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REPORT OF THE SECOND COMESA BUSINESS SUMMIT

REPORT OF THE SECOND COMESA BUSINESS SUMMIT PROMOTING REGIONAL INVESTMENT AND EXPORT COMPETITIVENESS

KIGALI RWANDA 30 - 31 MAY 2005

The Second COMESA Business Summit was held from 30 - 31st May 2005 in Kigali, Rwanda. Over 500 business persons from all COMESA countries and over 7 countries from Africa, Europe, USA and Middle East attended the Summit.

The Summit was opened by His Excellency Paul Kagame, President of the Republic of Rwanda. A total of six break-out sessions and three plenary sessions were held and one involved a Ministerial Round-table discussion on the Customs Union.

The following are the key issues and recommendations that we are presenting for consideration.

1. Promoting Regional Investment Competitiveness: Realities, Challenges and Opportunities

The Plenary Session reviewed the content of the COMESA economy with special focus on what needs to promote greater investment activity, particularly in value addition to its natural resources, the resolution of the challenges and possibilities for collective action in building centres of excellence in technical capacity and expertise necessary to support investment growth and wealth creation.

During the discussions participants urged policy makers and the political leadership of COMESA to accelerate the pace towards a single economic block in Eastern and Southern Africa;

Recommendations:

The Business Summit recommends that:

- (i) COMESA should enhance the accession to COMESA Free Trade Area;
- (ii) COMESA Secretariat should strengthen and promote programmes on public-private sector participation; and
- (iii) COMESA should strive to create a level playing field for all countries in order to promote trade and investment;

2. Building Regional Centers of Excellence in COMESA Region

This session examined what is being done and fresh interventions necessary to hasten action in building centers of excellence in technical capacity and skills development necessary to inform winning investment activities and initiatives. During the discussions, the participants agreed on a working definition of Centers of Excellence, the principles that should guide establishment of these centers and the possible funding mechanism to ensure that the centers are sustainable.

(i) Definition:

A working definition of a Center of Excellence was adopted as the following: "An institution/enterprise with a critical mass of expertise, technology and financial resources to innovatively provide competitive products and services."

(ii) Principles:

- Given resource constraints, priority should be given to regional centers of excellence rather than national centers.
- Centers of Excellence should be public/private partnerships with the driving force being market forces;
- Countries should conduct a review of education and training systems to create a critical mass of aspiring experts for quality sector-based production and replication with a long-term objective for technology acquisition, development and transfer; and
- Centers of Excellence should establish strategic linkages between Centers of Excellence and other sector-specific institutions.

(iii) Funding and Sustainability

Funding should principally come from COMESA countries; and

Sustainable funding should be explored through various tax instruments, e.g., sector levies, etc., in addition to venture capital, increase investment in research and development.

The Business Summit recommends that:

- (i) COMESA Secretariat should undertake a stock-taking exercise of existing and potential Centers of Excellence to determine and ascertain comparative and competitive advantages in selected COMESA countries. This would include identifying core competencies and identifying reasons for failures of Centers of Excellence in the past. Illustrative centers of Excellence could include those in:
 - Textiles and Apparel
 - Tourism
 - ICT
 - Agriculture, e.g., specialty in coffee, Dairy.
- (ii) COMESA Secretariat should present to Council a full report of the stocktaking exercise including recommended way forward at the latest by May 2006.

3. Promoting Industrial Growth through Investments in Value Addition

Operations

The session examined what is being done in the region to build a coalition around specific projects and programmes likely to spark off greater investment action in sectors with potential for expanding and growing the regional economy.

The session recognized the importance and the need to make ICT, agriculture value addition and mineral exploration and processing as priority sectors, the current constraints in the operation of the Free Trade Area including dispute resolution and issuance of certificate of origins and the infrastructure needs.

The Business Summit recommends that:

- I. COMESA Secretariat should initiate studies to identify value addition projects with regional dimension in ICT, agriculture and mining and report tangible progress to Council by May 2006;
- II. COMESA Secretariat should be given a stronger mandate and capacity to be able to monitor and assess the operations of the FTA regime and resolve trade and business disputes. The Secretariat should by May 2006 report back progress;
- III. COMESA should by December 2006 adopt a harmonized system of issuance of Certificates of Origin.

