



**REGION of EASTERN and SOUTHERN
AFRICA and the INDIAN OCEAN**



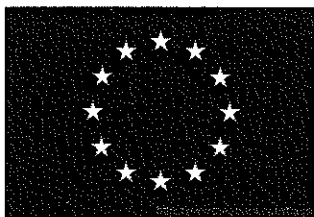
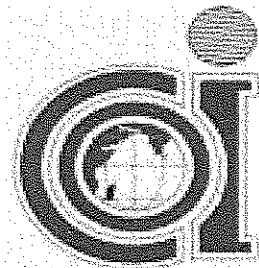
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EUROPEAN COMMUNITY



Regional Strategy Paper
and

Regional Indicative Programme
2008-2013



The **Region of Eastern and Southern Africa and the Indian Ocean** (ESA-IO Region), represented by the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Inter-Governmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC) and the **European Commission**, hereby agree as follows:

- (1) The duly mandated regional organisations of COMESA, EAC, IGAD and IOC (represented by Sindiso Ngwenya, Secretary General of COMESA, Juma Mwapachu, Secretary General EAC, Eng. Mahboub M. Maalim, Executive Secretary, IGAD, and Callixte d'Offay, Secretary General, IOC) and the European Commission (represented by Stefano Manservigi, Director-General for Development and Relations with ACP States and present and former Heads of Delegation in Zambia, Tanzania, Ethiopia and Mauritius), hereinafter referred to as the Parties, held discussions in the ESA-IO region from March 2006 to September 2008 with a view to determining the general orientations of cooperation for the period 2008 – 2013. The European Investment Bank was represented at these discussions by David White, Head of the Regional Representation for Southern Africa and the Indian Ocean.

During these discussions, the Regional Strategy Paper including an Indicative Programme of Community Aid in favour of the ESA-IO Region was drawn up in accordance with the provisions of Articles 8 and 10 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. These discussions complete the programming process in the ESA-IO Region.

The ESA-IO Region includes the ACP Member States of the four regional organisations COMESA, EAC, IGAD and IOC.

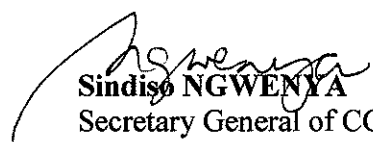
The Regional Strategy Paper and the Indicative Programme are attached to the present document.

- (2) As regards the indicative programmable financial resources which the Community intends to make available to the **ESA-IO Region** for the period 2008 – 2013, an amount of **€645 million** is earmarked for the allocation referred to in Article 9 of Annex IV to the ACP-EC Partnership Agreement. This allocation is not an entitlement and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 11 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The Indicative Programme under chapter 6 concerns the measures funded under this allocation. It is intended to cover economic and political integration, trade support, sectoral policies, and infrastructure programmes and projects at regional level, in support of the focal or non-focal areas of Community assistance. It does not pre-empt financing decisions by the Commission. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.
- (4) The European Investment Bank may contribute to the present Regional Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of the Multi-Annual Financial Framework for the period 2008-20013 contained in Annex 1b to the ACP-EC Partnership Agreement.

- (5) In accordance with Article 11 of Annex IV to the ACP-EC Partnership Agreement, the signatories will undertake a mid-term and end-of-term review of the Regional Strategy Paper and the Indicative Programme in the light of current needs and performance. The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of each of these reviews, the Community may revise the resource allocation in the light of current needs and performance. Without prejudice to Article 11 of Annex IV concerning reviews, the allocation may be increased according to Article 9(2) of Annex IV to the ACP-EC Partnership Agreement in order to take account of new needs or exceptional performance.
- (6) The agreement of the Parties on the attached Regional Strategy Paper and Regional Indicative Programme will be regarded as definitive within eight weeks of the date of the signature, unless either Party communicates the contrary before the end of this period.

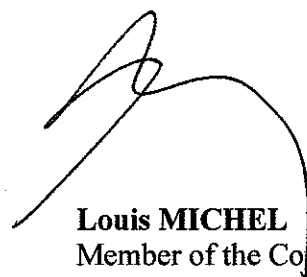
Done at Strasbourg on 15 November 2008.

For the Region of Eastern and Southern
Africa and the Indian Ocean

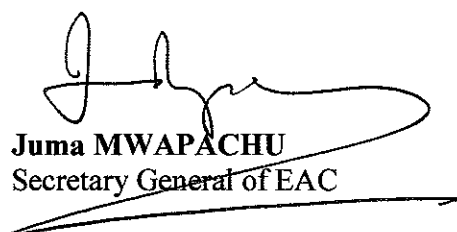


Sindiso NGWENYA
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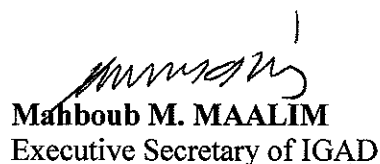
For the European Commission



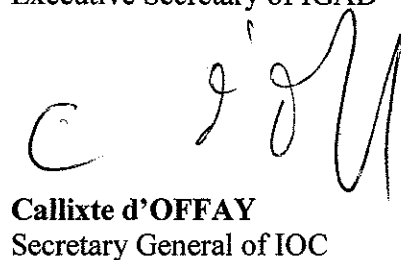
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LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific countries
AfDB	African Development Bank
AfT	Aid for Trade
AEC	African Economic Community
AMESD	African Monitoring of Environment for Sustainable Development
APRM	African Peer Review Mechanism
APSA	Africa Peace and Security Architecture
ARICEA	Association of Regulators of Information and Communications for Eastern and Southern Africa
ASF	African Standby Force
AU	African Union
AUC	African Union Commission
CAADP	Comprehensive Africa Agricultural Development Programme
CAP	Common Agricultural Policy (of the EU)
CASOA	Civil Aviation Safety and Oversight Agency
CENSAD	Community of Sahel and Sahara States
CET	Common External Tariff
CEWS	Continental Early Warning System
CITES	Convention on International Trade in Endangered Species
COMESA	Common Market for Eastern and Southern Africa
COMTEL	COMESA Telecommunications Company
CPIA	Country Policy and Institutional Assessment
CPMR	Conflict Prevention management and Resolution
CTN	Common Tariff Nomenclature
CU	Customs Union
DDA	Doha Development Agenda
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAPP	East African Power Pool
EC	European Commission / European Community
EBA	Everything But Arms
EDF	European Development Fund
EEZ	Exclusive Economic Zone
EIB	European Investment Bank
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ERDF	European Regional Development Fund
ESA-IO	Eastern and Southern Africa — Indian Ocean
EU	European Union
EUMS	European Union Member States
FDI	Foreign Direct Investment
FLEGT	Forest Law Enforcement, Governance and Trade
FTA	Free Trade Area
GMES	Global Monitoring for Environment and Security
GSP	Generalised System of Preferences
GNI	Gross National Income
HIPC	Highly Indebted Poor Countries

HIV/AIDS	Human Immuno-Deficiency Virus / Acquired Immune Deficiency Syndrome
ICT	Information and Communications Technology
IGAD	Inter-Governmental Authority on Development
IF	Integrated Framework
IFIs	International Finance Institutions
IMF	International Monetary Fund
IOC	Indian Ocean Commission
IOM	International Organisation for Migration
IRCC	Inter-Regional Coordinating Committee
JAS	Joint Assistance Strategy
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFN	Most Favoured Nation
MoU	Memorandum of Understanding
NAO	National Authorising Officer
NEPAD	New Partnership for Africa's Development
NDTPF	National Development Trade Policy Forum
NIPs	National Indicative Programmes
NSA	Non-State Actor
NTBs	Non-Tariff Barriers
ODA	Official Development Assistance
OCTs	Overseas Countries and Territories
OR	Outermost Region
PCRD	Post-Conflict Reconstruction and Development
PFM	Public Finance Management
PMDT	Production, Marketing, Distribution and Transport
PRSP	Poverty Reduction Strategy Paper
PSC	AU Peace and Security Council
PTA	Preferential Trade Area
RAO	Regional Authorising Officer
RAERESA	Regional Association of Energy Regulators for Eastern and Southern Africa
RIFF	Regional Integration Facilitation Forum
RO	Regional Organisation
RIP	Regional Indicative Programme
RM	Regional Mechanism
RNF	Regional Negotiating Forum
RPTF	Regional Programme for Trade Facilitation
RSP	Regional Strategy Paper
RTA	Regional Trade Agreement
SDT	Special and Differential Treatment
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SALW	Small Arms and Light Weapons
SATCC	Southern African Transport and Communications Commission
SIDS	Small Island Developing States
SPS	Sanitary & Phytosanitary Standards
SRO	Sub-Regional Organisation
TCSPIP	Transport and Communication Priority Investment Plan

TBT	Technical Barriers to Trade
TRIPS	Trade-Related Intellectual Property Rights
UEMOA	West African Economic and Monetary Union
UNEP	United Nations Environmental Programme
VAT	Value Added Tax
WCO	World Customs Organisation
WTO	World Trade Organisation
YD	Yamoussoukro Decision

EXECUTIVE SUMMARY

The regional organisations (ROs) concerned with the ESA-IO RSP are COMESA, EAC, IGAD and IOC. The four ROs have decided to pursue the collaboration they started under the 9th EDF, to jointly prepare and implement the 10th EDF RSP/RIP for the ESA-IO region. The Member States that form part of the ESA-IO region are heterogeneous in terms of size, economic structure, as well as endowment with resources. However, they share a common objective to address poverty reduction through regional economic integration and trade.

The regional integration process in ESA-IO was institutionalised in the late seventies, leading to the formation of regional organisations with mandates to address specific issues, with ultimate common development objectives. COMESA and EAC pursue a regional economic integration agenda. COMESA launched its Free Trade Area in 2000 and is preparing to launch its Customs Union by 2008. EAC launched its Customs Union in 2005 and plans to finalise the process by 2010. EAC plans to achieve a Common Market and a Monetary Union by 2010 and 2015, respectively. For its part, COMESA plans to achieve a Common Market and a Monetary Union by 2014 and 2018, respectively. IGAD and IOC both focus on the specificities of their Member States and follow COMESA regarding the regional economic integration agenda. In addition, EAC has the explicit objective of achieving a political federation, while COMESA, IOC and IGAD have mandates to address peace and security in the region.

The negotiation of a comprehensive ESA EPA and EAC EPA constitutes a challenge but a further opportunity to strengthen the process of regional integration. Deeper and well-functioning regional internal markets, progressively and asymmetrically opened to the EU, can contribute to economic growth.

The overall objective of the 10th EDF ESA-IO RSP is to contribute to the eradication of poverty in the region's countries and assist them in attaining the MDGs, as enshrined in the ACP-EC Partnership Agreement, by supporting economic growth and developing trade. The specific objectives are to support the regional integration agendas of the ROs, to strengthen regional cooperation and to support the integration of the region into the global economy. The underlying principles of the RSP is to align cooperation with the medium-term strategies of the ROs in line with the Paris Declaration on Aid Effectiveness and the EU Consensus on Development, to mainstream trade within the development objectives of the region and to ensure that assistance is delivered in a manner that is predictable, effective and sustainable.

Interventions are envisaged under two focal areas: Regional Economic Integration, covering regional integration policies, trade and EPA, and regional sector policies, (Focal Area 1); and furthering the Regional Political Integration/Cooperation Agenda (Focal Area 2), through the development of a series of flanking measures to assist the region in tackling regional political problems in a coordinated fashion.

Focal Area 1 aims to support deepening regional economic integration by fully implementing the Customs Unions and moving towards common internal markets (and eventually monetary unions), covering sub-regions of the whole ESA-IO region, through the implementation of the necessary regulatory framework and financial support for the trade liberalisation process and its possible economic and fiscal costs. It will also aim to leverage funds for trade-related infrastructure to deepen regional integration and ensure the sustainable management of the region's natural resources, as a core asset for livelihood systems, so that it provides a basis for sustainable food security.

Focal Area 2 aims to strengthen the political integration/cooperation process in the ESA-IO region by promoting a coherent regional perception of the concept of good governance, establishing regional mechanisms for early warning, conflict prevention, management and resolution, and post-conflict reconstruction, and overall capacity building in the areas of peace and security.

The non-focal areas will include programmes that may not be covered under Focal Areas 1 and 2 but which are consistent with the mandates and strategies of the ROs, including institutional capacity building, support for the IRCC, involvement of non-state actors, etc.

An amount of €645 million will be allocated to the Regional Indicative Programme as follows:

Regional Economic Integration:	85%
Regional Political Integration	10%
Other Programmes:	5%.

Implementation will be coordinated through the Inter-Regional Coordinating Committee (IRCC), to contribute to the harmonisation of policies in line with the recommendations of the AU.

Contribution Agreements and Financing Agreements will be the delivery mechanisms. For Contribution Agreements, the relevant regional organisation will have to undertake an institutional assessment (or implement its recommendations) in order to demonstrate that it has systems in place to ensure that the fiduciary responsibilities of the European Commission are met.

PART I: PARTNERSHIP STRATEGY

1 THE FRAMEWORK FOR PARTNERSHIP BETWEEN THE EC AND THE REGION

1. The main emphasis of Article 1 of the ACP-EC Partnership Agreement is on the MDGs established in the Millennium Declaration adopted by the United Nations General Assembly in 2000, in particular the eradication of extreme poverty and hunger, and on the development targets and principles agreed in the United Nations Conferences. Cooperation between the European Community and the Eastern and Southern Africa/Indian Ocean (ESA-IO) Region should pursue these objectives, taking into account the fundamental principles laid down in Article 2 and the essential and fundamental elements defined in Article 9 of the Agreement.

2. Furthermore, in their joint statement of 20 December 2005 on EU Development Policy, the Council of the European Union, the European Parliament and the European Commission emphasised the multidimensional character of poverty eradication, and identified areas of Community action on the basis of: contribution towards reducing poverty; the link between trade and development; support for regional integration and cooperation; the importance of economic infrastructure; food security and rural development; governance and support for economic and institutional reform; and conflict prevention.

