arusha. In December 2009, KPMG East Africa was appointed as Custodian with responsibility for providing directors and members of TMEA and for fiduciary, financial and procurement services. TMEA commenced operations in May 2010, starting work on four core programmes:

1. Lowering barriers to trade by increasing the efficiency of transport corridors and reducing administrative costs by cutting red tape**.** This includes streamlining of export and import processes, trade facilitation, and reducing transaction costs along economic corridors including establishment of one-stop border posts.
2. Improving the efficiency and effectiveness of EAC institutions to manage regional integration programmes. This includes technical and financial aid for the EAC Secretariat in areas such as customs and trade, development of the institutional framework for the Common Market Protocol, support for establishment of the Development Fund, and strengthening of fiduciary systems and governance.
3. Strengthening national capacities for policy making and implementation. Governments in the five Partner States will be supported to better develop, coordinate and implement EAC integration processes and reforms, and to engage with the private sector and civil society.
4. Increasing participation by private sector and civil society in East African integration. Support will be provided to develop the capacity of PSOs and CSOs to engage in the integration process, and for their advocacy activities.

As a supporting beam, TMEA is assisting with improvements in regional and national knowledge management and monitoring systems to better monitor progress and impacts of the integration process and inform policy formulation and the general public.

TMEA was established to handle the EAC support provided under various DFID-supported programmes, as well as to mobilise support from other development partners for a more harmonised effort supporting the EAC integration process. Two areas are particularly highlighted in the rationale: (i) the potential and the impact on competitiveness and economic growth of reducing the high cost of transporting goods between the countries and along the main transport corridors to the export/import ports; (ii) the weak capacities of national ministries, departments and agencies (MDAs) in the five partner states for implementing the agreed integration measures.

<u>TMEA Organisation:</u> TMEA's governance framework comprises: (i) a Board of Directors responsible for day-to-day management; in practice this responsibility is delegated to the TMEA Chief Executive Officer; (ii) the members of TMEA which may appoint or remove members of the board; (iii) the Programme Investment Committee (PIC) currently chaired by Denmark and with representatives of the donors. The PIC has decided to enlarge the committee with three additional members and has approached the EAC Secretary General as well as two representatives from the private sector in Kenya and Uganda. PIC provides strategic guidance and approves funding requests. During 26 January – 13 April 2011, PIC assessed and gave approval of 23 funding requests based on project appraisal reports; (iv) National Oversight Committees (NOCs) have been established in each Partner State and at the EAC Secretariat to provide advice (define demand) and oversight of supported activities. The NOCs are advisory and can only recommend to the PIC which has the ultimate authority. Related to this governance structure, TMEA will have thematic consultations, stakeholder fora, on selected themes and cross-cutting issues. Finally, TMEA participates in the Tripartite Advisory Group with its sister programme TradeMark Southern Africa, in support of the Tripartite Task Force comprising SADC, COMESA and EAC.

The TMEA management/administration comprises the Nairobi head office, the five country offices, the EAC liaison office in Arusha, and a small office in Juba, South Sudan. It is structured in three legs: (i) regional programmes; (ii) country programmes; and (iii) corporate services. The staff establishment includes a total of 79 positions.

<u>Achievements 2009- 2010</u>: During the period 2009-2010, TMEA developed its organisational structure and procedures, recruited staff and largely continued the programmes and activities that had been funded since 2010 under various DFID-funded Fast Track programmes.

The achievements within the TMEA's core programmes during May-December 2010 are presented in the 2011 Business Plan and included *inter alia* the following. Preparations were made for introduction of the ASSET which will provide an alternative to transit bonds, by allowing duties and taxes to be collected at the port of entry. Preparations were also made for integrated single window border management and for construction of one-stop border posts. Preparatory studies were undertaken in Dar es Salaam port and in the main transport corridors. Under CDAP, improvements were achieved in the financial management of the EAC Secretariat. In the five partner states, the process of developing the capacity of the EAC ministries was initiated. Finally, a number of activities were implemented to strengthen the capacity, advocacy and networks of PSOs (including the East African Business Council) and CSOs.

An agreement was also made with Swedish SIDA for SEK 30 million for TMEA's Tanzania programme (December 2010 – December 2012) and for SEK 45 million for TMEA's Rwanda programme (September 2010 – December 2013). Finally, an agreement was made with Belgium for €11 million for TMEA's Burundi programme (July 2010 – November 2014).

While TMEA during the inception phase has been successful in raising funds, expenditure was relatively modest in 2010, as it is normal in any inception phase.

<u>The Business Plan 2011</u> comprises five priority areas. In addition to 1) supporting ASSET as mentioned above, the plan comprises 2) support for a successful Chairmanship of the EAC by Burundi, and consolidation of Burundi's new Revenue Authority, 3) scaling up assistance to business and civil society to engage in policy reform work that reduces the cost of regional trade, 4) support the EAC's role in the Tripartite Task Force and 6) supporting corporate governance and services including appropriate M&E systems within TMEA and its partners. Support may also be provided to new high priority areas such as support for Southern Sudan for customs reform and trade facilitation and technical support in reviewing the option of accession to the EAC and development of border posts along the borders between the Democratic Republic of Congo and Rwanda and Burundi. The budget for 2011 of US$ 30 million will probably be exceeded by about 10% owing to fast adoption of TMEA's activities throughout the year.

<u>Specific measures to address on other issues:</u> TMEA's Medium Term Strategic Plan outlines broad strategies for how TMEA will support and address mainstreaming of gender and HIV/AIDS, protection of vulnerable groups, and environmental issues and climate change. Studies of the impact of the integration process on women and vulnerable groups will be supported as well as processes of harmonising social and labour market policies. The transport corridors are characterised by discriminatory and sometimes physically abusive behaviour towards small-scale women traders, and they are a breeding ground for HIV/AIDS. Therefore, it is considered to include special measures in the corridor programmes, such as health centres, and "wellness centres" at the border posts.

<u>Budget:</u> As mentioned above the total budget for 2010 – 2016 is DKK 375 million. By early 2011, TMEA estimated that the committed contributions amounted to US$ 179 million. Additional DKK 120 million from REISP (about US$ 20 million) will raise the commitments to about US$ 200 million. Also contributions from other sources are presently being negotiated, and the Management of TMEA assesses that the remaining funding gap can be closed soon. The budget projections for 2011 to 2016 are as follows:

TMEA's projection of total programme expenditure 2011 - 2016 by Responsibility Centre

Expenditure by Responsibility Centre	Budget 2011/16 ($000)
Kenya	24,351
Uganda	45,994
Tanzania	57,698
Rwanda	62,532
Burundi	47,016
South Sudan	1,300
EATIP[8]	38,920
Economic Corridors	28,346
EAC	17,365
Regional Integration	6,712
PSOs & CSOs	22,674
Knowledge & Results	4,131
Communications & Media	4,433
Corporate Services	11,527
Cross Cutting Issues	2,000
TOTAL	**375,000**

This programme includes an un-earmarked allocation for TMEA of DKK 120 million for the period 1 January 2012 – 31/12- 2014. Tentatively, the disbursement of this commitment is planned as follows:

- DKK 40 million during first quarter of 2012
- DKK 40 million during first quarter of 2013
- DKK 40 million during first quarter of 2014.