4. Harnessing the region's energy resources to promote industry

The session examined different possibilities for action in resolving the regional energy deficit, including joint exploration and exploitation of energy resources in the region. The participants noted some of the constraints facing the sector including the low level of private sector participation. The participants highlighted the need for development of network interconnectivity, renewable energy resources, public-private sector partnerships and dis-aggregation of generation, transmission and distribution. The participants also noted that there is over-reliance on hydropower in the region and that countries need to have access to regional grid.

The Business Summit recommends that:

- (i) COMESA Secretariat should convene a meeting of energy experts by December 2005 to find ways of addressing issues raised by the second COMESA Business Summit. The target should be to develop concept for a mega-power generation project with regional dimension by May 2006;

- (ii) That the concept to be developed should take into account the critical issues raised including the need to develop network interconnectivity to regional power pools, promotion of large regional energy projects which will ease pressure on individual countries and development of renewable sources of energy as an alternative to hydro sources of energy.

5. Promoting Regional Export Competitiveness: Mechanisms to support export growth and Opportunities for action.

The Plenary session reviewed the status of COMESA regional export performance and examined present constraints to exports growth as well as potential mechanisms to overcome these constraints. Participants discussed on the need for COMESA to move in haste if it is to compete in the global market. The participants noted that the region needs to have a paradigm shift from the comparative advantage model to the competitive advantage model.

The Session noted the need to have policy coherence between countries, donors and regional international organizations. During the discussions participants emphasized the need for and COMESA to work towards a shared vision in regional integration. The business community was called upon to devise a strategy that could assist governments to transform the informal sector into a formal sector. Finally, COMESA member states were called upon to reduce domestic debt.

The Business Summit recommends that:

- I. The COMESA Secretariat should under TIFA negotiate with the USA Government to allow COMESA countries export to the USA quantities of "undelivered quota of sugar";
- II. COMESA Secretariat should assist member States develop national export led strategies;
- III. COMESA Secretariat should before the next Business Summit re-enforce and re-engineer the business partnerships in the COMESA region to bridge the existing disconnect between COMESA Secretariat and the business sector;
- IV. COMESA secretariat should devise a strategy that would strengthen intra-regional trade in raw materials and inter-mediate products;

6. Business Summit Roundtable with selected Ministers: Promoting Regional Investments and Exports within the framework of a Customs Union.

In this session, the Ministers presented an outline of COMESA's vision for the attainment of the Customs Union and how this integration arrangement will contribute to the promotion of regional investment and export competitiveness.

The panelist included the following:

- (i) Hon. Prof. Nshuti Manasseh, Minister of Commerce, Industry, Investment Promotion, Tourism and Cooperatives, Republic of Rwanda (Moderator);
- (ii) Hon. Dr. Mukhisa Kituyi, Minister of Trade and Industry, Republic of Kenya;
- (iii) Hon. Obert Moses Mpfu, Minister of Industry and International Trade, Republic of Zimbabwe;
- (iv) Hon. Abdul Hamid Musa Kasha, Minister of Foreign Trade, Republic of Sudan;
- (v) Hon. Dipak Patel, Minister of Commerce, Trade and Industry, Republic of Zambia;
- (vi) Hon. Martin Kansichi, Minister of Trade and Private Sector Development, Republic of Malawi.

During the session, the Ministers touched on a number of issues including the operation of the FTA, tariff and non-tariff barriers, the economics of a Customs Union, the need for practical private - public partnerships, the need to reduce bureaucracy in COMESA civil service, competitiveness, attracting foreign direct investments and the role of small and medium scale enterprises. Participants further noted that regional integration gives member States an opportunity to know where they are not competitive. Participants agreed that regional integration should be speeded up in COMESA as the world will not wait for the region.