3. Article 28 of the Agreement sets out the general approach to regional cooperation and integration. 'Cooperation shall provide effective assistance to achieve the objectives and priorities, which the ACP countries have set themselves in the context of regional and sub-regional cooperation and integration. Regional Cooperation may also involve non-ACP developing countries as well as Overseas Countries and Territories (OCTs) and Outermost Regions (OR). In this context cooperation support shall aim to: a) foster the gradual integration of the ACP States into the world economy; b) accelerate economic cooperation and development both within and between the regions of the ACP States; c) promote the free movement of persons, goods, capital services, labour and technology among ACP countries; d) accelerate diversification of the economies of the ACP States, and coordination and harmonisation of regional and sub-regional cooperation policies; and e) promote and expand inter- and intra-ACP trade and with third countries'.

4. Cooperation in the area of regional economic integration and regional cooperation should support the main fields identified in Articles 29 and 30 of the Cotonou Agreement. Furthermore, Article 35 provides that 'economic and trade cooperation shall build on regional integration initiatives of ACP States, bearing in mind that regional integration is a key instrument for the integration of ACP countries into the world economy'.

5. Articles 85 to 90 of the Agreement make specific reference to least developed, landlocked and island ACP states and makes provision for their special treatment in order to enable them to overcome the serious economic and social difficulties, natural and geographical difficulties and other obstacles hindering their development, so as to enable them to step up their respective rates of development. The implementation of the Regional Indicative Programme should reflect these special provisions.

6. The above objectives and principles, together with the policy agenda for the region, constitute the starting point for formulating the RSP in accordance with the principle of ownership of development strategies.

2. ANALYSIS OF THE POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION OF THE REGION

2.1 *Political situation*

7. The ESA region has particularly complex regional, political, social and economic dimensions. These include the confluence of various cultures and religions, autonomy or territorial claims (many of them related to ethnic and religious identity), disputed borders, population growth, climate change and related pressures on natural resources, proliferation of small arms and light weapons (SALW) and arms trafficking across the region. As a result, during the post-independence period the region has suffered from numerous intra-regional conflicts. The four Regional Organisations (ROs) — COMESA, EAC, IGAD and IOC — have been actively involved in developing and implementing conflict prevention and arbitration systems.

8. On the political side, as a general rule, most one-party governments have been replaced by democratic systems and multi-party democracies. Election processes have been strengthened, though efforts are still needed on credibility and legitimacy.

2.1.1 African Union

9. The countries of the ESA-IO region participate actively in the African Union (AU). In 2004, the AU Assembly adopted the AU Vision and Strategic Plan, Programme and Budget of the Commission. The Assembly also reiterated its commitment to implement the NEPAD agenda. The resolution regarding NEPAD stresses the need to implement the agenda across the African regions and, more specifically, through cooperation and collaboration with ROs. As part of the NEPAD instruments, the African Peer Review Mechanism (APRM) is a voluntary instrument acceded to by Member States of the AU as a self-monitoring mechanism.

10. On the basis of the recommendations made by the African Ministers responsible for Integration, who had met to discuss rationalisation of the Regional Economic Communities (RECs), the Assembly of the AU, at its meeting in Banjul (December 2006), suspended recognition of new RECs in the continent other than the eight already recognised, these being ECOWAS, COMESA, ECCAS, SADC, IGAD, UEMOA, CEN-SAD and EAC¹. The Assembly also urged the RECs to coordinate and harmonise their policies and programmes among themselves and with the AU Commission with a view to accelerating Africa's integration process.

2.1.1.1 Joint Africa-EU Strategy

11. The EU-Africa Summit in Lisbon (December 2007) hailed a new phase in the Africa-EU relationship and established a new strategic partnership between the two continents. The Joint Africa-EU Strategy focuses on four areas: (a) peace and security, (b) democratic governance and human rights, (c) trade and regional integration and (d) key development issues.

12. In the area of peace, security and stability, under the leadership of the AU:

¹ Although IOC is not recognised as an African Economic Community building block, it is actively involved in implementing programmes which promote continental integration.

- (i) The African Peace and Security Architecture (APSA) is taking shape. African peace-making, peace-keeping and peace-building mechanisms are being strengthened at continental, regional and national levels. The EU and its Member States are well placed to provide continued and increased support for the AU in its efforts to operationalise the APSA, in cooperation with the relevant African ROs. This process consists of long-term capacity building for the various structures involved, including the Continental Early Warning System, the Panel of the Wise, and the African Standby Force (AFS).
- (ii) Building capacity should go hand in hand with helping to ensure adequate, coherent and sustainable financing of the activities undertaken by the AU and the Regional Mechanisms for Conflict Prevention, Management and Resolution, with respect to both civilian crisis management and post-conflict reconstruction and development.
- (iii) Over the past years, a number of new global security challenges have emerged relating to issues such as climate change, environmental degradation, water management, toxic waste deposits and pandemics. There is a need for Africa and the EU to deepen their knowledge of the security challenges involved and jointly identify responses.

13. The partnership has three priorities for the coming years: (1) strengthening dialogue on challenges to peace and security, (2) full operationalisation of the APSA and (3) predictable funding for African Peace Support Operations.

14. In order to reach early results on the key deliverables in the area of democratic governance and human rights, the AU and the EU have identified selected priority actions in the initial period 2008 - 2010 and agreed to implement them in the context of the "Africa-EU Partnership on Democratic Governance and Human Rights". This Partnership is closely linked with the AU-EU Senior Officials Human Rights Dialogue and integrates a range of priority actions in order to: 1. Enhance dialogue at global level and in international fora; 2. Promote the African Peer Review Mechanism and support the African Charter on Democracy, Elections and Governance; 3. Strengthen cooperation in the area of cultural goods. The Partnership will facilitate building a common Africa-EU understanding of democratic governance in all its dimensions and a common agenda on human rights, based on the shared approach and the set of common values, principles and commitments of the Joint Strategy, also in co-operation with sub-regional organisations.

15. In the area of trade and regional integration, Africa-EU cooperation will be underpinned by stronger bilateral development-oriented trading relationships:

- (i) Through the implementation of Economic Partnership Agreements (EPAs) with African regions. Both sides stress the need for the EPA process to be supportive of Africa's regional and continental integration agenda on the basis of the Abuja Treaty. RECs play an essential role as building blocks of the continental integration process.
- (ii) By supporting African business in its efforts to meet EU norms and standards and to upgrade its productive capacity. This will require the gradual harmonisation of trade, customs and industrial policies, laws, regulations and procedures. Africa and the EU will cooperate to put in place programmes and mechanisms to transpose and effectively apply international norms and standards and quality control.

- (iii) By cooperating in developing business plans, export strategies and business-to-business relations. Improving African standards will boost access to international markets and reduce non-tariff barriers to trade.

16. The Africa-EU Strategy goes on to note that 'one particular challenge is to simplify the institutional framework for regional integration and its articulation with the EPA-related groupings. RECs are important for the continental economic and political integration agenda and should continue to be key partners for the EU in Africa.' In this context, the process of harmonisation of regional integration policies is already underway.

17. Among key development issues, the Africa- EU Energy partnership will provide a strengthened Africa-EU dialogue on energy policies, improved access to sustainable energy services; enhanced energy security in Africa and increased investment in energy infrastructure including promotion of renewable energy and energy efficiency and development of regional electricity interconnections.

18. The EU-Africa Action Plan also includes the 8th Partnership on Science, Information Society and Space. Scientific cooperation is considered one of the fundamental elements for meeting the Millennium Development Goals. Human and institutional capacity building and strengthening is expected to have positive effects across a wide range of regional priorities addressed in the EU-ESA-IO cooperation framework.

19. The above efforts will be supported by the Community (EDF, EIB and other instruments), EU Member States and other partners in accordance with the EU Aid for Trade Strategy.

2.1.1.2 African Peace and Security Architecture (APSA)

20. Over recent years, Africa has established a continental peace and security framework, the APSA, based on the AU Protocol on Peace and Security. The APSA has several components: the AU Peace and Security Council (PSC), the Panel of the Wise, the Continental Early Warning System (CEWS) and the African Standby Force (ASF).

21. Sub-Regional Organisations (SRO)/Regional Mechanisms (RMs) such as the ESA-IO ROs are pillars and building blocks of the APSA. Their relevant structures (e.g. regional early warning systems) are to feed into the continental set-up, so the linkages with the AU are of paramount importance.

22. SROs/RMs have been developing regional components of the Continental Early Warning Systems (CEWS) and the ASF (regional brigades). However, their institutional capacity varies considerably: some SROs/RMs are much more advanced in this process than others.

23. The AU Peace and Security Council is the central element of the APSA. It is a decision-making organ for the prevention, management and resolution of conflicts. Its main role is to facilitate a timely and efficient response to conflict and crisis situations in Africa. In its tasks, the PSC is supported by the AU Commission (AUC), the Panel of the Wise, the CEWS, the ASF and a Special Fund (AU Peace Fund).

24. The role of the CEWS is to provide the AUC with timely information in order to facilitate the anticipation and prevention of conflicts. The CEWS consists of several components at continental and regional level: an observation and monitoring centre located in the AUC ('Situation Room') in charge of data collection and analysis; and observation and monitoring units at regional level, linked to the AUC Situation Room.

25. The strengthening of both early warning capacities, in particular in some regions less advanced than others, and linkages between the regional early warning modules and the AUC Situation Room still poses a challenge for the future.

2.1.1.3 Peace and security in ESA-IO

26. The ESA-IO region has suffered from a number of intra-regional conflicts and tensions, including those between Eritrea and Ethiopia, the Somalia crisis, the Comoros situation, the conflicts in Sudan, and conflicts in the Great Lakes Region. The resultant instability has had a negative impact on the region as a whole but progress is being made to find long-term solutions to these problems, with an increasing willingness of states in the region to cooperate on issues of peace and security being evident. The AU and IGAD play a key role in finding sustainable solutions to the challenges faced in the Horn of Africa. At the same time, the AU and the ROs are increasing their capacity to engage in conflict mediation, peacekeeping and peace building, and the financial and political commitment of the donors to assist with the resolution of conflicts is clear. The IOC has been mandated to engage in peace building in its region. All the major conflicts are currently being addressed at international, regional or national levels (or a combination of all three).

27. The EC and the Horn of Africa countries have launched an initiative to address the above peace and security issues in the Horn, which is based on the European Commission Communication: 'European Union Regional Political Partnership for Peace, Security and Development in the Horn of Africa', and was adopted by the Commission on 20 October 2006 and by a European Parliament resolution on 10 May 2007. The initiative will be supported by the RSP to the extent it is consistent with its priorities.

28. As a first step towards regional cooperation, the initiative is focusing on two priority areas: interconnectivity in the transport and energy sectors and the regional management of water resources as an essential element for food security. Activities within the area of peace and security are part of the broader EU regional political partnership for peace, security and development in the Horn of Africa. The EC is also supporting the AU peace and security mandate using EDF funds.

2.1.2 Governance

29. Since the 9th EDF RSP/RIP was signed in November 2002, there have been some overall improvements in governance in the region, although the situation regarding a few specific issues (such as democracy, human rights, rule of law, accountability, transparency in decision-making and levels of corruption in the public sector) remain a source of concern in individual countries. Issues of governance are being addressed through the New Partnership for Africa's Development (NEPAD) African Peer Review Mechanism (APRM). Of the ESA-IO countries, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Tanzania, Uganda and Zambia have acceded to the APRM. Although governments in the ESA-IO region recognise the need to work closely with civil society and the private sector, they also recognise that more needs to be done to create a truly enabling environment for the private sector. Recent evaluations and assessments have shown that wider dimensions of governance, including on good governance in the tax area, assume increasing

importance for some ESA-IO countries. Notably when it comes to effective taxation of the exploitation of natural resources or the compliance of the financial services sector with internationally recognized standards, further improvements could be made in order to protect public revenues and smooth regional integration.

2.1.3 Democratisation process

30. A number of positive changes have taken place in the region, including the deregulation of media ownership and control, and the increased involvement of civil society constituents and foreign observers and monitors in the electoral process. However, many of these changes are at the procedural level and many countries are still in the process of implementing appropriate domestic legislation on democratisation-related issues. Owing to the high stakes of politics, elections in some ESA-IO countries continue to suffer from credibility and legitimacy problems. There is a need to strengthen the capacity of electoral commissions and enhance their ability to administer the electoral process independently and according to internationally acceptable rules. Low literacy and high poverty leave room for the electoral processes to be manipulated.

31. Countries in the region have gone through, or are going through, a process of constitutional revision and reform, with the result that the role of parliaments is being strengthened and the governance process is becoming more transparent.

2.1.4 Human rights

32. All countries are Parties to a range of UN and regional human rights conventions. Despite improvements in human rights records in many countries, extreme poverty levels in many parts of the region, exacerbated by the HIV/AIDS pandemic, constitute a serious constraint for the effective protection of vulnerable groups such as women and children. Progress has been noted in the area of freedom of expression, although there are also instances where the relations of government with the independent media need improvement. Efforts have also been made to respond to gender concerns by establishing structures necessary for effective implementation of the Declarations. However, countries are quite slow in internalising and implementing these international commitments. Human Rights issues as well as recommendations of Electoral Observation Missions – where relevant – are also systematically included in EU political dialogue with African countries.

2.2 *Economic and social situation*

33. Poverty reduction is seen as the major economic challenge for the region and is the overall focus of the region's economic policies. For poverty reduction to succeed, there is a need to have sustainable economic growth in a peaceful environment coupled with equitable distribution of wealth. Minimum, but not sufficient, conditions for economic growth include diversifying the export base, reducing the costs of doing business (partly by improving the efficiency of the transport, communications and energy sectors), and creating an enabling environment for the private sector to invest and operate, so that domestic tax revenues can be mobilised in a transparent and effective manner.

34. With the majority of the ESA/IO countries classified as Least Developed Countries (LDCs), the countries of the region need strong economic growth of at least 7%, in order to reduce

significantly the high levels of poverty and to reach the Millennium Development Goals (MDGs). In this respect, a number of ESA-IO countries have prepared and revised PRSPs that outline an overall strategy for economic growth and development. In most ESA-IO countries, the PRSP, supported where applicable by the Integrated Framework, is now the main tool for mainstreaming trade and development into national development strategies (see [Annex 13](#) for a full regional picture of the MDGs).