Oversight and management: As mentioned earlier, the Danish contribution is support to the "core budget" of the regional window of TMEA. Accordingly, it will be planned and utilised by TMEA's existing framework for oversight and management, applying TMEA's systems for financial management, procurement and monitoring.

Danish participation in the oversight has so far been through membership of the PIC which is demanding in terms of time and resources, not least because PIC is the body that reviews and approves applications for funding. PIC is also the forum where Denmark may influence the future direction and approaches of TMEA. In this regard, Denmark will give special attention to the following issues:

1. Though a large part of the TMEA budget will be allocated for MDAs in Partner States and for PSOs & CSOs, the total anticipated TMEA budget will be significantly larger

[8] The East Africa Transit Improvement Programme (EATIP) was started in 2009 as a DFID funded programme with a budget of GBP 25 million to support development of trade policies and regulations and regional trade agreements as well as investments in road and storage infrastructure.

than the budget for the EAC institutions and organs. This involves a risk that TMEA may compete with rather than complement the work of the EAC organs (or that perceptions of competition develop within the EAC). Improving the coordination with EAC and among partners supporting both the PF and TMEA could help to avoid such a situation. This may *inter alia* be done by giving the EAC Secretary-General a seat on the PIC.

2. Both TMEA and the EAC Secretariat play a role in facilitating the development and coordination of large regional infrastructure investments. The cooperation, division of responsibilities etc need clarification.
3. The pressure for showing rapid results involves the risk that beneficiaries and stakeholders are not fully involved in designing the support and therefore feel that they have limited ownership. Processes to develop ownership are indeed time-consuming, and pre-determined narrow support menus are not helpful. The NOC's are supposed to help ensure that what is supplied corresponds to what is being demanded. However, in the current set-up, the NOCs only have advisory functions, which involve the risk that senior decision-making officers in beneficiary and stakeholder institutions will stop participating or delegate their participation to junior staff. However, in the latter part of 2011 as NOCs have become well established in Rwanda, Uganda, and Kenya, local ownership of TMEA national support programmes have strengthened markedly.
4. Due to the pressure for rapid results, combined with a need for reducing fiduciary risks, TMEA has in the inception phase taken responsibility for much of the procurement. For the purpose of promoting ownership, it is in the future important to closely monitor the feasibility of transferring procurement to the beneficiary partners.
5. Finally, TMEA has now established a large delivery organisation whose efficiency will depend on whether the ambitious plans and budgets are delivered. TMEA's projected overhead is at an acceptable level if this assumption holds. However, if it does not, the TMEA organisation will need to be reviewed.

Denmark will advocate against the idea to have TMEA as a contributing member of the EAC Partnership Fund. TMEA already has observer status in the PF Steering Committee, but it would be difficult to justify that Denmark supports the Partnership Fund directly as well as through TMEA.

<u>Exit Strategy and Sustainability</u>**:** TMEA is registered as a not-for-profit company and does not "self-generate" income but depends entirely on donations from development partners which may continue as long as there is a need. The perception of TMEA's management is that TMEA in its life span will pass through three phases, viz.

- Phase 1, 2010-2015: substantial investment in capacity building of partners and infrastructure
- Phase 2, 2015-2020: more financial aid modalities, greater emphasis on strategic support
- Phase 3, 2020-2025: role as a think tank funded by the private sector.

<u>Monitoring and evaluation:</u> As mentioned in Chapter 5, TMEA's overall goal is defined as: "increased growth and poverty reduction in East Africa" while the purpose is "greater regional integration and trade competitiveness in East Africa". This will be measured through rates in real GDP growth per year in the EAC region (higher than 7% per year) and through percentage of women and men living on less than US$ 1.25 per day in the EAC region (halving from 1990 of 60.7% to 30% which is also the MDG 2015 goal).

In its business plan for 2011 TMEA has further specified the long term indicators as follows:

- 15% reduction in transport time in East Africa
- 5% increase in export values from EAC countries
- Increase of 25% in the share of intra-regional trade
- Implementation of EAC Customs and Common Market with significant reduction of Non Tariff Barriers
- Harmonisation of Rules of Origin, standards, and transport regulations across Tripartite (SADC, COMESA, EAC)
- Number of EAC citizens aware of regional integration up from 50.8 to 76.3 million.

Furthermore, for each major work theme key results are defined. The results are much in line with the results defined by the EAC Secretariat in its Development Strategies.

One major work theme of TMEA is improved monitoring and evaluation systems and knowledge management for regional trade and integration. The plan contains activities not only to develop a comprehensive M&E framework within the TMEA organisation, but also to support the EAC Secretariat, the partner states and cooperating PSOs/CSOs to set up comprehensive M&E systems and produce quality reports, as well as supporting independent impact assessments with gender disaggregation. This is further elaborated in the TMEA Medium Term Strategic Plan and in the Business Plan for 2011.

<u>Risks and Assumptions:</u> TMEA's Medium Term Strategic Plan outlines a thorough risk analysis including description of the risks, Impact/probability, and risk mitigation. The major risks analysed are the fiduciary capacity challenges faced by the EAC Secretariat, PSOs/CSOs, as well as national level ministries and agencies involved in EAC policy making and implementation. A number of other risks are analysed including a fall in political support and member states' financing for regional integration, conflict within or between EAC partner states, the resurgence in political instability in the region, macro-economic weaknesses and high levels of inflation, and a violent Kenyan election in 2012.

The basic assumption for the Danish support to TMEA and TMEA's contribution to the higher level goals is that there is political will in the five Partner States to continue the integration process, i.e. political will to harmonise the national policy and legal frameworks and eventually accept supra-national powers. While the EAC has achieved substantial progress since 2000 because of the political will, it is probably also a correct observation that the political will varies between the Partner States which have different views on the future direction and speed of the integration process. The modest contribution of the Partner States to the EAC budget could be interpreted as question mark to the political will.

At the level of TMEA's immediate objectives and outcomes, there are a number of assumptions and risks on the supply and demand sides. On the supply side, it is assumed that the major part of the support from development partners to the activity menu of TMEA actually will be channelled through TMEA and not bilaterally or through other channels. Thus it is assumed that the Development Partners will use TMEA as the instrument for harmonising their support and reducing transaction costs. With regard to the support for developing the capacity of EAC-relevant MDAs in the partner states, there appears to be limited risk that this assumption will not be fulfilled. The risk is more substantial when it comes to the support for PSOs and CSOs where there are various existing bilateral programmes supported by the Development Partners, not least the German/GIZ programme. Coordination to ensure complementarities and avoid overlaps is required in this area. This is even more so when it comes to the support for EAC institutions and organs.

As mentioned, the projections of TMEA's funding gap are connected with considerable uncertainty, involving a risk that Denmark's disbursements contribute to building up large balances of unspent funds which would not be acceptable according to Danish aid policy. To mitigate this risk the funding agreement with TMEA should specify that disbursements will only be made if there is a well-documented funding need.

On the demand side, the assumption is that the national MDAs, the EAC organs, and the PSOs and CSOs look at TMEA as their preferred partner and their first option when looking for support. This in turn depends on TMEA's support menu, and the flexibility and speed with which TMEA addresses their requests. Furthermore, it is critical that they have ownership of the TMEA support and do not feel that the TMEA support is imposed on them.

6.3 Component 3: Business Across Borders (BizAB)

The customs union and the common market provide opportunities for economic and social benefits, but exploitation of these opportunities will require increased intra-EAC trade and business cooperation to reap the benefits of economies of scale and a larger market, specialisation based on comparative advantages, and knowledge and technology transfer between businesses in the partner states so as to reduce the current differences in skills and technology.