The participants noted that a Customs Union for COMESA was necessary and the Secretariat and member States should ensure that all stakeholders are sensitized on both the advantages and disadvantages. The participants also noted that Canada had created a Private Sector Development Fund of US\$200 million jointly financed by government and private capital. The business community stated that they expected the Customs Union to create the following:

- (i) A level playing field for the business community as duty rates on inputs used for production in industry are reduced and applied uniformly in all member States;

- (ii) A single economic space that applies a uniform trade and industry policy thus creating scope for regional investments;
- (iii) The convergence of interests of member States that creates a common position when engaging the international community on trade and investment issues;
- (iv) The development of regional infrastructure through pooled resources and joint promotion of regional infrastructure for donor financing;
- (v) A Common Investment Area with harmonized investment codes and policies, national treatment provisions and regional guarantees on the security of investments;
- (vi) Public-private sector partnerships in the development of regional policies for the Customs Union and resolution of outstanding technical work led by a strong COMESA Business Council;
- (vii) Rationalisation of programmes of different RECs to ensure that business people are not faced with conflicting requirements when trading under different trading arrangements;
- (viii) A supply response for the region to take advantage of the market opening in developed economies by creating companies that are globally competitive, building on experience acquired through competition on a regional market.

The participants further noted and agreed that the Customs Union should be a catalyst for other cooperation areas such as science and technology, cultural exchanges, sport and other community building programmes.

In order to have an efficient Customs Union, participants agreed that there was need for coherence between COMESA policies and commitments member States have made or have to make when dealing with bilateral and multilateral partners such as the World Bank and IMF.

The Business Summit recommends as follows:

- (i) COMESA Customs Union should be established by 2008 as decided by Council and a clear plan of implementation should be developed with the participation of the private sector. Countries that are ready to move to the Customs Union should do so and constitute Customs Union Fast Track team;

- (ii) A representative regional body should be established to co-ordinate the inputs from the private sector into COMESA policies and programmes as provided for under the COMESA Treaty;
- (iii) Governments and private sector should engage in meaningful public/private sector partnerships to develop COMESA economies to create the levels of competitiveness required to compete on the international market;
- (iv) That COMESA should operate like a community whereby other cultural and social events are continuously organized to ensure that there is more interaction and movement of people and services across the borders;
- (v) The Customs Union should act as a catalyst for other cooperation such as science and technology;
- (vi) COMESA should engage development partners to ensure that policies that are pursued in member States should be coherent with the regional integration agenda;
- (vii) That the issue of the overlapping membership should be resolved sooner than later and the harmonization of programmes should be spearheaded by all stakeholders including an organized business sector;
- (viii) That the COMESA Business Summit should be held prior to Council to enable resolutions of the Summit to be an input into the deliberations of Council.

7. The role of Women in Regional Export Growth

This session looked at the role of women entrepreneurs in the regional economy; assess constraints to their activities and recommend possible actions needed to strengthen their contribution to regional export growth.

Recommendations:

The Business Summit recommends that:

- (i) COMESA Secretariat should come up with a programme that will address the property rights for women in each COMESA member countries to make sure that women are fully protected by the law;
- (ii) Member States should enhance training and dissemination of information to ensure that more women have access to resources;

- (iii) COMESA should elevate the role that it plays in formulating women's role in the economy. In this respect the capacity of the Secretariat should be strengthened to handle issues of women in business in member states.

8. Current constraints to intra-regional flow of goods and services as well as opportunities for collective action

This Session examined current constraints to intra-regional trade and explored opportunities for collective action in the interest of advancing, expeditiously and effectively, greater intra-regional trade movements.

The session discussed some of the key constraints especially looking at infrastructure and transport bottlenecks. The key constraints and challenges were summarized as follows:

- Partial implementation of COMESA resolutions resulting in countries imposing non-tariff barriers to regional trade in spite of the COMESA Free Trade Area (FTA) and not all countries belonging to the FTA.
- Poor infrastructure in ports, roads and railways resulting in high cost of doing business;
- Poor transit transport and trade facilitation by countries resulting in high transport and transaction costs in spite of various instruments within COMESA to address this issue. The instruments include, COMESA Carriers Licence, Road Customs Transit Declaration, Axle Load Limits and others.