35. Action at ESA-IO regional level can successfully help address poverty reduction and economic growth. The ability of ESA-IO countries to take advantage of improved market access will be supported by:

- acceleration, deepening, and rationalisation of the development of regional internal markets with trade in goods and services and with common rules and standards;
- negotiation of a successful EPA; and
- the outcome of the Doha Development Agenda.

Enhancing the competitiveness of the ESA-IO countries requires the removal of supply-side constraints and the upgrading of productive sectors and their suppliers. A clear prioritisation of investment and accompanying reforms linked to a substantial and flexible funding package involving all development partners will be needed.

2.2.1 Recent macro-economic performance

36. The economic performance of the ESA-IO region reflects the improvements in macro-economic management and political stability, but also highlights the diversity of the economic structures of the region (See [Annex 8](#) for detailed statistics on countries in the ESA-IO region). GDP per capita remains low in this region, on average \$456 per capita in 2006 (although it is estimated at \$564 in 2007, due to stronger exchange rates relative to the US dollar as well as real growth). However, there are marked differences between countries, which range from middle-income countries (Seychelles and Mauritius with GDP per capita exceeding \$5500) to low-income countries such as Malawi, Ethiopia and Burundi (with GDP per capita between \$127 and \$300).

37. Real GDP growth in the ESA-IO region has been relatively strong in recent years, in excess of 5% every year since 2004, reaching 7% in 2006, and likely to be almost as strong in 2007. The recent hike in commodity prices (notably oil and minerals) has benefited natural-rich ESA-IO countries. In Sudan and Ethiopia, real growth was even expected to exceed 10% in 2007, although in Eritrea and the Comoros growth is very low, at around 1% in 2007. The situation in Zimbabwe is reflected in the continued decline in GDP, which has fallen by almost 20% over the last four years.

38. GDP per capita in PPP terms is substantially higher in all these countries, although the increase is more marked for some than for others. Seychelles and Mauritius still have the highest GDP per capita on this measure. GDP per capita in PPP terms remains lowest in Burundi, but is now only slightly lower than in Malawi, while both lag behind Eritrea and Madagascar. Ethiopia is notable for its improved position when measured in PPP terms, while in Zimbabwe the opposite is the case.

39. In terms of monetary and fiscal reform, the great majority of ESA-IO countries have taken steps to improve economic management. Inflation rates in the ESA-IO region diverge significantly. Nevertheless, inflation generally appears to be falling year on year or stabilising, reflecting the continued efforts made by the countries in the region, notably in ensuring sound public finances and attaining macro economic convergence.

2.2.2 External sector

40. As far as the external situation is concerned, countries in the ESA region show a relatively high trade openness (measured as the ratio of exports and imports to GDP), on average around 60% in 2007. This is driven by resource endowment (commodity-dependent countries) as well as the need to import a wide variety of capital and finished goods.

41. As a result, in 2007 all the ESA-IO countries are expected to show a current account deficit, on average around 7% of GDP in 2007, but with peaks of around 20-30% for some countries (Madagascar and Seychelles) and as low as 0.5% for others (Zambia, driven by the copper boom).

42. Excluding aid flows, debt has been the most important instrument in the past for financing current account deficits in the ESA-IO region, similar to other African regions, with heavy consequences in terms of debt burden (on average around 70% of GDP in 2004). However, the external debt situation in the region has gradually improved. Thirteen COMESA member states participate in the Heavily Indebted Poor Country (HIPC) initiative of the IMF and the World Bank². In addition to HIPC, for those countries that have already reached completion point and other low-income countries, the Multilateral Debt Relief Initiative (MDRI) provides 100% debt relief covering multilateral debt from the IMF, IDA and the African Development Fund. The objective is to allow these countries to accelerate progress towards attaining the MDGs by reducing the debt overhang and thus freeing resources for development. Following HIPC and MDRI, external indebtedness has fallen significantly, so that total external debt (to official creditors) in the region averages about 35% of GDP in 2006 (even falling to 18% in 2007 estimates), compared to an average of over 70% in 2004. Debt burdens in 2006 ranged from 5% of GDP in Zambia to well over 100% in Malawi and Burundi.

2.2.3 The regional investment climate

43. With regard to FDI, the ESA-IO region accounts for a very small share of global FDI inflows, less than 0.2% on average between 2004 and 2006. However, the region attracted around 15% of the FDI flows to sub-Saharan Africa over the same period, reflecting interest in natural resources (e.g. copper in Zambia and oil in Sudan). In terms of overall investment, FDI inflows represent over 10% in most countries.

44. To a large extent, a conducive investment regime is dependent on improved access to a larger market, a stable and predictable economic and trading regime, and a peaceful and politically stable environment. In addition, other supply-side factors clearly play a role. Investment is attracted to economies that have good infrastructure and adequate regulatory and governance systems, but at the same time, the infrastructure sector itself can be an attractive investment opportunity if the returns are considered to be sustainable and positive. Furthermore, the levels of investment required in the infrastructure sector are certainly greater than that which can be covered by the public sector, including aid finances. The challenge that the region faces is to make the infrastructure sector attractive to private sector investors, by creating an appropriate enabling environment and by using public sector funds to co-finance and underwrite private sector investment. Other constraints to higher levels of FDI include the lack of skills, cumbersome and arbitrary customs procedures, NTBs, and low levels of competitiveness in general. The region accordingly needs to accelerate the implementation of the customs union and the common market in order to improve the investment climate, while paying attention to the appropriate protection of a

² These are (at various stages of HIPC): Burundi, Comoros, Eritrea, Ethiopia, Madagascar, Malawi, Rwanda, Somalia, Sudan, Tanzania, Uganda, Zambia.

broad national tax base, compliance with international tax standards, notably through the avoidance of harmful tax competition within the region

2.2.4 Agriculture and food security

45. The main economic activity in the region is agriculture, where the majority of the population is employed, informally or formally. Most countries in the ESA-IO region, with the notable exception of some small island economies, have policies in place to promote food production so that they are nationally self-sufficient. These policies are at times counter-productive in that they place temporary restrictions on exports of staple crops with the aim of avoiding domestic shortages. However, the overall effects of these temporary bans are to drive down the price of the commodity in question and make export markets in food crops uncertain, which, in turn, reduces the food security of the overall region. A combination of these policies, international market conditions and adverse environmental factors (including droughts, floods and cyclones) have led to a decline in agricultural incomes and an increase in food insecurity in the region. Fast population growth also contributes to higher food insecurity, and the recent hikes in food prices have made the situation worse for net food importers. To reverse this trend, the region needs to adopt an appropriate policy response for the trade in staple foods, move away from a reliance on rain-fed agriculture by taking advantage of the abundant opportunities available for irrigation, develop more varieties suited to existing regional climatic conditions, and adopt more appropriate technologies. These targets could be achieved through coherent implementation of the AU/NEPAD Comprehensive Africa Agricultural Development Programme (CAADP), which aims to make agriculture the main tool to help countries in the region reach the first MDG (cutting hunger and poverty in half by the year 2015). One of the key targets is for countries to allocate 10% of national budgets to agriculture development.

46. In addition, compliance with Sanitary and Phytosanitary (SPS) measures remain a key challenge in the region. The EU's Food and Veterinary Office (FVO) has carried out inspections in a number of ESA-IO countries and the findings confirm that more efforts are needed to bring the countries' SPS systems to compliance level with EU standards. The most common deficiencies relate to the legislative framework, enforcement mechanisms (inspection, certification, monitoring and surveillance), management structures, laboratories and infrastructure. These deficiencies are affecting the competitiveness of the agro-food sector (including fisheries), and its potential exporting capacity, and undermining the important role of agriculture as a whole in rural development, and in turn growth and employment.

2.2.5 Infrastructure

47. The region continues to face challenges in ensuring that it utilises its infrastructure in an optimal way, and that maintenance schedules are adhered to so that existing investments in infrastructure are preserved. In addition, there is a need to upgrade and develop infrastructure so that the region can become a more efficient producer of goods and services.

48. The regional transport system is characterised by cumbersome administrative and customs procedures (leading to costly transit delays), poor infrastructure (especially railway networks) and missing links between national transport systems, poor maintenance of the existing transport infrastructure and incompatibility of transport systems (with some roads designed for higher axle load limits than others and three different railway gauges used in the region). In most sub-Saharan countries, the share of transport costs in terms of the value of trade is around five times greater than the duties paid and the cost of transport per kilometre is the highest in the world.

49. The air transport sub-sector saw a major breakthrough in 2000 with the adoption of the Yamoussoukro Decision (YD)³. The Decision envisages the liberalisation of intra-Africa aviation in terms of capacity, frequency and pricing and enhanced cooperation to stimulate the development of African air transport. In addition, COMESA, EAC and SADC have jointly adopted common Regulations for Competition of Air Transport Services that provide for the establishment of a Joint Competition Authority to be responsible for air transport liberalisation. EAC has also established the Civil Aviation Safety and Oversight Agency (CASOA).

50. The region also faces constraints in the energy, water and ICT sectors in terms of adequate infrastructure. Access to clean drinking water is difficult throughout the region, although the trend has been one of improvement. Irrigation systems are vital if the region is to improve its food security status. In a context of high energy prices, the region should exploit its vast potential to produce electricity from, amongst other sources, hydroelectricity, either through the development of major systems (such as the Inga Dam) or through the installation of small community-level power plants. Despite the numerous drives by the developed world to assist African countries to 'bridge the digital divide', Africa still lags far behind the rest of the world in terms of communications and connectivity. The development of these systems needs to be on a sustainable basis, which, in most cases, implies on a regional basis.

51. Although adequate action to address the region's infrastructure constraints is necessary to facilitate the production and movement of goods and reduce the cost of doing business in the region, it is also recognised that the cost implications of significantly improving the physical infrastructure would be much higher than any single source of funding would be able to afford. Accordingly, in July 2006 the EC launched the EU-Africa Partnership on Infrastructure, precisely to support Africa's efforts to identify and address missing links in existing networks (including water, energy, and ICT) and harmonise transport policies, in accordance with AU/NEPAD priorities. The Partnership will leverage EDF, EIB and EU Member State resources to this effect, including at regional level. The ongoing ESA-IO efforts, funded under EDF9, to develop a Transport and Communication Strategy and a Priority Investment Plan (TCSP/IP), which will establish criteria to identify key regional infrastructure projects and build capacity to deal with investment plans, are consistent with all these initiatives. In this context, the EC Horn of Africa initiative has developed specific infrastructure development priorities within the Horn region, which are in line with NEPAD and IGAD priorities. COMESA has established the COMESA Fund Infrastructure Facility to attract more private funds for infrastructure development financing.

2.2.6 Education

52. Education has a high priority in the budgets of all the countries in the region. Falling standards, almost throughout the region, have led to the agreeing of common objectives: increased enrolment (with universal primary education a common goal); increased equality of access (addressing geographical, gender and social imbalances); improved quality (in terms of number of textbooks, curriculum development, teacher training and teacher/pupil ratios) and decentralised management of decision-making and resources. Basic/primary education is now the focal area for most national authorities. This includes non-formal and adult education and increased attention to cross-cutting issues — gender, HIV/AIDS and the environment in particular. However, adult literacy (for those above 15 years) remains below 70% in around half the countries of the region. In recent years, the focus on access has often overshadowed attention to quality. Education reforms will take several years to be reflected in these indicators, so a realistic interpretation is important.

³ In November 1999 the Ministers in charge of civil aviation adopted the Yamoussoukro Decision. The Decision was formally endorsed in Togo on 12 July 2000 by the OAU Conference of Heads of State and Government.

2.2.7 Social protection

53. The majority of the population in the countries of the region lacks access to even the most basic and social welfare services. It is estimated that in the broader sub-Saharan Africa, only 10 per cent of the economically active population is covered by statutory social security schemes. Income inequality also reduces the ability of the poorest to access education and health services. Migrant workers and their families, as well as people affected by HIV/AIDS and, more broadly, people in the informal economy, constitute a large population weakened by the absence or inadequacy of social protection. A challenge in the region is to extend the coverage of social security to ensure that people have access to healthcare and enjoy a minimum level of job security.

2.2.8 Health

54. The ESA-IO region saw major improvements in health from the period when most countries attained independence to the early 1990s in terms of infant mortality rates (which fell from 145 per 1 000 in 1970 to 104 per 1 000 in 1992) and mortality rates for children under 5 years (which fell 17 per cent from 1975 to 1990). However, the challenge of improving health in the ESA-IO region is enormous, and other statistics belie these positive developments. For example, infant mortality rates are much higher and average life expectancy significantly lower than in the rest of the world's low-income developing countries. Maternal mortality is virtually double that of other low- and middle-income developing countries and more than 40 times greater than in the industrial nations. The situation with tuberculosis, malaria and access to essential drugs remains a concern. Moreover, the region suffers from an increasing burden of non-communicable diseases (NCD), notably due to unhealthy lifestyles such as smoking and alcohol consumption. According to the WHO, rates of diabetes, cancer and cardiovascular diseases are on the rise in its AFRO region.

2.2.9 HIV/AIDS

55. Mainstreaming programmes dealing with HIV/AIDS is now common in the region. The HIV/AIDS pandemic has had a major impact throughout the region on just about all economic and social indicators. The greatest direct effect has been on the economically active cohort of the population and, within this cohort, owing to higher levels of social mobility, on the more educated. This will further reduce the region's capacity to develop economically. Therefore, there is a need for even greater emphasis on both combating the spread of this disease and addressing its social and economic consequences.

56. IGAD is currently implementing a Regional HIV/AIDS Partnership programme for the Cross-Border Mobile Population with the support of the World Bank. This will assist the IGAD region in addressing the regional challenges of HIV/AIDS and related diseases, filling the gaps in national programmes with a particular focus on vulnerable groups in the cross-border areas. The other ROs have also launched regional HIV/AIDS programmes.