As reviewed in Chapter 2, intra-EAC trade and cross-border investments still constitute minor shares of the totals, in spite of recent increasing trends. This represents a political risk to the integration process. If intra-EAC trade and investments are insignificant and of negligible importance and interest to the private sector operators, the private sectors of the five states are unlikely to place pressure on their political leaders for further deepening the integration process. On the other hand, stimulating their interest in intra-EAC cross-border trade and investments will turn the private sectors into drivers of change, advocating for removal of the barriers they experience when attempting to trade and invest across the borders.

Furthermore, there is a political risk related to the composition of intra-EAC trade and investments, which is highly uneven, with Kenya accounting for the major part of intra-EAC exports and intra-EAC cross border private investments. Kenya has a major surplus in its intra-EAC trade and is the main exporter of manufactured goods and other products with value added. In the 1970s, perceptions in Tanzania and Uganda that Kenya dominated the cooperation and reaped most of the benefits contributed to the dissolution of the first EAC, a history that Kenya and the other states in the present EAC are aware of and considers as a political risk for the future of the Community that has to be addressed. Investments and other forms of business partnerships across borders may contribute to a more even distribution of the benefits and to gradually reducing the skills and technology differences.

For the reasons mentioned above, it is important that REISP also comprises initiatives at the micro level in addition to supporting regional economic integration at meso and macro level (Component 1 and 2). The underlying assumption of REISP is that growth and employment is created by enterprises expanding their activities across borders in a bigger market. Exploiting a better and more unified business environment at regional level is more challenging for smaller than for larger companies. There is therefore a need to support initiatives that will also enhance SMEs' possibilities to benefit from increased regional economic integration.

The BizAB initiative will be implemented by TMEA. TMEA will supplement its PSO/CSO activities with a programme, BizAB that will support development of selected value chains with a regional potential. The aim is to improve performance and competitiveness of enterprises in selected value chains in East Africa and thereby increase growth and employment. Efforts to develop value chains, or market systems[9], have been an area of donor investment for several years (for example USAID, Danida and DFID). Also Governments and philanthropic institutions, such as the Gates, Ford and Gatsby Foundations have supported such programmes in East Africa. However, the majority of these programmes have focused on national sub-sectors rather than looking more broadly on how value chains can be expanded to the regional level. An objective of BizAB is therefore to create a platform for coordination of, and support to, value chains at the regional level.

Major achievements of BizAB would be measured against indicators such as aggregate growth in output/trade/employment in selected regional value chains, number of beneficiaries (employees or producers) positively affected in terms of employment or income, etc. The specific indicators will be defined during the preparation process. However, under the assumption that TMEA will manage funds from other donors it can be expected that 6-8 value chains will be supported (dependent on further funds being secured). The target would be 10% growth above the trend rate in the selected value chains and that more than 100,000 jobs would be created or sustained.

The value chains will be selected on the basis of a number of criteria, such as i) scale and depth of impact (employment and poverty reduction, ii) viability and iii) portfolio synergies with TMEA's and the member states' growth priorities and approaches. TMEA will complement BizAB through engagement on specific challenges to regional markets, such as non-tariff barriers and regional regulation.

BizAB will work through partner facilitators who will encourage large-scale change by addressing underlying causes (rather than symptoms) of weak value chain performance. Interventions may be small in themselves, but will continually strive to leverage the actions of key market players to bring about extensive change. Sustainability is a prime concern of a market development approach. This means considering not just the existing alignment of key market functions and players, but how they can work more effectively in the future, based on the incentives and capacities of market actors.

Some indicative outputs are:

- Interventions to stimulate systemic change in 6-8 value chains (dependent on further funds being leveraged);
- Stronger capacity of partners to facilitate pro-poor value chain development;
- Increased awareness and understanding of the value chain approach among influential stakeholders including Regional Economic Communities, business associations and national governments; and
- Robust programme results measurement system implemented.

The approach should be based on the extensive programme experience that has been gained during the last 5 years including the DFID/Danida financed Business Services Market Development Programme in Kenya which created 40,000 jobs directly and played a vital role in developing the dairy sector in Kenya.

BizAB will be designed in detail during the first 10 months of REISP, i.e. by October 2012. This should include an initial diagnostic phase that would map out value chain/B2B/Markets for the

[9] DFID prefers to use market systems instead of value chains

Poor initiatives in the region and assess whether any of these would have scope for being expanded to the regional level. Based on this assessment BizAB should be formulated and initial pilot support activities will be implemented.

TMEA will contract an international consultancy to assist in designing BizAB, working with a focal point within TMEA. The assignment would be anchored within the existing TMEA structure, and the country office network in all the East African states (plus South Sudan) would be utilized. A Danida representative from the embassy in Nairobi will participate in a Task Force to be established with TMEA Management.

It is assumed that an attractive BizAB programme can be formulated, and it can be expected that TMEA will ensure part of the funds for the implementation. Also unallocated funds from the REISP might be allocated for BizAB subject to a positive recommendation from the inception review of this component of the REISP that is planned to be undertaken in October 2012.

An amount of DKK 6 million will be allocated to TMEA in January 2012 to formulate BizAB and to initiate some pilot activities in one or two selected value chains. TOR for the first year of BizAB is attached as Annex D.

7. Specific Measures to Address Other Issues

As discussed under Component 1 and 2 cross cutting issues including gender and HIV/AIDS initiatives are mainstreamed in the interventions supported. Cross cutting issues are elaborated further below:

<u>A Gender Equality Rolling Plan</u> is presented in Annex C. One of the eight objectives of the EAC Treaty is to mainstream gender in all development contexts. In the past, support has been provided for a number of gender-related activities. The EAC Partnership Fund is providing support for the work of EAC's Sectoral Committee on Gender and Community Development, and in November 2010, the EAC Secretariat issued the EAC Strategic Plan, 2011 – 2015, for Gender, Youth, Children, Social Protection and Community Development.

TMEA's Medium Term Strategic Plan outlines broad strategies for how TMEA will support and address mainstreaming of gender and HIV/AIDS, protection of vulnerable groups, and environmental issues and climate change. Studies of the impact of the integration process on women and vulnerable groups will be supported, as well as processes of harmonising social and labour market policies.

With respect to Component 3, gender issues will be included in the criteria for selecting value chains for support through the BizAB programme.

<u>Environment</u>: An Environmental Screening Note was prepared in connection with presentation of the Concept Note to MFA's internal Programme and is available on request. Environmental impacts from the supported interventions are largely positive though there are some minor risks to be managed.

The Partnership Fund has supported the process of developing an EAC Climate Change Master Plan. A Climate Change Working Group is in place to promote and oversee this work. Continued support for developing and implementing the Master Plan is foreseen in the next years. Support may also be provided to activities related to the EAC Protocol on Environment and Natural Resources and the Protocol on Sustainable Management of the Lake Victoria Basin.

Part of TMEA's future support may be for initiatives that address regional environmental issues. TMEA's capacity development support has no direct negative environmental impacts while some of the infrastructure investments in transport corridors could have negative environmental impacts that require mitigation.

HIV/AIDS: A major part of TMEA's support is for the transport corridors, which are the breeding grounds for HIV/AIDS. Therefore, TMEA plans to include special measures in the corridor programmes, such as health centres, and "wellness centres" at the border posts.