Recommendation:

The Business Summit recommends as follows:

- I. COMESA member States should Implement already agreed COMESA transport and trade facilitation instruments on axle load limits; weigh-bridge management; customs documentation and procedure, RCTD, COMESA carriers licence which permits Cabotage, through movement of transit goods without re-inspection enroute, and others;
- II. COMESA Secretariat should undertake a benchmarking exercise to analyse the performance of the region's transport systems against world norms so that the region aims for the best possible performance including setting of specific targets and efficiency criteria;

III. COMESA Secretariat should implement a simplified system of rules of origin that is understood by the business community and that is easier to enforce and administer;

IV. COMESA Secretariat should:

- Translate issues discussed into concrete implementable actions with clear guidelines and a Road Map for implementation;

(a) Draw up a status report on implementation before the next Business Summit with a clear indication of what has been achieved and what remains to be done; and

(b) Keep stakeholders informed of progress.

- Leveraging Finance to expand regional investment and export activity.

The session examined what financing instruments are available to COMESA entrepreneurs and recommended possible financial interventions with potential for fueling greater investment activity and export growth.

The question to be examined was: Does the region have the capacity to finance investment and export activity and what instruments were available? It was explained that there were a large number of facilities available, which included the World Bank, the African Development Bank, the EU, the PTA Bank, specialized financing institutions (such as those catering for mining projects) and Development Finance Institutions such as IDC and Proparco - these latter institutions would not be the lead equity holders but were good catalysts for project development.

The panelists reported that there is actually a large excess of liquidity in the region with plenty of funds available, and the various institutions were all in the same market together, competing with each other, but these funds were not being put to use mainly due to:

- ❑ A lack of knowledge of what was available and from where;
- ❑ The minimum requirements were not being met and often submissions were not 'bankable';
- ❑ Did not sufficiently articulate the business ideas and the project proposals were deficient;
- ❑ Lack of a track record.

The main significant constraints to accessing investment or project funds were identified as being:

- ❑ The need for collateral or owners' contribution, identified as a major constraint to development;
- ❑ High level of interest rates and bank bureaucracy;
- ❑ High minimum lending levels which creating a problem for SME's in particular;
- ❑ Lack of a track record and absence of a good loan repayment culture.

The variables in investment financing were many and therefore the possible solutions covered a wide range of factors. Some of the suggestions articulated included:

- ❑ Start small, build up a reputation and grow from there.
- ❑ Consult financial experts and negotiate services on a project "success fee" basis.
- ❑ Dream big, think big, have a strategy and be tenacious in finding a solution.
- ❑ Consider equity partnering and venture capital (reduces the cash needed).
- ❑ For SME development in particular, it was suggested that COMESA tie in with the ADB bank and introduce 'franchising' as a means to get development going.
- ❑ Consider the establishment of a small scale enterprise guarantee scheme (like in India) to enable banks to share and therefore reduce their risk exposure.
- ❑ Consider establishing partnerships with business councils and as 'mentors' to provide guidance and to share expertise.
- ❑ Consider structural financing whereby the collateral is inherent in the transaction itself.

The Business Summit recommends that:

- I. The Comesa Secretariat should immediately initiate consultations with these lending institutions to explore ways they can serve the business community without duplicating each other in the market place;
- II. The COMESA Secretariat should immediately examine possible partnering with the ADB with a view to setting up franchising programmes supported by the bank as a strategy for SME financing and development;
- III. The Secretariat should initiate efforts to set up a small scale enterprise guarantee scheme (like in India) to enable banks to pool resources and share the risk associated with such exposure;
- IV. The Secretariat should initiate programmes aimed at encouraging banks in the region into establishing partnerships with business councils and as mentors' to provide guidance and to expertise with the SMES;
- V. The Secretariat should immediately develop and disseminate information on available financing instruments to entrepreneurs in the region.

Conclusion

The Second COMESA Business Summit delegates expressed thanks to the Government and people of Rwanda for the warm welcome and hospitality that was extended to them throughout their stay in Kigali. The delegates also thanked the Rwanda Investment and Export Promotion Agency and the COMESA Secretariat for the work well done in the organization of the Summit.

The Summit delegates attended a Rwanda Investment and Export Promotion Agency breakfast on 1st June where they were able to network and discuss the business opportunities available in Rwanda. In addition, most delegates attended a COMESA Business Council (CBC) meeting held on 1st June 2005 to discuss the formation of the CBC and adopt its constitution.