2.2.10 Humanitarian Issues, Asylum and Migration

57. Most of the countries in the Horn of Africa continue to suffer the consequences of internal conflicts and tensions, compounded by the extreme poverty of the population and their limited capacity to respond to natural disasters. At the end of 2006, close to 2 million refugees originated from the ESA-IO region, which contains more than 3.3 million Internally Displaced Persons (IDPs). In the Great Lakes region, the improvement in the general political, economic and security situation

will allow greater scope for development tools to assist in the process of resettling Burundians repatriated from Tanzania, reintegrating displaced people and rehabilitating essential infrastructure.

58. The EC will continue to provide humanitarian and technical assistance to many ESA-IO countries hosting refugees and IDPs, including Tanzania (485 000 refugees), Kenya (272 000 refugees), Uganda (272 000 refugees), Zambia (120 000 refugees), Uganda (more than 1.5 million IDPs), Sudan and Somalia, where there are more than one million IDPs. . The humanitarian needs of people who have been displaced and affected by conflicts will continue to receive specific attention. Some evidence of human trafficking has also been found in the region.

59. The overall region is also quite substantially affected by internal important migratory flows (directed from its poorer to the richer countries) or, externally, towards other countries in Africa, the Arabic peninsula and the South-Eastern Mediterranean shores (Libya and Egypt in particular) and, via the latter, towards Europe. There are limited data on the numbers and characteristics of migration in the ESA-IO region. It is clear, however, that the countries in the region mostly witness a net outflow of migrants, rather than a net inflow. Factors behind outward migration include economic reasons and conflicts. Evidence suggests that relatively large numbers of doctors, nurses, engineers, and technicians move from the region, mostly to neighbouring regions, but also to Europe and America every year. The positive impact of migrants for the sending country can often be quantified in terms of remittances, most of which (around 80%) are used to finance basic consumption, as well as education, health, improvement of dwellings and investment in business. With the support of the Aeneas programme, IGAD is currently working with AU and the International Organisation for Migration (IOM) to implement the IGAD migration route programme.

2.3 Environment and natural resources situation

60. The ESA-IO region is richly endowed with natural resources, many of high international value in terms of both monetary and global significance and which are an asset for sustainable development. The natural resources in the ESA-IO region include fertile agricultural land, with forests, woodlands and orchards providing timber, food and other market produce, minerals, ores and precious stones. They also have abundant and rare wildlife, lakes, rivers, beaches and coasts valuable for tourism as well. Therefore, there is a need to exploit these natural resources in an environmentally sustainable manner.

61. Various environmental degradation processes threaten agricultural and pastoral lands, watersheds, surface and ground water sources, the rich forest and savannahs and the coastal and marine resources. The interaction between the environment and human livelihoods is complex. Environmental change is increasing human vulnerability and therefore the need to take adaptive measures. There is also a clear linkage between natural resources, population and security, particularly with regard to the scarcity, fair share of public revenue distribution of natural resources and access to these resources, which results in conflicts. As a direct result of environmental degradation, not just in the region but globally, the region's climate has been very variable, with droughts and floods becoming increasingly common.

62. Resource issues are by nature trans-boundary. Issues such as deforestation, land degradation, and illegal logging affect many countries in the region; adherence to the Forest Law Enforcement, Governance and Trade (FLEGT) initiative⁴ will help alleviate these problems. Trans-boundary wildlife corridors must be maintained for migratory species and a coherent approach

⁴ EC Council Regulation No 2173/2005 of 20 December 2005 on the establishment of a FLEGT licensing scheme for imports of timber into the European Community, Official Journal of the EU, L/347, 30 December 2005.

adopted for the maintenance of wildlife numbers through initiatives such as the Convention in International Trade in Endangered Species (CITES). Conservation, exploitation and sustainable management of marine and inland fisheries also require an inter-regional initiative, since most of these resources are shared among various countries. The rich marine biodiversity of the ESA-IO region is threatened by pollution rising from inland activities such as industrial development, agricultural practises, shipping activities and the introduction of alien species. In order to predict and control the impact of human activities, effective monitoring, management and regulatory and conservation measures need to be established. Regional initiatives such as the UNEP African Environmental Outlook and the IOC Coral Reef network should be further strengthened, as well respect of international Conventions.

63. With the increasing importance of environmental issues, and the resulting effects on food security, the EC has placed greater emphasis on preparing environmental profiles at national and regional levels; the regional environmental profile is presented in Annex 2. IGAD with the support of the United Nations Environmental Programmes (UNEP) has finalised and prepared an IGAD environmental outlook. The EC is also financing pan-African regional programmes for monitoring the environment, such as AMESD, and the RIP will take account of these pan-African initiatives.

64. On 22 November 2004, the EU adopted a Climate Change Strategy and Action Plan in the context of development cooperation⁵. It seeks to support developing countries in meeting the challenges posed by climate change, especially in the implementation of the UN Framework Convention on Climate Change and Kyoto Protocol. The mainstreaming of climate change within EC/ESA-IO development cooperation will be an important step towards supporting environmental protection in the region. This will be reflected in the natural-resource governance programmes, especially for capacity building, and policy programmes for renewable energy development as part of climate change adaptation.

⁵ EU General Affairs and External Relations Council, 22 November 2004.

3. THE PROCESS OF REGIONAL INTEGRATION

65. The economic integration agenda is being developed in parallel by COMESA and EAC, the ultimate goal of both being to achieve a full customs union, a common market and a monetary union. In this context, the role of IGAD and IOC is to promote their sub-regional specificities, such as vulnerable small island economies, the sustainable management of natural resources (notably coastal and marine resources), and ensuring productivity gains in agriculture to guarantee food security. The political agenda is explicitly addressed by EAC, which aims to achieve a political federation. In addition, COMESA and IGAD have a mandate to promote peace and security under the broader umbrella of the AU, while EAC and IOC also address such issues. See Annex 17 for a description of the members of the various ROs. Ultimately, the process of convergence in the ESA-IO region should allow the AU objective of an African Economic Community to be achieved in the long term.

66. This chapter sets out the rationale behind EC support for the regional integration process in the ESA-IO region. It starts by reviewing the achievements of the four ROs in the various areas to date, and then looks at the next steps for deepening the regional integration process over the coming five to six years.

3.1 Achievements so far in the regional integration process

3.1.1 Building the trade agenda

67. COMESA, which comprises 19 countries, was established in 1981 as a Preferential Trade Area for Eastern and Southern Africa (PTA) and is recognised as one of the building blocks of the AEC under the Abuja Treaty and the AU Constitutive Act. COMESA's main focus is on strengthening outward-oriented regional integration by promoting cross-border trade and investment.

68. An FTA was created in October 2000, and has so far been signed by fourteen member countries⁶. The other countries are moving towards joining the FTA and are currently trading on preferential terms, having reduced tariffs by varying margins.

69. The FTA has benefited intra-COMESA trade. During 2000-2007, intra-COMESA trade grew by an annual average of 9%, while trade among FTA member countries grew by 16% annually over the same period, to reach nearly US\$9 billion in 2007 from less than US\$3 billion in 2000. Although the overall trade of the region has also risen during the same period, a WB study⁷ has concluded that the FTA has had a positive effect on trade and growth in the countries that joined the FTA. The FTA has in particular facilitated trade in the tea, sugar, and tobacco sectors, where trade among FTA countries exceeds trade with other regions in the same commodities. Further, intra-industry linkages have developed significantly, as trade in semi-manufactured goods between FTA members has overtaken trade in similar products with the rest of the world. The FTA also seems to have had a positive effect on cross-border investment flows in the region.

⁶ Members of COMESA FTA: Burundi, Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Zambia and Zimbabwe.

⁷ De Melo, Yagci and Dijofack, 'Meeting the challenges to reap the benefits from deeper regional and global integration' — July 2007.

70. COMESA has also initiated a programme to establish the COMESA Customs Union (CU) by 2008. To this effect, the structure for the Common External Tariff (CET) and the Common Tariff Nomenclature (CTN), to be applied by the CU when it enters into force, were adopted in 2007. It includes a four-band schedule: 0% for both capital goods and raw materials, 10% for intermediate goods, and 25% for final goods. A number of related issues are being addressed, such as the list of sensitive products to be excluded from trade liberalisation.

71. In order to support the full implementation of the FTA and the move towards the CU, COMESA has established a number of programmes addressing trade facilitation and trade-related issues, such as Customs Systems and Procedures Harmonisation, Transit and Cross-Border Insurance Schemes, Standards and SPS harmonisation, and mutual recognition systems. The IOC supports the COMESA regional integration agenda by ensuring that its sub-regional specificities are promoted, also within the EPA and multilateral fora, particularly as regards the needs of small island economies.

72. The Treaty establishing EAC was signed in November 1999 by Kenya, Tanzania and Uganda. EAC aims for a comprehensive integration process comprising trade, economic, and political integration. Membership was enlarged in 2007 to include Rwanda and Burundi.

73. The Protocol on the establishment of an EAC CU was signed in 2004, and came into effect in 2005. A five-year programme for the elimination of internal tariffs began in 2005/06, starting with the uniform implementation of the Customs Union Protocol, the EAC Customs Management Act and the Common External Tariff, which was effectively applied as of February 2005. The adoption of the CET (with three bands at 0%, 10% and 25%) was accompanied by the elimination of a number of surcharges and excise duties by Tanzania and Uganda. The elimination of internal tariffs is asymmetrical, with imports originating from Uganda and Tanzania to Kenya and to each other's territory being duty-free, while duties on certain imports from Kenya to Uganda and Tanzania will be phased out gradually over five years.

74. The next priority for EAC is the Common Market, to be achieved by 2010, which provides for free movement of persons, labour, services and goods and the right of establishment. One major achievement in this process is the completion and adoption of the Study on the Establishment of the East African Common Market in September 2007. In addition, in order to ensure the right regulatory framework, the Competition Act and the Standards, Quality Assurance, Metrology and Testing Act were enacted in 2006 by the East African Legislative Assembly.

75. The issue of overlapping memberships and mandates, and their possible effects on the pace of regional integration in Africa, is of concern not only to African countries themselves, but also to the wider international community. However, if it is to be sustainable and viable, the pace and direction of regional integration in Africa will be determined by the African countries concerned, taking into account social, cultural, historical, economic and political factors. In the ESA-IO region, the COMESA/SADC/EAC Tripartite Task Force is addressing the harmonisation of trade and customs programmes.

76. Coordination between COMESA and EAC on putting into practice their CUs is being pursued in a very pragmatic way. For example, the EAC member states have extended the derogation that allows EAC member states not to impose the EAC CET on COMESA and SADC member states from 2006 to 2010. This will ensure harmonisation of EAC, COMESA, and SADC trade policies and programmes so that the growing inter- and intra-regional trade is not disrupted. Annex 9 presents the roadmaps for the COMESA and EAC CUs.

77. Another way in which harmonisation is being addressed is through the development of the North-South Corridor Pilot Aid for Trade Programme, which concerns the transport and transit corridor running from Dar es Salaam to the copperbelt and south to the South African ports. The North-South Corridor Pilot brings together all the ongoing initiatives along the corridor for transport infrastructure improvements and trade facilitation measures under one umbrella, identifying missing links and activities, so that they can be managed in a holistic manner.

78. As far as investment policies are concerned, steady progress has been made at national level in simplifying and liberalising investment approval procedures and publishing investment codes and regulatory instruments. The trend in the ESA-IO region is to establish national investment agencies to act as 'one-stop' investment centres that provide all the services needed by a potential investor to invest in countries of the region. In addition, the ROs recognise the need to address investment at regional level, with COMESA and EAC having regional investment programmes in place. In particular, the COMESA Common Investment Area was established in May 2007 by the COMESA Authority. It aims to promote and protect cross-border investment, thus enhancing COMESA's attractiveness and competitiveness within the region. Its programme is implemented through the Regional Investment Agency with the support of other COMESA institutions such as the African Trade Insurance Agency and the Eastern and Southern Trade and Development Bank.

79. The European Union's experience suggests that while building an integrated internal market requires single rules for all Member States (with for example a CET and the free movement of goods and services), this objective may be achieved through a step-by-step approach, with elements of variable geometry and a mix of policy reform measures, infrastructure development and adjustment support at national level.

80. For instance, there are significant benefits in taking a regional approach to the implementation of food safety and SPS programmes, as trade in agro-food products is subject to costly checks and certification at borders. This could be done by harmonising procedures and legislative instruments, sharing laboratory analyses through a network of regional laboratories, and having a regional strategy for monitoring water quality.

81. Finally, the countries in the region are also integrated within the WTO agenda. Eleven ESA-IO countries are full members of the WTO⁸. Comoros, Ethiopia, Seychelles and Sudan are observers and in the accession process, while Eritrea and Somalia have not expressed an interest in being members of the WTO. The ESA-IO countries that are WTO members (and Sudan and Ethiopia, who have representation in Geneva) are active in the Doha negotiations. Under the coordination of Zambia, the LDC Group has presented proposals on Duty-Free Quota Free Market Access, Rules of Origin, Food Aid and Services. The LDC Group has also been very active in the Enhanced Integrated Framework and Aid for Trade Task Forces. Individual LDCs have either co-sponsored or presented other proposals to the WTO, such as on Trade Facilitation and Disclosure of Origin (CBD-TRIPS). As a group, they have also been active participants in the discussions on non-agricultural market access (NAMA) and on agriculture. Zambia represented the LDC Group in the 'Green Room' negotiations in Hong Kong and in all subsequent Ministerial meetings until July 2006. Kenya was a leading country in negotiations on special and differentiated treatment, and Mauritius, as Chair of the ACP Group, was a lead country in negotiations on preference erosion. ESA-IO countries have also actively participated in all other areas of the negotiations, including NAMA, agriculture, trade facilitation, services and rules.

⁸ These are Burundi, Djibouti, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe.

82. There is increasing recognition of the importance of relevant and good quality statistical information to inform the regional policy agenda, in particular regional integration policies. Both COMESA and EAC disseminate statistics compiled from data received from their member states⁹.