8. Budget

The total framework budget of DKK 160 million has been allocated between the components and budget lines as shown below:

Budget in million DKK

Budget line	2012	2013	2014	Total
Component 1: EAC-Partnership Fund	6	6	6	18
Component 2: TMEA	40	40	40	120
Component 3: BizAB	6			6
Review, monitoring, coordination, TA	2	2	2	6
Unallocated		10		10
TOTAL	**54**	**58**	**48**	**160**

The budget line for Component 1 covers the Danish contribution to the PF while taking into account the fiduciary risk in the disbursement plan.

The budget line for Component 2 covers the Danish contribution to TMEAs Regional Integration budget line which corresponds to core budget support. The Danish contribution will allow TMEA to implement regional integration activities while maintaining flexibility to also undertake country level activities subject to approval by PIC. TMEA receives funds from several donors both to the regional integration and the country level activities. The disbursement plan is tentative and should be confirmed in connection with the finalisation of the Programme Support Document.

The budget line for Component 3 covers an immediate allocation to TMEA in order to facilitate the development during 2012 of BizAB to foster business across borders based on selected regional value chains in the EAC. Such a programme proposal should be ready by October 2012, allowing for an inception review to evaluate the proposal and possibly recommend it for further funding.

A provision of DKK 6 million has been reserved for review, monitoring, coordination and TA. Programme reviews should be undertaken on a yearly basis, preferably as joint donor reviews coinciding with the review cycles of the partner institutions (TMEA, PF). The ISMCC recommended in chapter 3 should be funded from this budget line also.

The provision of DKK 10 million in the unallocated budget line should be decided upon in connection with the inception review of Component 3 in October 2012, which would coincide with the annual review of TMEA. Funds from this budget line could be allocated to initiate implementation of the proposal, subject to a positive evaluation by the review and approval by the PIC. Alternatively, the provision could be used in other parts of the REISP. The entire provision of unallocated funds would expectedly be programmed for 2013.

Tentative budget and funding estimates including funding from other sources is presented in Annex A. It is only possible to pre-define outputs for Component 3: BizAB. The two other components provide contributions to a basket fund (PF) and a core budget (TMEA) that finance interventions that are defined according to the planning and budgeting procedures of the two organisations. Plans and budgets are approved by Committees in which Danida is represented.

9. Management and Organisation

For Component 1 the oversight and management structures of the PF will apply. For Component 2 and 3 the oversight and management structures of TMEA will apply. The oversight and management structures of PF and TMEA, respectively, are elaborated in detail in Chapter 6.

Danish Participation in Programme and Component Oversight: Considering the nature of the initiatives to be supported within the three components there is a risk of overlap and inconsistencies in the articulation of Danish views, especially between Component 1 and 2. Since Denmark is represented in various committees by the three embassies in the region, i.e. the Programme Investment Committee (PIC) of TMEA, the Steering Committee of PF, the TMEA National Oversight Committees (NOCs) in the 3 of the 5 member states and the Regional Oversight Committee (ROC), it should be ensured that the Danish position in these committees is well coordinated.

Management and coordination from the Danish side is envisaged as follows: Overall management and coordination responsibility rests with MFA-AFR. Participation in the various committees within the three components is delegated to the embassies as follows:

- Participation in the PIC of TMEA rests with RDE in Nairobi
- Participation in the Steering Committee of the PF rests with RDE in Dar es Salaam
- Participation in the TMEA NOCs rests with the concerned embassy
- As Denmark has no representations in Burundi and Rwanda, Denmark will not participate in the NOCs in these countries. Denmark's interests in the two NOCs will be taken care of by TMEA or be delegated to another development partner.
- Participation in the Task Force to be established for Component 3 rests with RDE in Nairobi – but with anticipated strong input from RDE Kampala.
- RDE Dar es Salaam will participate in the ROC (or delegate to RDE Nairobi or RDE Kampala, when meetings are held Kenya or Uganda).

It is important that the Danish position in all committees be based on a common overall Danish Strategy for Support to EAC Regional Economic Integration. It is equally important that the Danish representatives have thorough knowledge of major initiatives to enhance regional economic integration both at EAC and at national level.

Therefore, an International Strategy, Monitoring and Coordination Consultancy (ISMCC) will be contracted by the RDE Nairobi with assistance from MFA-AFR. The main functions of the consultancy will be to i) follow the integration process and provide inputs to the Danish representatives in the various committees, not least the PIC of TMEA and the Steering Committee of the PF; ii) function as a process consultant for developing a Danish Strategy for Support to EAC regional economic integration to be finalized during the first year of implementation of REISP; and iii) assist the RDE Nairobi to consolidate progress reports covering the entire REISP.

Danida staff participating in EAC economic integration activities should meet via video conference on a regular basis – preferably semi-annually – to discuss strategy and policy issues, progress, plans and other common themes related to the Danish support at all levels to EAC economic integration. Discussions could be based on issues raised in the consolidated reports prepared by the ISMCC.

While the overall responsibility for REISP is vested in MFA-AFR, the embassies in Nairobi, Dar es Salaam and Kampala are actively involved in the programme. It is a challenge for the embassies to allocate sufficient resources for participation in the various programme committees. This challenge should to some extent be mitigated by the contracting of the ISMCC. In summary, the ISMCC will:

- Monitor development in the EAC economic integration process in general;
- Assist in preparing consolidated progress reports related to REISP;
- Provide inputs to Danida staff participating in ROC, NOC, PIC and PF Steering Committee meetings and participate in the Task Force for formulating the BizAB programme;
- Act as process consultant to develop a comprehensive Danish Strategy for Support to EAC Regional Economic Integration;
- Assist in arranging joint meetings (via video conference) for Danida staff participating in the mentioned REISP committees.

The ISMCC will be contracted through an international tender managed by RDE Nairobi. Draft TOR for the consultancy is attached as Annex F.

In addition, the Danish participation will work to facilitate links and synergies with other programmes and institutions. Such include the Danish Business to Business (B2B) programme, the agribusiness components of the support programmes for the business sectors in Tanzania, Uganda and Kenya, the advocacy facilities, BEST-AC and BAF, supported under Danish BSPS in respectively Tanzania and Kenya, as well as other relevant agribusiness support programmes.

Given the uncertainties about the disbursements of the three components, a need could arise during implementation to re-allocate budgets between the components. Such budget re-allocations will be decided by MFA/AFR in consultation with the EAC-relevant embassies.

10. Financial Management and Procurement

For Component 1, the financial management and procurement systems of the PF will apply while the financial management and procurement system of TMEA will apply for Component 2 and 3.

The EAC Partnership Fund finances projects and activities proposed by the EAC Secretariat and other EAC organs. The secretariat of the Fund, i.e. the Resource Mobilization Office (RMO), controls the disbursements to the approved projects and activities and delivers an Annual Report, including an audited financial statement. Funds are physically handled by the EAC Finance Department. Clean audit statements have been obtained so far. In case the Fiduciary Risk Assessment that will be performed in 2012 will not be positive, the review that is planned for October 2012 will recommend on possible consequences for the Danish support to PF. See also Chapter 6.1.

TMEA has developed and obtained approval by the PIC of business processes related to: (i) procurement; (ii) cash management; (iii) project approval and management; and (iv) accounting and audit.

Though the PF and TMEA have their financial statements audited by external auditors, Denmark reserves the right to commission its own independent audits at any time.

With respect to financial flows, Denmark will transfer the agreed amounts to the specified accounts of the implementing partners. However, any transfer will be based on an assessment of the need for the funds in order to avoid any build-up of unspent balances.

11. Monitoring, Reporting and Reviews

11.1 Monitoring and Reporting

The programme support is designed with a relatively short implementation period of 3 years, on the assumption that continued support after 2014 will be considered. The decision on continuing the support needs to be based on evidence that the support is delivering value for money. This places special demands on the components' Monitoring & Evaluation systems.

EAC Partnership Fund: In the annual reports and in the regular reporting of the RMO to the Steering Committee, progress with respect to supported activities and their outputs is reported. However, a more in-depth analysis of the outcomes and impact of the support as well as its cost-effectiveness would be desirable. This analysis may best be undertaken in connection with an external joint review. Denmark will advocate for implementation of such a review during 2013.

TradeMark East Africa: TMEA has established a comprehensive M&E system and knowledge management framework, including indicators to be assessed. The system should allow an assessment of whether the support delivers value for money. It is important that information required to monitor trends in indicators will be available so that a decision of a possible extension of the programme can be taken in the first half of 2014.

11.2 Reviews, Lessons Learnt and Preparation for a Next Phase

Danida will participate in all joint reviews of the Partnership Fund and TMEA. A special "bilateral" Danida inception review of Component 3 will be conducted in October 2012, focusing on any issues emerging from the preparation phase of BizAB. The 2012 review of the PF will focus issues related to the new FRA of the EAC Secretariat and possible implications of this for continued Danida support to the PF. In addition, an appraisal of a possible new phase of Danish support to EAC regional economic integration would be conducted in early 2014, based on lessons learnt.

12. Key Assumptions and Risks

A number of assumptions and risks have been identified concerning Component 1 and Component 2 in chapter 6.1 and 6.2., including a description of the mitigating measures. Summary of the risks are as follows: At the overall programme level the basic assumption is existence of political will to continue the integration process.

At the component level, for Component 1, the PF, the following risks are the main ones: support to the PF, fiduciary risks of the EAC Secretariat, dependence of the Secretariat on donor support, as well as conflicts over what type of activities should be prioritised with scarce resources available. These risks should be closely monitored by the Steering Committee of PF and reassessed during the review in 2012. The risk of conflicting demands on scarce resources should be mitigated by clear donor policies of funding only planned, on-budget activities of the EAC.

For Component 2 (TMEA), it is assumed that donors will use TMEA as a mechanism for harmonisation, and that large infrastructure investors such as the World Bank, AfBD, China and the US will make substantially use of TMEA for facilitating the preparation and coordination of such investments. Also, it is assumed that EAC, national Governments, private sector and CSOs will use TMEA as a preferred partner in development. In addition to these, the TMEA Medium Term Strategic Plan 2010-2015 and the 2011 Business Plan identify a number of risks, with low-medium-high level of impact/probability assigned to each. The high impact risks include low political commitment to the integration process, slow implementation of reform, incomplete implementation of EAC protocols and programmes at national level, lack of internal Government coordination on regional issues as well as corruption. Mitigating measures have been identified by TMEA. In addition to these, exogenous risks should be monitored, such as high inflation and energy costs, and risk of conflicts in South Sudan or Burundi. These should be closely monitored by the PIC, and a continuous assessment of the risks should be an integral part of the policy dialogue between the embassies and the national Governments.

For Component 3 (BizAB), it is assumed that EAC partner states will continue to support private sector development, and also that funds are available to follow up supporting the pilot activities if proved successful. Furthermore, two other major risks are identified, i.e. lack of quality in the programme proposal developed by TMEA as well as lack of funds to implement the programme proposal beyond the limited funds provided by Denmark. The first risk should be mitigated by the establishment of a Task Force following the work of TMEA. The second risk should be mitigated by the pledge of TMEA to work on raising additional funds for implementing Component 3.

Proper attention to the identified assumptions and risks as elaborated above is needed and should be monitored by the ISMCC and reflected in the progress reports including suggestions for possible mitigating initiatives.

Annex A Tentative Budget and Funding Estimates

In DKK million	2012	2013	2014	Total
A. EAC Partnership Fund (estimated total)	**40**	**51**	**61**	**152**
Denmark	**6**	**6**	**6**	**18**
Canada, DFID, Finland, Germany (multi-year commitments) b)	31	31	38	100
Expected annual contributions from other DPs (Belgium, France, Norway, Sweden) a)	7	13	15	42
B. TradeMark East Africa b)	**520**	**580**	**630**	**1,730**
Denmark – Support to Economic Integration in East Africa	**40**	**40**	**40**	**120**
Denmark – BSPS II Kenya – earmarked for TMEA – Kenya				60
Commitments - Belgium, DFID, SIDA, and new members (Netherlands) under negotiation – includes BSPS II				940
Pending (expected) commitments				189
Requests and bids for other contributions				421c)
C. Regional Trade Promotion	**6**			**6**
Denmark	**6**			**6**
Monitoring, reviews, audits, preparation of next phase	**2**	**2**	**2**	**6**
Unallocated funds		**10**		**10**
TOTAL SUPPORT OF DENMARK (excl Kenya-TMEA)	**54**	**58**	**48**	**160**

a) The multi-year commitments of DFID, Finland and Germany are given for the FY July-June and will come to an end in 2012 but are expected to be renewed. Likewise, Canada's multi-year commitment came to an end in 2011 and is expected renewed. More DPs may consider providing multi-year commitments

b) TMEA has not detailed annual budgets for 2012-2016 but expects to disburse a total of US$ 375 million during 2011-2016. The budget for 2011 is US$ 30 million.

c) In its 2011 Business Plan, TMEA mentions an amount of US$ 155 million

Annex B Gender Equality Rolling Plan (GERP)

Basic Information	
Programme Title	Support to Economic Integration in East Africa
Sector	Growth and Employment – Regional Market Development
Country	Burundi, Kenya, Rwanda, Tanzania and Uganda
Budget (Danida's Contribution)	160 mio. DKK
Starting date and duration	1 January 2012 – 30 June 2014, 2 ½ years

Phases in programme cycle and documentation	Action required	Responsibility
Preparation phase GERP Annexed to the PAP	**1. International / regional commitment on gender.** **1.1 International** The main objective of the East Africa Community is to develop policies and programmes aimed at widening and deepening co-operation among the Partner States in mainly political and economic, social and cultural fields, research and technology, defence, security, legal and judicial affairs, for the partners' mutual benefit. Articles 5, 3 (e); 6 (d); 121 and 122 of the Treaty highlights gender mainstreaming and respect for women's rights as one of the fundamental principles that will govern the EAC integration process. The Treaty also emphasizes the role of women in socio-economic development and in business as a core issue to the effective cooperation and development of the Partner States. The overall performance of different member states towards the ratification on International and regional protocol is generally perceived as good[10]: • Ratification of Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) – done by all five Partner States. • African Union Protocol on rights of women – ratified by Rwanda and Tanzania, while not yet ratified by Burundi, Kenya and Uganda. • Beijing platform for Action – implemented by all Partner States except for Burundi, which is in the process of implementing. **1.2 Regional Level** There is still low female participation in general socio-economic development and political affairs (except for Rwanda) and various socio-economic indices highlight the gender inequality (see below). It is the desire of the EAC Strategic Plan that these inequalities are addressed as a means of improving the status of women, equity and	MFA/AFR