83. A National (or Regional) Strategy for Development of Statistics (NSDS) or similar process provides a prioritisation of demands for statistics, based on national or regional development plans. An NSDS or similar analysis will also consider the capacity of statistics organisations, as well as the sustainability of statistics production and dissemination. Many countries in the ESA region have carried out such analyses, although the quality varies greatly.

3.1.2 Developing common sectoral policies

84. As far as the **Monetary Union** objective is concerned, both COMESA and EAC have adopted macro-economic convergence plans and road maps for limited currency convertibility. COMESA has adopted a road map for fast tracking the Monetary Union by 2018, and a plan to create a Monetary Institute. In addition, in order to facilitate and reduce overseas payment transaction costs, COMESA, through the COMESA Clearing House, is setting up a Regional Payment and Settlement System. The system will be networked with the central banks of the region and enable the clearing of hard currency transactions. In the same regard, the consolidation of the EAC CU and the establishment of a common market by 2010 will lay the foundations for achieving Monetary Union by 2015 (EAC intends to establish a monetary institute by 2012).

85. Free circulation of goods, capital and people also implies adherence to a common set of rules on competition policy. The COMESA Competition Commission has been established to enforce the competition policy and regulations adopted in 2004.

86. The reduction of transport and communication costs features prominently in COMESA's integration agenda. Since 1989, COMESA's transport programme has actively supported member states in implementing the Yamoussoukro Decision on Air Transport Liberalisation. COMESA is furthermore collaborating with EAC and SADC to establish a Joint Air Transport Competition Regulation. A Joint Competition Authority for air transport is due to be launched in 2008 to cover COMESA, EAC and SADC. COMESA also has programmes for establishing regulations on other modes of transport as well as communication. A study examining a Transport and Communication Strategy and a Priority Investment Plan is being undertaken in this respect (under the 9th EDF) to help COMESA and other ESA-IO ROs prepare a comprehensive development programme for transport and communications infrastructure. EAC, for its part, has identified five major corridors for development and rehabilitation under the East African Road Network Project. It is in the process of finalising the East African Railways Master Plan and a 10-year East African Road Transport Strategy.

87. More generally, the development of the ESA-IO region's transport infrastructure has usually proceeded on a 'corridor' basis, for example the TAZARA corridor, the Northern corridor and the Ethiopia-Djibouti corridor. The development of the infrastructure for these transit corridors has almost always been funded by grants or concessional loans, leaving maintenance to the responsibility of the governments through which these corridors run. Road maintenance is usually financed through national road funds. However, these road funds do not usually collect sufficient revenues to cover road maintenance owing to low vehicle numbers and low fuel levies. Road funds often suffer from diversion of revenues into other areas of the national budget and, in some cases,

⁹ COMESA data, focused on international trade and other statistics relevant to regional integration, can be found at <http://comstat.comesa.int/>.

from tax evasion. In addition, low traffic flows in the region mean that there are very few opportunities for introducing toll fees.

88. In the railway sub-sector, a common trend is concessioning railway operations on a public-private basis. Such concessions set what is considered to be viable freight tariffs and passenger fares and should result in more efficient management systems. However, concessioning to the private sector is only a partial answer, since private enterprises taking over the management of big ex-state companies are very dependent on a sound business environment. Their success also depends on strict law enforcement for the competing transport modes (and for road transport in particular). Well-organised interfaces between the respective transport modes are also of great importance, notably the interface between road and rail systems and ports.

89. The region has a number of maritime ports that are reforming their operations and services, infrastructure utilisation and management. This process focuses mainly on improving operational links with the private sector by contracting out operations and services, particularly container handling, although the pace of reform needs to be increased to enable customers to benefit from faster clearance of goods and more competitive services. The issue of shipping in general needs to be addressed to ensure an improved shipping service in the region at competitive prices.

90. Another constraint is the limited **energy** supply. Despite a high potential for energy generation, the COMESA region is facing serious energy deficits and high energy costs. The deficit in electricity supply, currently estimated at 20% of demand, is expected to worsen in the forthcoming years to 46% in 2011 as demand grows. The average cost of electricity in the region is also one of the highest in the world at US\$ 0.09 per kilowatt hour, compared to South Africa, where the price is US\$ 0.013 per kilowatt hour. Key factors that contribute to COMESA's energy problem include inadequate investment in the energy sector, increased demand due to economic growth and the gap between installed capacity and effective generation (20% to 30%).

91. However, the region has significant potential to increase its energy-generating capacities, either using regional deposits of coal and oil or through solar plants or hydro schemes. In recent years, with advances in technology, the trend is towards small, decentralised new and renewable energy delivery systems that are nearer to sources and users, require relatively little investment and minimum transport infrastructure. The advantages of small modular systems are that they can function independently of others and are not prone to generalised power blackouts. The priority for the region is to develop an energy policy that takes account of new and renewable technology advances and then to design a system that can be networked to take account of increasing demand for power and be flexible enough to accommodate peak and off-peak demand levels.

92. Against this background, COMESA has recently embarked on an energy programme whose main thrust is to promote regional cooperation in the development of regional energy infrastructure, energy policy and regulatory harmonisation, facilitating cross-border trade and capacity building through its specialised institutions such as the Eastern Africa Power Pool (EAPP) and the Regional Association of Energy Regulators for Eastern and Southern Africa (RAERESA), to be established soon, in addition to the COMESA Model Energy Policy Framework. Strengthening regional energy interconnectivity is important. The East African Power Pool is an example of such an initiative: it has great potential for developing regional power networks and increasing capacity for national power delivery. In this regard, it should be noted that the EU-ACP Energy Facility will play an active role in establishing and managing a regional energy market. The bulk of the €220 million funding under the Energy Facility will be devoted to co-financing missing infrastructure links. However, €10 million has been dedicated to capacity building and technical assistance for the four Sub-Saharan African Power Pools (Eastern, Southern, Central and Western), as well as the African Forum for Utility

Regulators (AFUR). This will provide for a range of activities to enhance the capacity to run an effective regional network, including measures such as training, advice, coordination and information systems, regulatory systems, planning support, and pilot programmes.

93. In the **telecommunications** sector, most ESA-IO countries are embracing liberalisation and competition together with the introduction of value-added services alongside basic telephony. However, the development of the sector in this direction is not uniform, and a number of countries still have a regulatory environment geared to a single monopolistic operator of basic services controlling access to the network with, for example, the ability to dictate interconnection terms to prospective new entrants. There are, however, indications that the regulators are realising the need to liberalise the regulatory framework, and significant work has been done at regional level to develop model legislation for use by national governments. For example, the Association of Regulators of Information and Communications for Eastern and Southern Africa (ARICEA) is working towards harmonisation of the regulatory framework at national and regional levels.

94. Two existing initiatives with the potential to make a significant impact on the connectivity of the region are the COMTel Programme and the EASSy Cable. The COMTel Programme will improve gateway-to-gateway linkages and will also allow switching to take place within the region. The EASSy Cable will link the countries of the East African region to the rest of the world by completing the final fibre optic telecommunications link across the African continent. In addition, IOC is developing the SEGANET initiative.

95. As far as the **environment** is concerned, the policy agenda of the ESA region is to further develop and manage natural resources for the economic development of the region, but in an environmentally sustainable manner. The development of common strategies and tools and the establishment or strengthening of networks and regional bodies to promote the regional management of natural resources should ensure the coordination of trans-boundary resources such as watersheds, grazing lands, wild life, coastal areas, marine and coastal resources management, tropical forests etc. Such coordinated (or even joint) management could also avoid further deterioration, and possibly bring about improvement, in the food security situation. This approach highlights the fact that the issue of sustainable exploitation of trans-boundary natural resources provides a very strong basis for regional integration. Furthermore, no ESA country has the capacity to individually ensure the sustainability of resources. In this context, for example, joint initiatives to modernise and reduce the environmental impact of the mining industry have particular potential benefits.

96. In this respect, both IGAD and IOC play an important role. One of the principal mandates of IGAD is environmental protection and food security, which includes the original mandate of combating desertification and mitigating the effects of drought. IOC contributes to strengthened regional integration by implementing programmes mainly in environmental protection, meteorology, sustainable management of natural resources (essentially in the fisheries sector) and coastal zone management.

97. Regarding **health**, the countries of the region are converging towards implementing international agreements. Most are signatories to the Framework Convention on Tobacco Control (FCTC) and the International Health Regulations (IHR), which aim to ensure global health surveillance and response and are currently being implemented in the region.

98. The issue of **social protection** is also increasingly debated at regional level. In 2008 a wide range of national and regional consultations were held on social protection in Africa, under the AU umbrella. These meetings came up with recommendations on building a political consensus for

social protection, developing national plans based on a minimum package of social protection, strengthening technical capacity, expertise and mechanisms for coordination, awareness rising and measuring impact. Regarding workers' rights, the region is on its way towards ratification of the eight fundamental human rights conventions of the ILO on the freedom of association and collective bargaining, the abolition of forced, compulsory and child labour, and fighting discrimination in respect of employment and occupation. The main challenges now are translating these commitments into effective protection and guarantees and implementing the Decent Work Agenda in the ESA-IO region. The European Consensus on Development and the relevant national CSPs and NIPs for the region prescribe that human rights, children's rights and the rights of indigenous peoples need to be safeguarded.

3.1.3 Building the political cooperation agenda

99. To accelerate regional economic integration, the member countries of the ROs recognise the need to increase commitment by linking economic integration measures like CUs and Common Markets with a minimum of joint legislative and political structures. To this end, EAC has adopted a comprehensive political integration agenda.

100. EAC's ultimate objective is to establish a political federation. It has held sensitisation and consultation meetings in its member countries since 2007. These countries have now signed an MoU on defence, which will be translated into a protocol. Multi-sectoral committees have been formed on human rights, electoral councils and anti-corruption bodies with a view to agreeing a common framework for the region. The views of the people and consensus are the cornerstones for sustainable political federation. This work has been taken forward by the East African Legislative Assembly.

101. In its Article 163, the COMESA Treaty recognises, that peace and security are fundamental prerequisites for social and economic development and also vital to the achievement of the regional economic integration objectives of the Common Market. COMESA's role in addressing issues of peace and security currently focuses on conflict prevention through preventive diplomacy. COMESA has held annual consultations between different stakeholders such as parliamentarians and civil society on issues of peace and security. It has now embarked on two key programmes: Post Conflict Reconstruction and Development (PCRD) and Early Warning, aimed at strengthening the capacity of national institutions to promote peace and security.

102. IGAD also plays role in this area, as its mandate was expanded in 1996 to include cooperation in political affairs, the promotion and maintenance of peace and security, and humanitarian affairs. In particular, conflict prevention, management and resolution is a priority area, and IGAD member states have signed a Protocol on Conflict Early Warning and a Response Mechanism. IOC's role in political cooperation was expanded in 2008 to include the promotion and maintenance of peace and security.

3.1.4 Establishing regional development financing instruments

103. Regionally owned development financing instruments have considerable potential as a means to improve local ownership of externally supported programmes, to reduce transaction costs and to improve the harmonisation and alignment of aid. At the same time, extending the aid effectiveness agenda to regional level is a declared commitment on the part of both the EC and the EU Member States.

104. To assist Member States with the regional integration process, Article 150 of the COMESA Treaty provides for the establishment of a 'special Fund for Cooperation, Compensation and Development for tackling the special problems of underdeveloped areas and other disadvantages arising from the integration process'. The COMESA Fund was accordingly established in 2002 by a Protocol ([Annex 10](#)), and operates with two 'windows': an Adjustment Facility and an Infrastructure Facility. The two windows are interlinked in that the creation of an efficient regional market requires both policy reforms and physical infrastructure development. The Adjustment Facility, which became operational in 2007, aims to support member states in implementing regional integration policies and programmes, which because of their potential short-term negative impact on fiscal revenue or the economic and social costs of adjustment cannot be sustained through their national budgets and other national aid programmes. The purpose of the Infrastructure Facility is to provide a mechanism through which member states, cooperating partners and private investors can all contribute to seeding regional infrastructure projects. In March 2008, the COMESA Fund Committee, which comprises the Ministers of Finance of Fund member states, agreed a Road Map for the operationalisation of the Infrastructure Facility by 2009. The Fund can receive contributions from member states, cooperating partners and international financing institutions. The EC has already made an initial contribution of €78 million to the Adjustment Facility under the 9th EDF.

105. Similarly, EAC established a Partnership Fund ([Annex 11](#)) in 2006, under which development partners contribute to short-term activities aiming to promote implementation of the Treaty and to boost EAC's integration agenda. The Partnership Fund is the focus for aid coordination activities within EAC. In addition, to address the issue of revenue losses as a result of the CU, EAC has also launched preparations for establishing an EAC Development Fund. This Fund also has the potential to attract funds for major projects and to be the principal channel for upscaled external aid. A protocol to establish the Fund will be completed by December 2008.

3.2 Next steps for deepening regional integration

3.2.1 Convergence of the trade agenda

106. The overall objective of the regional economic integration process remains the convergence of all regional economic communities on the continent in accordance with the Accra Declaration. Regional integration policies should contribute to this objective by promoting the cohesion, unity and economic integration of the ESA-IO region.

107. All ROs recognise the need for the coordination and harmonisation of trade policies and programmes. Since 2001, the COMESA, EAC and SADC Summits have contributed to this process through specific declarations leading to the establishment of a Tripartite Mechanism, including a Task Force at Secretariat level. Following several meetings of the Tripartite Task Force, a Tripartite Summit is planned for 2008. The Summit is expected to provide political impetus for a more proactive harmonisation of regional agendas and programmes.

108. From a technical point of view, there is potential to harmonise the trade regimes of COMESA and EAC. Although COMESA's CET is based on a four-band tariff structure, two of them are zero-rated and relate to the same categories of products covered by EAC's first tariff band, which is also zero-rated. If COMESA and EAC are to merge their CUs, they will also have to adopt the same CET and CTN.

109. COMESA, with EAC and SADC, sees the need to address the issue of non-tariff barriers (NTBs) and their removal if the cost of trade is to be reduced. The organisations are working on an NTB monitoring mechanism, with significant inputs from non-state actors, which will allow NTBs to be recorded and eliminated. In a similar vein, continued efforts are required to adjust to international SPS standards in order to improve the region's access to markets in the developed world, in particular for agricultural products.