[10] EAC Strategic Plan for Gender, Youth, Children, Social Protection and Community Development 2011 – 2015, EAC Secretariat November 2010

Phases in programme cycle and documentation	Action required	Responsibility
	broader participation in development. **Political involvement** • As of 2008, the percentage of women in ministerial positions in the EAC region varied from a low of 17 in Kenya to a high of 28 in Uganda • Percentage of seats in parliament ranged from a low of 9.9 in Kenya to a high of 56 in Rwanda (highest in the world). **Agriculture and Economic development** • Even though women in the region are increasingly becoming the main income earners particularly in agriculture where they play a key role in food production activities in addition to their traditional domestic chores, various cultural traits and taboos have continued to underpin the marginalization of women in the development process. • There are huge variations in the level of female estimated earned income that range from a low of US$ 296 per annum in Burundi to a high of US$ 1,213 in Kenya. • In terms of gender comparison, the ratio of earned income (estimated) ratio of female to male varied in 2007 from a low of 0.65 in Kenya to a high of 0.79 in Rwanda. This means that women in Kenya for instance earned only 65 per cent of what was earned by men. **'Adult Literacy and Life expectancy comparisons** • Female adult literacy (% aged 15 and above) varies in the region from a low of 52 per cent in Burundi to a high of 70 per cent in Kenya. In comparison with men, females are still behind in literacy respectively in each country. For instance in Uganda while the per cent of literate women is 65.5 per cent that of their counterpart men is 82 per cent. • In terms of life expectancy at birth, as of 2007, the regions female life expectancy at birth varied from a low of 51.4 years in Burundi to 55.8 years in Tanzania and this could be compared to that of men in the same period. Men on average live shorter lives compared to their female counterparts in all 5 member states and their expectation of life at birth varied from a low of 48.6 years in Burundi to a high of 54.2 years in Tanzania, the other countries falling in between. The EAC Gender and Community Development Framework focused on making policies and programmes in EAC Member State economies more equitable and sustainable in the area of Gender and Community Development. EAC has developed a Strategic Plan for Gender, Youth, Children, Social Protection and Community Development for 2011-2015. It is designed to meet the following objectives:	

Phases in programme cycle and documentation	Action required	Responsibility
	- To identify and detail specific areas for intervention; - To lay out key issues and challenges that need to be addressed; and - To set priorities for action by policy makers and other key Stakeholders. Gender-Based Violence (GBV) is considered a significant problem and the legislation to deal with it is considered inadequate. In order to promote gender equality, the Council of Ministers has presented recommendations such as: - Provide an enabling Policy and Legislative framework for Gender equality and equity; - Facilitate gender mainstreaming in National development processes in Partner states for gender equality and women empowerment; - Facilitate increased budgetary allocation to National Machinery in Partner States and strengthen national capacities in gender mainstreaming; - To facilitate collection and utilization of sex/gender disaggregated data in Partner States; and - To provide enabling mechanisms to address gender based violence in all situations. **2. National Implementation Plans and Instruments in Place.** **2.1 Burundi**: - <u>Implementation Plans:</u> Vision 2025; and the Strategic Framework for Growth and the Fight Against Poverty (2007-2010). - <u>Instruments in Place:</u> UPE; Ubushingatah e institution; and Common Fund for Education. **2.2 Kenya:** - <u>Implementation Plans:</u> Vision 2030; NPEP; PRSP; and ERS. - <u>Instruments in Place:</u> National Commission on Gender and Development; The Women's Bureau; Bursary Fund; and Women Enterprise Fund. **2.3 Rwanda:** - <u>Implementation Plans:</u> Vision 2020; and EDPRS. - <u>Instruments in Place</u>: Beijing Secretariat; National Women Council; Gender Desks; Gender Observatory; Savings and Micro Credit Cooperatives (for women only); Guarantee Fund; Credit Bank for Women; and Rwanda Men Resource Centre. **2.4 Tanzania:** - <u>Implementation Plans:</u> Vision 2025 for TZ and Vision 2020 for Zanzibar; National Strategy for Growth and Reduction of Poverty; and Zanzibar Strategy for Growth and Reduction of Poverty.	

Phases in programme cycle and documentation	Action required	Responsibility
	• Instruments in Place: Self-help Loan Fund; Women Development Fund; Tanzania Social Action Fund; and Youth Development Fund. **2.5 Uganda** • Implementation Plans: Vision 2025, Gender and Equity Budgeting and National Action Plan for Women. • Instruments in Place: Local Government Act; National Council for Women; Affirmative Action; Equal Opportunities Commission; and Uganda Women Parliamentary Association. **3. Programme Level Gender Mainstreaming** **3.1 The EAC Partnership Fund** In the past, the Partnership Fund has supported a number of cross-cutting activities and it is expected that such support will continue. One of the eight objectives of the EAC Treaty is to mainstream gender in all development contexts. In the past, support has been provided for a number of gender-related activities and with support of the Fund, EAC's Sectoral Committee on Gender and Community Development has adopted Terms of Reference for mainstreaming gender into EAC policies and programmes, and presented these to the EAC Council of Ministers. **3.2 TradeMark East Africa** TMEA's Medium Term Strategic Plan outlines its strategies for mainstreaming gender. It states that it is important to recognize that not all individuals benefit from trade liberalization equally. How much an individual benefits depends, among other things, on whether he or she works in an expanding sector or is able to switch to one, on his or her skills, and on whether there is discrimination in the labour market. Gender analysis is therefore important to evaluate the potential effects of trade liberalization on the population because men and women commonly work in different sectors, have different skills and different access to economic resources. Women are increasingly engaging in the export-oriented industries (such as cut flowers), but at the same time some women are moving into informal, home-based market activities that may not provide minimum wages, security of employment or other social benefits. Male migration to urban areas in the search of new employment opportunities can have an impact on women's time poverty, as women are left to take care of productive, reproductive and community work. It is important to improve women's access to resources so that they can fully benefit from new opportunities. The important aspects that relate directly to women's position in the society and the opportunities they have to benefit from regional integration include land title and ownership, credit and other financial services, technology and market information. Labour and social policies need to be adjusted to reflect women's role in the society, including more affordable and accessible childcare services and parental leave rights, improved transportation to access services	

Phases in programme cycle and documentation	Action required	Responsibility
	and market opportunities among others. Women also have an increasingly important role in investment, and the proportion of women making investments is growing. The number of women establishing their own businesses and accumulating wealth is increasing globally and it is crucial to recognise this and reach out to these potential investors by adopting practices that promote gender equality. It is equally important to ensure gender sensitive reporting. Support provided under TMEA to MDAs, PSOs and CSOs on analysis of the impact of regional integration would also highlight the need to identify the impacts on key vulnerable groups and women. Where these studies highlight key intervention areas, TMEA country offices will be able to provide support to ensure implementation of follow-up activities.	

Annex C TOR for Formulation of the BizAB

Ref. No.: 104.Østafrika.3

September 2011

Draft
Terms of Reference
Consultancy for Assisting in Designing the Business Across Borders Component (BizAB) of the Danish Support to Regional Economic Integration in East Africa (REISP)

1 Background

Denmark has decided to scale up its support to regional economic integration in East Africa (DKK 160 million over three years). The support focuses on three components: 1) EAC Partnership Fund; 2) Trade Mark East Africa (TMEA) – regional window; and 3) 'Business across Borders' (managed by TMEA).

REISP will focus on completion of the Customs Union as well as implementation of the Common Market Protocol. These are the areas of EAC integration holding most promise in terms of economic growth. Successful support to EAC economic integration has specific challenges that need to be recognized in program implementation. Key issues include empowerment of the EAC Secretariat to persuade partner countries of the benefits of deeper integration. Another important issue concerns how to coordinate and stimulate the dialogue on interventions that have to take place both at EAC Secretariat and partner country level.

In addition to supporting deeper economic integration at the macro and meso level (Component 1 and 2) support is also needed at the micro level to foster more business across borders in the EAC. The underlying assumption of REISP is that growth and employment are created by enterprises expanding their activities across borders in bigger markets. Exploiting a better and more unified business environment at regional level is more challenging for smaller than for larger companies. There is therefore a need to support initiatives that will allow also small and medium enterprises (SMEs) to benefit from economic integration. Initiatives supported at the micro level, for example through strengthening of value chains, may foster business across borders. It may also provide REISP with valuable information about the results of the economic integration and hence provide a "reality check" of the economic integration process.

During the formulation of REISP several proposals for supporting the micro level, i.e. foster more business across borders in the EAC, were discussed. Eventually, it has been agreed that the support should primarily enhance regional value chain development and that the support should be managed by TMEA. Therefore, it has been decided to contract a consultancy to assist TMEA in more detail to plan and initiate implementation of the Component.

2 Objective of the assignment

The overall objective of the assignment is to assist TMEA to define, plan and initiate implementation of the Danida supported Business Across Border Component of REISP.

3 Outputs

Outputs of the assignment shall be:

1. A mapping of ongoing or planned value chain support programmes in the five EAC member states indicating which programmes would have the best potential for expanding to the regional level. This will be finalized within the first two months of 2012.
2. A description of the Business Across Borders (BizAB) initiative comprising the rationale for the initiative, objectives, outputs main activities, budgets, indicators, risks and assumptions and how it will be organized and managed by TMEA. The description will also include a list of specific value chain programmes that will be considered for support. This description will be finalized within the first 9 months. The final description will be submitted after the planned review of REISP including BizAB has taken place in October 2012.
3. Pilot initiatives have been implemented in relation to one or two specific value chain programmes. Experience from these initiatives will contribute to the final formulation of an effective BizAB. The initiatives will be initiated in parallel with defining the description of BizAB and provide valuable inputs to finalisation of the BizAB programme.

4 Scope of work

The Scope of work shall include but not necessarily be limited to:

- Prepare a comprehensive mapping of all ongoing and planned value chain programmes in the five EAC member countries. The identified value chain programmes will be thoroughly analysed with a view to assess whether there exist a potential for expanding the value chain to the regional level.
- Based on the analyses, one or two value chain programmes with high potential for expansion to the regional level will be selected for participating in a pilot programme for support. In collaboration with the management of the selected programmes regional pilot initiatives will be identified and implementation will be initiated.
- In parallel to the pilot activities a description of the Business Across Borders (BIZAB) initiative will prepared. The aim of BizAB would be to improve performance and competitiveness of enterprises in selected value chains in East Africa and thereby increase growth and employment. Major achievements of BizAB would be measured against indicators such as aggregate growth in output/trade/employment in selected regional value chains, number of beneficiaries (employees or producers) positively affected in terms of employment or income, etc. The specific indicators will be defined during the preparation process. Experience from the pilot programme should be included in the formulation of the programme. In defining the organisational set up of BizAB, it is

expected that regional facilitators will be identified and together with the TMEA staff encourage large scale change in the supported value chains.

- In developing the value chain/market development approach the consultants will work closely together with TMEA staff utilizing experiences from DFID and Danida supported programmes as well as from other relevant programmes. Before finalizing the description of the BizAB it should be agreed whether other investors including TMEA would be interested in supporting BizAB.
- Based on the recommendations of the review that is planned to take place in October 2012, a final description of the BizAB can be made. This document will be the basis for Danida to decide whether unallocated funds within the REISP budget of DKK 10 million should be allocated for supporting implementation of BizAB. If other donors are interested in supporting BizAB these should also participate in the review.

5 Organisation

The Consultancy shall operate from Nairobi under responsibility of TMEA management. The Consultancy will function within a small market development unit set up by TMEA. TMEA will utilize its country office network in all the East African states – each with staff responsible for working with the private sector. A small task force that will include representatives from the TMEA management and Danida - and possible other donors that would be interested in supporting BizAB, will be established to follow the formulation process and provide valuable inputs.

6 Consultants and timing

An international consultancy will be contracted through an international tender arranged by the TMEA. The consultancy will cover a 1 year period starting from January 2012.

The TA input is tentatively estimated as follows:

- One long term international advisor who is specialist in international trade and value chain development with an indicative input of 11 person months.
- One long term local/regional advisor who is specialist in private sector development with an indicative input of 11 person months.
- International short term consultants: total 6 person months and
- Local local/regional short term consultants: total 6 person months.

The Consultancy should comprise the following qualifications:

- Experience from working with global and regional value chains
- Have good knowledge of the East African region – preferably the consultancy consortium should have branches/working partners in several member states
- Experience from working with private sector development and business environment
- Experience from working with programme formulation
- Good knowledge of EAC economic integration policies and strategies.

7 Budget

A budget of DKK 6 million has been allocated for BizAB for 2012. This amount would cover the TA as well as pilot initiatives to be implemented during 2012.

An unallocated amount of DKK 10 million may be allocated for BizAB during year 2012 and 2013 if the review to be conducted in October 2012 and that Project Implementation Committee of TMEA provide positive recommendations.

Annex D TOR for the International Strategy, Monitoring and Coordination Consultancy

Ref. No.: 104.Østafrika.3

October 2011

Draft
Terms of Reference
International Strategy, Monitoring and Coordination Consultancy (ISMCC)
Danish Support to Regional Economic Integration in East Africa (REISP)

1 Background

Denmark is scaling up (DKK 160 million over three years) of its support to regional economic integration in East Africa. The support focuses on three components: 1) EAC Partnership Fund (PF); 2) Trade Mark East Africa (TMEA) – regional window; and 3) 'Business across Borders' (BIZAB).

REISP will focus on full completion of the Customs Union as well as implementation of the Common Market Protocol. These are the areas of EAC integration promising most in terms of economic growth. Successful support to EAC economic integration has specific challenges that need to be recognized in program implementation. Key issues include empowerment of the EAC Secretariat but perhaps even more importantly how to persuade partner countries of the benefits of deeper integration, and how to coordinate and engage in dialogues and interventions that have to take place both at EAC Secretariat and partner country level.

In addition to supporting deeper economic integration at the meso and macro level (Component 1 and 2) it is also considered important to support the micro level to foster more business across borders in the EAC. The underlying assumption of REISP is that growth and employment are created by enterprises expanding their activities across borders in bigger markets.