110. COMESA and EAC use the same Rules of Origin, which apply to all tariff lines and are based on either wholly produced or substantial transformation criteria. Controls on the issuing of certificates of origin and validation procedures are in operation. There is also a dispute settlement mechanism, with the final level of recourse being the COMESA and EAC Courts of Justice.

111. The potential for economic growth through trade in services is very high, and countries in the ESA-IO region are undertaking needs assessments and making preparations for services negotiations at regional, bilateral (EPA) and multilateral (WTO) levels, taking into account the special conditions applying to LDCs. The main challenge ahead is to establish the necessary national institutions (e.g. Regulatory Authorities) to manage increased competition across the wide range of services, whether telecoms, energy, or financial services. In the meantime, COMESA is working on a framework for trade in services, which is expected to be adopted by the end of 2008. In parallel, the member countries will be negotiating regional procurement regulations intended to define the parameters for regional procurement access.

3.2.2 Building Common Markets through common policies

112. COMESA plans to establish a Common Market by 2014. A medium-term strategic plan for 2007-2010 was adopted by the COMESA Heads of State and Government in December 2006. In terms of the regulatory and policy framework, the major challenges to be addressed by COMESA in establishing a Common Market are the implementation of a COMESA Common Investment Area and the application of the principle of the free movement of people. While a Protocol on Free Movement of Persons, Labour, the Right of Establishment and Residence has been adopted, the member states will in future years have to develop the common policies needed on labour mobility, social welfare, immigration, and the rights of migrants.

113. As regards macro-economic convergence, as a precondition for monetary union, COMESA will have to implement the road map for fast-tracking the monetary union by 2018, and create the Monetary Institute.

114. The next stage of integration for EAC is the establishment of a Common Market by 2010, to be followed by a monetary union and ultimately a political federation. For the Common Market, the key priorities will be harmonising labour policies and legislation (negotiations on a Protocol on Free Movement of Persons and Right of Residence have already commenced), harmonising procedures for issuing work permits, harmonising investment incentives, internationalising the East African Passport, harmonising land policies and operationalising the strategy for managing the distribution costs and benefits of the East African Common Market. In the next phase, EAC also plans to harmonise revenue systems and customs administration, establish an East Africa Customs Authority and promote policy harmonisation and convergence.

115. More generally, the objective of the ROs up to 2013/2014 is to focus on forging regional competitiveness and transforming existing raw materials in the region into consumable goods through design, marketing, and distribution. Programmes to proactively support value addition and

diversification activities in member states, such as the Comprehensive African Agricultural Development Programme (CAADP) will be expanded to include other key sectors. The priority sectors, in line with the EPA Development Matrix, include: agriculture and livestock, fisheries, mining, manufacturing, services and tourism. Identified supply-side constraints (notably in infrastructure) will have to be addressed.

116. The preparation, implementation and evaluation of regional development policies should be informed by relevant and good quality statistics which are widely disseminated. If the statistics are absent or are of poor quality, the information gap should be addressed. Although much improved in recent years, the quality and comparability of macroeconomic and other data for regional integration is not yet sufficient.

3.2.3 The role of EPAs in supporting the regional integration process

117. The ESA-IO region embarked on negotiations on an Economic Partnership Agreement (EPA) in February 2004, the main objectives being to fight poverty, strengthen the regional integration process, improve market access to the EU and assist with the economic development of the region.

118. In market access terms, EPA negotiations aim to achieve in the long term a free trade area between the EU and ESA. In all EPAs EU offers full duty and quota free market access for those ACP countries that initialled the agreement (with transitory periods for sugar and rice). This implies liberalisation of nearly all trade on a reciprocal basis, even though the need for a certain element of asymmetry is recognised by the EC, given that most of the countries in the region need to build their productive capacity to become competitive and/or are LDCs. Asymmetry is ensured by providing for long transition periods and a list of 'sensitive products' not subject to trade liberalisation. LDCs can already access EU markets duty-free through the Everything But Arms (EBA) scheme under the GSP. However, it should be noted that EBA is a unilateral arrangement that could be reversed, and that the EU's market offer under EPAs contains more flexible Rules of Origin on cumulation than any other scheme on offer.

119. The EC has clearly stated its opinion that prolonging the artificial insulation of ACP countries from the global economy through discriminatory preferential arrangements, and the risks of enforced dependency on commodity exports and vulnerability to export revenues, not only contravenes WTO rules but it is not in the best long-term interests of the ACP countries. It has recognised the need for transitional measures in this respect. In the case of sugar, it has introduced the Action Plan on accompanying measures for Sugar Protocol countries¹⁰.

120. Furthermore, the implementation of SPS measures is a key element in the future EPAs for the ESA-IO Region. In this regard, the EDF 9 RISP, together with resources from the African Development Bank, has contributed to COMESA's SPS programme with a view to developing a harmonised regional SPS policy and enhancing the capacity of regional producers to conform to international SPS regulations. Future support in this area will continue under EDF 10. The EC has also established a budget for providing specific targeted technical assistance in the area of food safety and human, animal and plant health for developing countries, in response to commitments made under the Doha Development Agenda and the SPS Agreement. This will be in the order of €2 million for the year 2008.

¹⁰ Under the Action Plan, out of the 18 countries identified for EC assistance, seven are in the ESA-IO region: Kenya, Madagascar, Malawi, Mauritius, Tanzania, Zambia and Zimbabwe.

121. EPA negotiations entered a crucial and intense phase during 2007, especially towards the second half of the year, when the deadline set under the WTO waiver was approaching. Most negotiations focused on the parameters that a WTO-compatible EPA should have (according to Article XXIV of GATT), i.e. the duration of the transitional period and the percentage of excluded trade, as well as on the 'development component' of an EPA, i.e. accompanying measures to assist with its implementation. Within the ESA-IO region, the gap widened between LDCs (most of the region) and non-LDCs¹¹ in terms of willingness to sign an agreement, with the latter group much more keen to avoid trade disruption from 1 January 2008 (exporters would have faced higher tariffs under the GSP¹²).

122. By the end of 2007, it also became clear that a 'full EPA' could not be agreed, i.e. covering all the aspects originally planned, such as agriculture, trade in services, sustainable development, rules on investment, competition, intellectual property rights or public procurement. A pragmatic approach was adopted whereby only 'Interim Agreements establishing a framework for an EPA' would be initialled, covering the minimum necessary to ensure WTO-compatibility (reciprocal market access offers for trade in goods) as well as all other aspects where agreement was reached (development component and improved Rules of Origin, especially in areas such as textiles, fisheries and agriculture). Such stepping-stone agreements include built-in 'rendez-vous clauses' for continuing negotiations in 2008.

123. On behalf of its partner states (Burundi, Kenya, Rwanda, Tanzania and Uganda), EAC initialled an EAC Interim EPA on 23 November 2007, and expects to complete negotiations by mid-2009. Within the rest of the region, the ESA Interim Agreement was initialled on 28 November, 2007 by Seychelles, Zambia and Zimbabwe and on 4 December 2007 with Mauritius and on 11 December 2007 with Comoros and Madagascar. Other countries are free to join in subsequent phases, while negotiations for a full EPA are expected to be completed at the end of 2008 for ESA-EC EPA and by mid 2009 for EAC-EC EPA. Both Interim Agreements are WTO-compatible, with full market access (duty-free, quota-free) on the EU side and, on the other side, transitional periods not longer than 15 years and sensitive lists covering a maximum 20% of trade (and sometimes less).

124. Regarding the development component, the ESA Interim Agreement refers to the Development Matrix developed by the region as a basis for cooperation. The Matrix (annexed to the Agreement) identifies the main areas where support is envisaged in order to enhance the regional integration process and respond to EPA-related needs so as to maximise the benefits from this reinforced regional setting. These comprise supply-side constraints (infrastructure development, productive capacity upgrade, private sector development), trade policy and regulations, and adjustment costs. The EAC Interim Agreement also recognises the value of highlighting development needs for the EAC, which is also preparing its own matrix. The national indicative programmes (NIP) and the present regional indicative programme (RIP) constitute part of the response to the EPA-related needs. The CSP/NIP and RSP/RIP will be complemented by related aid for trade initiatives with EU Member States and other donors (see section 4.2).

125. The ESA-EC Ministerial meeting and the EAC-EC senior official meeting in March 2008 (in Lusaka and Arusha, respectively) adopted joint conclusions for the way forward. The parties agreed that the Interim EPAs, initialled at the end of 2007, were a step towards comprehensive EPAs which would replace the Interim Agreements. Negotiations would continue in 2008, and the parties reaffirmed their commitments to address issues of concern to both ESA and EAC in the Interim Agreements as well as all outstanding issues in the *rendez-vous* clause for negotiating the full

¹¹ Kenya, Mauritius, Seychelles and Zimbabwe.

¹² However, a number of LDCs in the region, though benefiting from the EBA scheme, still signed an interim EPA, recognising the importance of such an agreement and its positive effect on their economic integration process.

EPAs. They also confirmed their commitment to finalise a full and comprehensive EPA by the end of 2008 for ESA-EC and by mid-2009 for EAC-EC, so that both EPAs could deliver their full development potential in the region.

3.2.4 Taking forward the regional political cooperation agenda

126. For COMESA, the main focus in the political area over the medium term is to address the issue of 'war economies', from the perspective of post-conflict reconstruction and development. In addition, COMESA will seek to establish a strong early-warning mechanism as part of the overall objective of conflict prevention.

127. In order to prepare the ground for the ultimate objective of achieving a political federation, EAC plans to involve its citizens fully by designing and implementing an Information, Education and Communication Strategy. Plans exist for formulating an East African Foreign Policy, transforming the Regional Court into a Court of Appeal and transforming the Legislative Assembly into a Regional Parliament. EAC countries have signed an MoU on defence, which will be translated into a protocol. Multi-sectoral committees have been formed on human rights, electoral councils and anti-corruption bodies with a view to agreeing a common framework in the region.

128. IGAD member states have signed a Protocol on Conflict Early Warning and a Response Mechanism with a view to enhancing the focus on conflict prevention, management and resolution.

3.3 Sustainability of policies and the medium-term outlook

129. The issue of overlapping membership of COMESA, EAC and SADC has been under debate for some time¹³. There is potential for the region to have parallel trade agendas, in that COMESA, SADC, EAC and SACU are either preparing for a CU or are already in a CU and there is a risk of overlap. Consequently, the *convergence* of the trade and integration agenda is an important issue for the region.

130. In terms of coordination, there are a number of measures to ensure that there are no discrepancies between policies at national and regional levels. The structure of the ROs, with their technical committees feeding into the policy organs of senior government officials up to their Councils of Ministers and the final authority represented by the Heads of State and Government, means that the policies adopted at regional level are usually not at variance with those of the national governments of the RO members. Countries belonging to ROs with an economic integration agenda use regional integration as a stepping stone to globalisation.

131. At national levels, the mainstreaming of trade liberalisation and economic integration policies is supported by instruments such as the working groups of the Integrated Framework (IF) and the National Development and Trade Policy Fora (NDTPF), the latter having been established in the course of the EPA negotiations. NDTPF and IF working groups can contribute to coordination,

¹³ For example, the OAU's 1987 Summit Declaration '.....FURTHER REQUESTS the Secretary-General of the OAU, the Executive Secretary of the UNECA and the authorities of sub-regional and regional groupings, particularly ECOWAS, PTA, SADC and ECCAS, to take the necessary steps to ensure coordination, harmonisation and rationalisation in their respective regions in order to avert overlaps, power conflicts and wastage of efforts and resources'.

coherence and complementarity between national trade and integration policies and the financial and technical support provided by the development partners, including EU Member States and others. In some ESA-IO countries, considerable progress is being made in this respect through the definition and implementation of Joint Assistance Strategies. The ROs will ensure that experiences are shared and that the entire region is at the forefront of progress in implementing the principles of, among other things, the Paris Declaration on Aid Effectiveness. ROs could also consider developing and adopting their own Joint Assistance Strategies.

132. The established mechanisms, such as the IRCC and the Tripartite Mechanism, ensure that the coherence and complementarity of trade and integration policy formulation and implementation are strengthened. The IRCC will be strengthened to support ROs under the 10th EDF to address issues of coordination with pan-African programmes, within the ACP, with other regions (including OCTs and ORs) and with other cooperating partners.

133. Coherence between national strategies and the ESA-IO regional strategy will be further supported through the IRCC mechanism. It has already been agreed (Mauritius, July 2006) that the NAOs and RAOs of the region will meet on a yearly basis to monitor coherence in the implementation of the respective CSPs/NIPs and the RSP/RIP.

134. The sustainability of policies and the medium-term outlook depend very much on whether the private sector will be able to take advantage of the improved market access openings that should result from the current mix of liberalised policies. In this respect, the role of intermediary and/or regional business associations should be strengthened, to ensure that their input is taken into account in designing policies.

4. OVERVIEW OF PAST AND ONGOING EC COOPERATION

4.1 Past or ongoing EC cooperation: results, analysis, lessons and experience

135. Under the 6th, 7th and 8th EDFs, the ESA-IO region had three separate regional indicative programmes, aimed mainly at functional cooperation. The majority of the projects were implemented by NAOs, either as regional projects or as top-ups of national projects. The fact that there were many parties involved and that the projects did not necessarily support regional policies resulted in slow implementation, little follow-up of the regional projects, difficult coordination and scattered activities. This inevitably led to potential overlapping and duplication of responsibilities for activities undertaken by the ROs and their member states. It also led to a large number of 'sleeping' projects.

136. With the 9th EDF (€287 million), regional cooperation now has a completely different approach, with a shift from predominantly functional cooperation to policy support and, more particularly, support for the regional integration agenda of the ROs and the EPA negotiations (see Annex 6 for a full list of EC-funded projects/programmes). The RIP is designed to encourage the ROs to work towards harmonisation of overlapping policy agendas. Nevertheless, implementation of the ESA-IO RIP requires considerable coordination, both among ROs and within Commission departments.