Overall management and coordination responsibility rests with MFA-AFR. Participation in the various committees within the three components is delegated to the embassies as follows:

- Participation in the PIC of TMEA rests with RDE in Nairobi;
- Participation in the Steering Committee of the PF rests with RDE in Dar es Salaam;

- Participation in the TMEA National Oversight Committees (NOC) with the concerned embassy. Danida staff will not participate in NOCs in Burundi and Rwanda;
- Participation in the Task Force to be established for Component C (Business Across Borders) rests with RDE in Nairobi;
- Participation in the Regional Oversight Committee (ROC) rests with the embassy of the country in which the ROC meeting takes place (circulating between the 5 countries).

Considering the nature of the initiatives to be supported within the three components there is risk of overlap and inconsistencies in the articulation of Danish views. There is a need to ensure that the Danish position in these committees is well coordinated.

2 Objective of the Assignment
The overall objective of the assignment is to contribute to an effective articulation and coordination of Danish support to regional economic integration in East Africa.

3 Outputs
Outputs of the assignment shall be:

1) An Inception Report not later than three months after the assignment has commenced.
2) A strategic framework for the Danish support to regional economic integration in East Africa finalised by the end of 2012
3) Consolidated half yearly progress reports of REISP
4) Inputs to Danida staff participating in ROC, NOC, PIC and PF Steering Committee meetings and in the Task Force for formulating the BizAB programme, for example in the form of technical papers.

4 Scope of work
The Scope of work shall include but not necessarily be limited to:

- Follow closely the development process of EAC both at EAC level and at National level. This comprises close monitoring of activities and new initiatives within the EAC institutions, relevant ministries in the member states, private sector and civil society organisations.
- Function as facilitator in preparing a common overall Danish strategic framework for support to EAC Regional Economic Integration. This will entail that all relevant Danida departments and representations will be involved and that the consultant will have a thorough knowledge of other development partners' strategies for supporting EAC integration.
- Assist in preparing consolidated semi annual progress reports related to REISP. The progress report will be based on progress reports from TMEA, PF and BIZAB and other relevant information.
- Provide inputs to Danida staff participating in ROC, NOC, PIC and EAC-PF Steering Committee meetings and participate in the Task Force for formulating the BizAB program. This entails thorough analyses of the agenda for the meetings and preparation of position papers.
- Assist in arranging meetings (mainly via video conference) for Danida staff participating in EAC economic integration activities. Such meetings should be held on a regular basis – preferably semi annually – to discuss strategy and policy issues, progress, plans and other

common themes related to the Danish support at all levels to EAC economic integration. Discussions should, among others, be based on issues raised in the consolidated reports prepared by the ISMCC.

- Participate in the Task Force established by TMEA to assist en designing and implementing BizAB
- Participate as an observer in the NOCs in Burundi and Rwanda. May also participate in other NOC meetings or ROCs held in Burundi/Rwanda as agreed with Danida.

5 Method of work

During the first three months of the assignment, the ISMCC will prepare an inception report. The report will contain a detailed work programme and budget for the ISMCC for the first year and an indicative work plan and budget for the remaining two years.

The ISMCC will consult and follow closely development of policies, strategies, work plans and budgets, as well as new initiatives of the major stakeholders participating in the EAC economic integration. This includes the EAC Secretariat, TMEA, relevant Ministries, Departments and Agencies of the member states, other donors as well as private sector organizations and civil society organizations.

The ISMCC will build up close working relations with the stakeholders and participate in relevant conferences and meetings after consultation with Danida.

The ISMCC cannot replace Danida staff in the various committees and working groups and in other dialogue forums concerning EAC economic integration. However, it is envisaged that the ISMCC will function as a strong dialogue partner with the Danida staff to ensure that a common approach and well-informed views are applied in all fora in which Denmark is represented.

6 Organisation

The ISMCC will be based in Arusha and formally report to RDE Nairobi. This entails that contractual matters including approval of utilization of short term consultants will be agreed with RDE Nairobi based on TOR. On subject matters, the ISMCC will have a close relationship with the embassies in Dar es Salaam and Uganda, as well as MFA-AFR in Copenhagen.

7 Consultants and timing.

An international consultancy will be contracted through an international tender arranged by the Contracts Department of MFA. The consultancy will cover the programme period (2012-2014) – with expected start in March 2012.

The TA input is tentatively estimated as follows:

- One long term international advisor who is specialist in trade (with knowledge of regional economic integration) with an indicative total input of 34 person months in 2012-2014.
- Short term local/regional consultants with a total of 6 months. It is expected that about 2 man-months per year would be required to assist in developing the Danish strategic framework for regional integration, as well as participating in reviews and preparations for a possible next phase of Danish support.

The ISMCC should have the following qualifications:

- Experience from working with trade issues – preferably in East Africa
- Good knowledge of the East African region – preferably the consultancy consortium should have branches/working partners in several member states
- Experience from working with private sector development and advocacy issues
- Experience from working with policy and strategy development
- Thorough knowledge of Danish development policies, procedures and systems.

Annex E Partner Documentation (separate documents)

EAC Development Strategy 2011/12 – 2015/16, EAC August 2011. This document contains among others a detailed list of outputs, activities and budgets for the 5 year planning period.

TMEA Medium Term Strategic Plan 2010-2015, Draft February 2010. This draft will be updated and include 2010 – 2016. The updated plan is expected in September 2011.

TMEA 2011 Business Plan, June 2011. This document contains among others an updated LFA concerning TMEA.

Board/ governance documents for TMEA [specify!!]

Memorandum of Understanding for EAC PF and for TMEA [specify!]

Annex F Process Action Plan – September 2011

(to be deleted in the Final Version)

TASK	TIMING	RESPONSIBLE UNIT	STATUS
Preparation Phase			
Scoping Study	Sept - Oct 2010	Consultants	Done
Stakeholder consultations	Nov 2010	AFR w/Embassies in EAC	Done
Final Report, Scoping Study	Dec 2010	AFR	Done
Preparation of Concept Note and PAP	March 2011	AFR (consult with Embassies)	Done
Submission of Concept Note for Programme Committee	March 18, 2011	AFR	Done
Discussion in Programme Committee and minutes	March 25, 2011	MFA/KVA	Done
Formulation and Approval Phase			
Gender Rolling Plan	May-June 2011	Consultants	Done
Environmental Assessment	May 2011	AFR	Done
Formulation of First Draft of Programme Document and three Component Descriptions	May-June 2011	Consultants (with AFR & Embassies)	Done
Review of and comments on first draft	June-July 2011 Deadline 15/7	AFR/Embassies (+ implementing partners?)	Done
Preparation of Second Draft Programme and Component Description Doc's for Appraisal	Deadline 5 August 2011	Consultants/AFR	Done
Preparation and submission of Terms of Reference for Appraisal	July 2011	AFR/TAS	Done
Mission Preparation Note	Aug 2011	MFA/TAS	Done
Appraisal Mission and Report	Aug 2011	MFA/TAS	Done
Follow-up on Appraisal, Preparation of Final Documents	Oct-Nov 2011	AFR/Embassies	Done
Submisssion of Board Note for Danida Board	24 Oct 2011	AFR	Done

TASK	TIMING	RESPONSIBLE UNIT	STATUS
Approval by Danida Board	9 Nov 2011	MFA	Done
Advertise for ISCMM	Nov 2011	AFR/ERH	Pending
Prepare draft Contribution Agreements with TMEA and EAC PF	Nov-Dec 2011	AFR/Embassies	Pending
Signature of MoU's and Contribution Agreements	Dec 2011	AFR/Embassies Nairobi and Dar es Salaam	Pending