137. The Economic Integration and Trade focal sector accounts for almost half of the 9th EDF RIP and is executed mostly through Contribution Agreements. The Regional Integration Support Programme (RISP, €33.5 million) was signed in 2005. It is being implemented under a Contribution Agreement between COMESA and the EC and has given fresh impetus to the regional integration process. The purpose of the programme is to develop the capacity of the ROs and their member states in policy formulation, the implementation and monitoring of regional integration, and multilateral and regional trade and trade-related areas in accordance with their own mandates. The direct results to be delivered by the programme include the consolidation and expansion of the COMESA FTA, the implementation of the COMESA Customs Union road map, and the EAC Customs Union road map.

138. The Regional Integration Support Mechanism (€78 million) was signed in November 2007. Its objective is to alleviate the transitional budgetary constraints at country level resulting from further trade liberalisation and the consequent loss of import tax revenues. The programme is an essential component of the initiatives and mechanisms developed by the region, such as the Adjustment Facility under the COMESA Fund, to meet the transitional adjustment costs of member states moving toward regional and global economic integration.

139. Under the second focal sector of the 9th EDF RIP, projects support the integration of the region through regional activities for the sustainable management of natural and marine resources. Programmes aim to protect the environment from further degradation (including programmes covering Lake Victoria and its drainage basin and other major watershed and catchment areas, the preservation of wetlands, and the Regional Programme on the Sustainable Management of the Coastal Zones), to help increase the productivity of the livestock sector (also including pan-African programmes such as the Pan-African Programme for Control of Epizootics and the AU-IBAR Animal

Resources Development Strategy), and to support the fisheries sector (such as the Regional Tuna Tagging Programme and the Pilot Programme on Monitoring, Control and Surveillance of Pelagic Resources). A three-year regional plan for the surveillance of fisheries was launched in 2007 in partnership between the IOC and the EC for the south-west Indian Ocean. The initial project (2007-2010) could be followed up with 10th EDF resources. Sanitary questions remain a vital issue for fish products to be exported to the EU.

140. The 9th EDF focal sector Transport and Communications supports the Transport and Communications Priority Investment Plan (TCS-PIP, included in the RISP programme), in addition to funding infrastructure and ICT projects. It contributes to identifying priority projects to be financed under the 10th EDF and other complementary initiatives such as the EU-EIB Partnership on Infrastructure, and to ensuring better coordination with other cooperating partners. It is undertaken in close cooperation with NEPAD and SADC.

141. In the non-focal sector, the main objective of the capacity-building programme in Conflict Prevention, Management and Resolution (CPMR), which only started in 2007, is the establishment of a common regional CPMR framework for ESA. The purpose is to enhance the capacities of the ROs and NSAs to exercise their CPMR activities within a consistent and coordinated continental and regional framework.

142. In addition to the regional programme, the EC is supporting several projects in the field of trade-related assistance using the Intra-ACP 9th EDF financial envelope. These include: Trade.Com (€50 million), aiming to improve the capacity of ACP countries and ROs to design and implement their own trade strategies and effectively participate in international trade negotiations; the BizClim facility (€20 million), aiming to enhance the business-enabling environment in ACP countries and regions through technical assistance in improving legislation, institutional arrangements, and the financial sector, and reforming state-owned enterprises; ProInvest (€110 million), aiming to promote investment and technology flows to enterprises operating within key sectors in ACP States; the EU/ACP Microfinance Framework Programme (€15 million), aiming to improve the overall effectiveness of microfinance operations in ACP countries; the Programme on Strengthening Food Safety Systems through SPS measures in ACP countries (€30 million), aiming to improve the contribution of food and feed trade to poverty reduction in beneficiary countries.

143. Moreover, several countries in the region participated actively in the 6th Research Framework Programme (FP6: 2002-2006). The thrust of this research was mostly in high priority areas for the region, such as food security, neglected diseases, reproductive health and health systems and sustainable use of land and coastal ecosystems to rebuild or maintain productivity. Several research projects addressed reconciling multiple demands on coastal zones and fisheries issues, a significant concern in past development programmes and in the future. Some preliminary lessons learnt from this research cooperation is documented in global and thematic reviews and suggests that the impact for development can be increased through building trust between the 'development community' and the 'research community', through a perception of greater direct relevance of the research for the social and economic challenges and opportunities and through more engaged two-way communication.

144. In order to maximise coordination under the 9th EDF, an Inter-Regional Coordinating Committee (IRCC) was created, given the complexity of implementing an RSP/RIP for four ROs with different policy agendas and different geographical coverage. The IRCC serves as a forum in which the four ROs, SADC and the EC, with the ACP Secretariat as an observer, work together on EDF programming, agree on common projects and develop a common understanding. An IRCC

Support Project has been set up to help the IRCC carry out its mandate. The IRCC has ensured a regional approach to both programming and implementation among the ESA-IO ROs.

145. The IRCC mid-term evaluation highlighted the challenges of ESA regional coordination, and the need to improve coordination with SADC as well as access to the Intra-ACP programmes mentioned above. Indeed, the region (as opposed to national governments) has found it difficult to access resources allocated at pan-African or all-ACP level and, given the increasing importance of these larger programmes, IRCC will need to find a way both to improve coordination with these programmes and to access resources allocated at these levels. In spite of these challenges, the ROs have expressed the wish to continue with the same structure and to continue being mandated ROs under the 10th EDF, adopting the IRCC mechanism.

146. For the first time, the 9th EDF for the ESA region was fully committed before the sunset clause of 31 December 2007, but a number of large programmes have started only recently while others are still ongoing until 2009 and 2010. This explains why it is difficult to draw many lessons as yet on the impact of EC support for the region.

147. Some lessons, however, have been learned, notably regarding EC delivery mechanisms, with the move towards increased use of Contribution Agreements. So far, only COMESA has benefited from this move (which is very much in line with the EC's commitments under the Paris Declaration on Aid Effectiveness), since it underwent an institutional assessment with a favourable outcome. EAC is benefiting indirectly through COMESA. In general, use of Contribution Agreements has enhanced the alignment of EC support with COMESA and EAC strategies and systems, increased the predictability of resources and facilitated the implementation of programmes. The mid-term evaluation of the RISP, to be carried out in the second half of 2008, will inform the subsequent identification and formulation phase.

148. In addition, an independent evaluation of the 9th EDF ESA Regional Programme, undertaken for the EuropeAid Cooperation Office, is being finalised. It is looking at the following dimensions: strategy and global architecture; coordination, complementarity and added value; efficiency; and impact, together with the specific objectives and results of each focal area. The programming process can take account of the preliminary findings. These indicate a number of important lessons:

- The need for continued focus on strengthening the capacity of the four ROs to implement their own specific strategies and priorities;
- Appropriate devolution within the programme can be achieved through broader use of Contribution Agreements, while at the same time IRCC should improve harmonisation and convergence among the ROs, and strengthen its linkages with the Tripartite Task Force;
- Specific support to facilitate and enhance investment in infrastructure is needed, including project preparation and brokerage of different sources of investment;
- Enhanced coordination among EC and other donors should be promoted;

In terms of impact, the evaluators found that EC regional programmes have contributed to the improvements registered in trade and transport regulation, to the reduction of tariff and non-tariff barriers, and thereby to increased trade growth. Support for marine and inland fisheries and for tourism has contributed to regional economic growth.

The final report, which will be published along with the Commission's response, will make recommendations regarding the identification and formulation phases for 10th EDF support, notably in the Natural Resources and CPMR areas. The final report will be taken into account

in defining specific interventions in each focal sector, and will complement a number of project-level evaluations as well as those of the RISP and IRCC

4.2 Programmes of EU Member States and other donors

149. The main areas of donor intervention are trade, regional integration, agriculture, infrastructure, telecommunications including information technology, environment and marine resources management, food security, disaster management, peace and security, and capacity building. In this respect, there is a need to enhance donor harmonisation and coordination at regional level as well. This process has started in the ESA region, with a number of donor coordination meetings initiated by the EC (March 2007) and the IRCC (June 2007). Each RO is developing its own mechanism for donor coordination, which could eventually evolve into a Joint Assistance Strategy at regional level. Donor coordination was also discussed at the IRCC High Level Meeting in Dar es Salaam on 17 July 2008.

150. In 2008, donor networks have been strengthened with a view to sharing information on various interventions at regional level and creating synergies. One main example is the development of the North South Corridor Pilot Aid for Trade Programme, for the transport and transit corridor running from Dar es Salaam to the copperbelt and the South African ports. The Pilot brings together all of the ongoing initiatives taking place along the corridor, in terms of transport infrastructure improvements and trade facilitation measures, identifying missing links and activities, under one umbrella so that they can be managed in a holistic manner. Discussions among donors have also started on the World Bank Regional Integration Assistance Strategy, and the draft Strategy of the African Development Bank.

151. At EU level, donor coordination should be facilitated by the 10th EDF, which mentions the possibility of co-financing between the EC and EU Member States¹⁴. [Annex 7](#) contains tables showing the main ongoing projects and programmes financed by the EU Member States and ongoing regional programmes financed by other donors. The funding received at national level by the ESA countries from the EU (Member States plus European Commission) covers the areas of trade policy and regulation, the building of productive capacity, and trade-related infrastructure, for a total of €3.3 billion over the 2001-2005 period. In addition, the countries in the region have had access to global and regional programmes.

152. Over recent years, there has been a growing tendency to emphasise the role that trade can play in the economic development of countries, with the result that there is more emphasis on trying to ensure that aid policies, and the programmes financed by donors, do not conflict with one another. There have also been more concerted attempts to ensure that the trade policies of recipient countries are coherent across the local, regional and multilateral levels. At national level the emphasis is on trade policies as part of the PRSPs (or similar policies). At regional level, the focus is on ensuring that countries do not adopt contradictory and incompatible trade policies and programmes through being members of more than one regional economic organisation. At the multilateral level, emphasis is on ensuring that the Doha Development Agenda is implemented in such a way as to emphasise the development component of the Round and to ensure that

¹⁴ Council Regulations (EC) No 617/2007 of 14 May 2007 on the implementation of the 10th European Development Fund under the ACP-EC Partnership Agreement.

developing countries have adequate flexibility and policy space, through access to special and differential treatment, so as not to stifle economic development.

153. In 2007, the EU adopted its strategy on Aid for Trade (AfT), one pillar of which is 'building upon, fostering and supporting ACP regional integration processes'. In this strategy, the EU reaffirms its 2005 pledge to increase its collective expenditure on trade-related assistance, i.e. trade policy and regulation and trade development, to €2 billion a year from 2010 — €1 billion in Community aid and €1 billion in bilateral aid from the Member States. Around 50% of the increase will be available for ACP needs. The funding allocation will reflect policy and programming decisions at regional level. The EU will participate on a voluntary basis in regionally owned funding mechanisms, such as the regional funds, and step up efforts to prepare joint response strategies relating to AfT for regions during the period until 2010. In May 2008, the EU Council confirmed its commitment to the AfT agenda, and stated its readiness to design EU regional AfT packages for the ACP, building on the 10th EDF regional programming process. The objective is to support an ACP-owned regional integration agenda, including by addressing needs arising from EPAs and fostering donor coordination in the spirit of the Paris Declaration on Aid Effectiveness.

154. In order to support strengthened regional integration within ACP regions, the EU will in particular focus on initiatives for deepening regional integration, such as the elimination of remaining intra-regional barriers to trade in goods and services, strengthening and modernising regional customs rules and arrangements, strengthening and harmonising standards and technical regulations, promoting and strengthening regional conformity assessment institutions, as well as the integration of financial and capital markets and the free movement of persons.

155. The EU will support capacity development in ACP regions for trade-related rules and regulations in the areas of competition policy and law, investment, transparency in public procurement and intellectual property rights, as well as the technical capacity of regional institutions for identifying, prioritising, designing, implementing and monitoring AfT regional programmes.

4.3 Policy coherence

156. The coherence of EU policies can only be achieved through rational assessment of the policy mix in the region, especially as regards issues with a potential impact on achievement of the MDGs and regional integration objectives. Key areas in this respect are trade, fisheries, agriculture, security, the environment and migration. In cases where the EC and EU Member States have developed 'coherence for development' commitments¹⁵, these have been reflected in the response strategy.

157. Trade policy is one of the most important policy areas for the region, and the response strategy fully integrates trade and development. In the wider context, the EC is strongly committed to ensuring a development-friendly and sustainable outcome for the Doha Development Agenda. Following the reform of the Common Fisheries Policy (CFP) in 2002, fisheries agreements were transformed from access arrangements with a financial contribution into genuine partnerships for the development of sustainable and responsible fisheries. The idea is to help third countries put in place their own fisheries policies to help meet their aim of economic development while protecting fish resources. Four Fishery Partnership Agreements (FPA) have been signed in the region with the Comoros, Madagascar, Mozambique, and the Seychelles, and an FPA is being negotiated with Mauritius. The response strategy envisages continued close collaboration in support of programmes

¹⁵ In line with the 'Policy coherence for development' Communication, COM(2007) 545.

for effective marine and coastal zone management and support for efforts to combat illegal, unreported and unregulated (IUU) fishing.

158. The Common Agricultural Policy (CAP) has sought to increase the productivity of EU agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply. These policy objectives have been modified to reflect the evolution of the global economy, so as to make European food producers more competitive, and the need to implement WTO commitments to reduce market distortions. Few agricultural commodities covered by the CAP are in competition with products from the ESA region. A notable exception is sugar. The sugar producers of the ESA-IO region (Kenya, Madagascar, Malawi, Mauritius, Tanzania, Zambia and Zimbabwe), will benefit from the 'Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime'. These countries will continue to require support as the EU continues its efforts to minimise the trade distortions due to its support measures for the agricultural sector, and to facilitate the region's agricultural development.

159. In the area of conflict prevention, the EC's cooperation programmes will focus on addressing the root causes of conflict in an integrated, regional manner. The response strategy takes this into account under the Peace and Security component of the second focal sector. In addition, an EC Communication on an 'EU regional political partnership for peace, security and development strategy for the Horn of Africa' provides policy guidance for the implementation of the Regional Response Strategy with regard to the Horn of Africa¹⁶. Consideration will be given to using resources under the thematic programme budget lines to underpin the priority areas of this strategy, including Food Security, Environment, Investment in Human Resources, Non-State Actors, Human Rights and Democracy, and Migration.

¹⁶ Cf. Communication from the Commission to the Council and the European Parliament, 'Strategy for Africa: A European regional political partnership for peace, security and development in the Horn of Africa' COM(2006) 601 Final, 20 October 2006.

5. THE RESPONSE STRATEGY

160. In accordance with the principle of alignment, the RSP will support the strategies of the ESA region. The focus of the response strategy is therefore on:

1. Consolidating the regional economic integration agenda. To achieve this objective, interventions will focus on trade policy issues, addressing supply-side constraints, adjustment costs and building productive capacities, and on deepening regional integration by preparing for a common internal market and a monetary union by achieving free movement of people and labour, right of establishment and macroeconomic convergence, with support for sectoral policies. For both these themes, the development matrices will be taken into account.
2. Promoting political integration and cooperation in the region, also by addressing peace and security and good governance.

The response strategy is consistent with other ongoing processes, in particular the EPA negotiations with their development agenda and the Horn of Africa Initiative.

161. The Strategy also takes into consideration the harmonisation process among ROs leading to policy convergence.

5.1 Underlying principles of the response strategy

162. The underlying principles reflect the commitments made in the Paris Declaration on Aid Effectiveness, in line with the EU Consensus on Development, including:

- Ownership — ROs exercise effective leadership over their integration policies and strategies and coordinate policies and activities;
- Alignment — donor support is based on the ROs' own integration mandate, implementation plans and procedures;
- Predictability of funds — donor funds reach the intended beneficiaries in a timely manner;
- Harmonisation — actions of the EC, EU Member States and other cooperating partners are harmonised, transparent and collectively effective in reducing the transaction costs for the ROs;
- Managing for results — managing resources in a result-oriented way (linking programming of external resources to the ROs' internal programming and budgeting processes);
- Mutual accountability — ROs and donors are mutually accountable for achieving the objectives of the RSP; and
- Policy convergence.

163. The underlying principles also reflect the recommendations of the WTO Task Force Reports on Aid for Trade (July 2006) and the Enhanced Integrated Framework (June 2006). These include mainstreaming trade within the development objectives of the region and ensuring that trade-related assistance is delivered in a predictable, effective and sustainable manner.

164. The EC and the ESA-IO Region recognise that, in order to meet the region's development objectives, there is a need for additional resources over and above EDF resources. This is facilitated by the architecture of the financing instruments to be used, which aim to allow the disbursement of EDF 10 and other funds through regionally owned delivery mechanisms. The EC and the ESA-IO

will work together to mobilise additional resources from EU Member States, the EC general budget and other cooperating partners.

165. Another underlying principle is that the four ROs are responsible for implementing the strategy, according to their respective mandates, and that the IRCC regional coordination mechanism will be maintained and enhanced. The principles of subsidiarity, complementarity and sub-regional specificity will be applied in the development and implementation of projects. Attention will also be given to the issue ensuring complementarity between the EDF and the EU Budget.

166. However, to take into account the recommendations of the mid-term evaluation of the IRCC Support Project, the end-of-term review of the EDF9 RSP/RIP and the recommendations of the joint NAO/RAO and Ministers of Trade meeting held in Mauritius in July 2006, the function of the IRCC is being reviewed with a view in particular to ensuring closer coordination between national and regional integration and cooperation policies (including all the EDF instruments) and using the IRCC as a forum for improved donor coordination (beyond EDF) and enhanced policy convergence among the various ROs (COMESA/EAC/SADC, also through the Tripartite Task Force). To this effect, revised terms of reference were considered in 2008 for the IRCC, which in May 2008 adopted a new set of principles and tasks for its expanded role under the 10th EDF (see [Annex 1](#)).

167. Regional integration policies will be mainstreamed at both national and regional levels through increased NAO/RAO consultation using existing mechanisms such as NDTPF, RPTF and possibly the EIF, etc. This will ensure coherence in the regional integration process. The strategy recognises the need for the early commitment of ESA-IO countries to participating in regional programmes and ensuring linkages between national and regional policy formulation and implementation, where IRCC could play a major role. [Annex 2](#) provides a synoptic view of the interventions envisaged in the ESA NIPs, and should be borne in mind when formulating programmes under the RIP.

168. In order to strengthen consultative processes for regional integration, meetings with the NSAs of the region have been held, for example with the regional business associations (notably during the IRCC High Level Meeting in Dar es Salaam on 17 July 2008). NSAs will be encouraged to participate fully in the implementation of the RIP. In formulating the proposals for specific interventions under the programme, particular attention will be given to cross-cutting issues of gender equality, equity and the environment.

169. Before going into the details of the areas to be supported, it is important to highlight some of the risks that could hamper the successful implementation of this strategy. A major political risk is linked to genuine and concrete commitment and willingness on the part of countries to foster regional integration, which also depends on political stability in the region (including post-conflict reconstruction) and rationalisation of the membership and convergence of the agendas of different regional organisations pursuing the same objective. With reference to this risk, it has to be said that the economic and policy environment in which the EDF10 RSP/RIP programme will be implemented will encourage the ESA-IO countries to adopt more coherent and sustainable regional integration decisions. Regional integration policies will be mainstreamed at both national and regional levels through increased national/regional consultation using existing mechanisms such as NDTPF, RPTF and possibly the EIF, etc. This will ensure coherence in the regional integration process. The strategy recognises the need for the early commitment of ESA-IO countries to participate in regional programmes and ensure linkages between national and regional policy formulation and implementation.

170. The impact of globalisation and the emergence of new vigorous economic players (China, India, etc.) are now being felt by most of the countries in the region. International trade negotiations, as well as recent major trends on international markets (oil, commodities, food products, etc.), are also challenging these countries, which need to strengthen their political and economic links and combine forces in the international arena to avoid further marginalisation. It is also increasingly assumed that regional groupings such as COMESA, EAC and SADC are building blocks towards this ultimate goal. Responses to looming shocks linked with food accessibility and energy shortages, or to the increasing need for the sustainable management of natural resources (also including the extractive industries), can be much more effective if approached and coordinated at regional level.

171. With regard to security and peace risks, it is assumed that the countries of the ESA-IO region will support the mandated ROs in developing their responsibilities for conflict prevention/management/resolution (protocol with the AU), and seek peaceful solutions to all types of conflicts. It is also assumed that those countries will take the necessary measures to root out corruption and profiteering related to a war economy and arms trafficking.

172. More specifically, the EU regional political partnership for peace, security and development in the Horn of Africa follows the principles of the response strategy. It is based on a comprehensive regional approach to regional integration and cooperation, which strengthens the regional organisations and assures them and the participating countries ownership of the initiative. Partnership, the other pillar of the initiative, ensures harmony between the activities of the initiative and the peace-building and development needs and priorities of the Horn of Africa.

173. At the level of implementation, the main risk relates to the available capacities (in-country, at RO and EC service level) to absorb the resources made available through the regional programme, and to achieve the expected results in a timely fashion. This risk can be managed within the EDF10 RSP/RIP itself, through significant efforts to develop managerial, financial and technical capacities in the different ROs, allowing them to efficiently assume further implementation responsibilities, as well as by reinforcing the intra-regional coordination structures (in particular, by strengthening the institutional and technical capacities of the IRCC to play the extended role mentioned earlier). All these measures should foster dialogue and cooperation between the different ROs, and between them and their member countries. On the EC side, some measures are also expected to improve the organisation and management of its regional tasks, notably within the Delegations most involved.

5.2 Focal areas of support

174. Two Focal Areas have been identified, the first covering the economic aspects of regional integration and the second its political dimensions. They are:

1. Regional Economic Integration (focusing on implementing and deepening the economic integration agenda of the region, including regional sector policies in the priority sectors of Infrastructure (including energy), Management of Natural Resources, Environment and Food Security);
2. Regional Political Integration/Cooperation.

175. For the ESA-IO countries, Regional Economic Integration (Focal Area 1) is seen as a key factor for poverty alleviation, using trade and integration as development tools for sustained growth. The interventions envisaged target the establishment of a common internal market in goods and

services, through an enabling regulatory environment (to be addressed with Trade Related Technical Assistance) and by supporting member states in implementing regional integration policies and programmes aimed at addressing the possible short-term fiscal adjustments and related socio-economic costs. The need for economic development through regional integration reflects the fact that markets in the region remain small and fragmented, the costs of cross-border business remain high and more needs to be done to create a truly enabling environment to allow the private sector to operate more effectively while at the same time maintaining an adequate regulatory framework.

176. To take full advantage of a regional integrated market, there is also an ongoing need to address physical supply-side constraints, for example by improving the economic infrastructure of the region (including transport, aviation, but also communications, energy and water management). The infrastructure projects identified will be consistent with pan-African priorities (e.g. within the AU/NEPAD) and those planned by the region (as per the TCS/PIP). They will also be closely coordinated with the projects planned at national level under the 10th EDF or other resources.

177. The need to address the management of natural resources, the environment and food security reflects the fact that the major economic activity in the region is agricultural production, including livestock and fisheries. This economic activity, upon which the livelihood of the majority of the population in the ESA-IO region depends, relies on the successful and sustainable management of the natural resource and environmental base. Food security, which is both a production and distribution (trade) issue, needs to be strengthened if the region is to develop economically in a sustainable manner.

178. Regional Political Integration/Cooperation (Focal Area 2) is based on the fact that large parts of the ESA region are still engulfed in conflict or instability while other areas are in a post-conflict situation. The response strategy has to take these situations into account if regional integration is to have any chance of success. Without peace and security, development and poverty eradication will not be possible; and without development and poverty eradication no sustainable peace can be ensured. Achieving the MDGs is in the interest of collective and individual long-term peace and security. Moreover, regional challenges can only be addressed by a coordinated regional policy response. Within the ESA region, the East African Community is a striking example of a deeper political integration agenda, one which may be supported as part of the RSP policy response. This focal sector will enable the ESA region to play its full role in the pan-African political architecture.

5.3 Regional economic integration

179. The general objective of this Focal Area is to increase economic growth and reduce poverty by enhancing regional economic integration, trade liberalisation and regional cooperation, and by addressing supply-side constraints in the area of infrastructure as well as in the area of natural resources management, environment protection and food security.

180. The programme objectives are:

- To support the implementation and consolidation of existing CUs and FTAs;
- To support the region's efforts to move towards common markets and monetary unions with integrated rules and standards, free movement of production factors, competition policy, and macroeconomic convergence;
- To strengthen the development and implementation of regional trade arrangements in goods and services, EPAs, and multilateral trade arrangements, specifically under the WTO;

- To provide those countries liberalising their trade regimes with support so that they are able to make the necessary economic adjustments and to address the possible short-term revenue losses;
- To reduce the cost of doing business through the removal of supply-side constraints, including improvement of regional economic infrastructures;
- To ensure the sustainable management of the natural resources of the region as a core asset for the livelihood systems of the people and to ensure that it provides a basis for sustainable economic growth and food security;
- To develop sustainable energy policies based on improved access to sustainable energy services and regional electricity markets integration,

181. The countries of the ESA region are well aware of their need to create larger markets through deeper regional integration if they are to achieve the 6-7% growth rates necessary to reduce poverty. The COMESA Strategic Plan and the EAC Development Strategy include policies aimed at creating:

- **A Customs Union.** The response strategy will support further development of customs and other border procedures to facilitate the free movement of goods and the monitoring and removal of NTBs. It will also support the development and implementation of instruments and legislation for trade liberalisation and tariff reform.

This includes supporting compliance with SPS/TBT regulations. Requirements in this field are often country-specific, although the final objective is to have a regional system. Activities are consequently relatively broad, covering aspects such as advice on administrative issues, explanation of the EU legislation on the export of animal or plant products to the EU or improving the understanding of SPS systems. Activities equally extend to addressing technical difficulties (such as laboratory techniques or construction, analytical methods, etc.) that have posed obstacles to export growth in the past.

It is also proposed to support regional mechanisms to assist Member States in making economic adjustments arising from the implementation of regional integration policies. These adjustments relate to CU implementation and preparation for the Common Market and fall mainly under the following areas:

- trade facilitation and export diversification;
- production and employment adjustment;
- skills development and productivity enhancement.

- **A move towards a Common Market** (and eventually a monetary union) to allow the free movement of people, capital, labour, services and right of establishment. This also covers investment policies, trade in services and a common competition policy. The response strategy will support fiscal, judicial, legal and financial-sector reforms to facilitate private sector investment in the region, particularly cross-border investment, and the facilitation of trade promotion activities in the region. It will support putting in place domestic regulations addressing market access issues in the services sector, so that ESA-IO countries can benefit more from trade in services. Within the overall ESA-IO integration process, there are sub-regional initiatives and examples of a political will to move faster. These are not in conflict with the broader ESA process, but rather show the way forward and may be supported as such.

- **Development of sector policies in priority sectors like infrastructure, natural resources and agriculture:** The costs of transport can be reduced by expanding the use of Trade and Transit Transport Facilitation Instruments, by reducing delays at border posts through the

development of One Stop Border Posts as well as by improving physical infrastructure along the main trading routes.

The response strategy is to support the development of a comprehensive regional transport policy and develop infrastructure proposals on the basis of the regional Transport and Communication Sector Priority Investment Programme (TCS/PIP). It will provide a set of criteria to prioritise regional projects. The EC response will also support the implementation of the Yamoussoukro Decision on aviation, as well as trade and transport facilitation instruments, including one-stop border posts.

182. Since ecosystems are transboundary, there is need to manage them through sub-regional transboundary programmes and agreements, with interventions focusing on community or collaborative natural-resource management approaches. Synergies will be sought with pan-African initiatives like the Comprehensive Africa Agriculture Development Programme (CAADP) or the Global Monitoring for Environment and Security (GMES), which is a follow-up to the African Monitoring Environment for Sustainable Development (AMESD).

183. The EU's Food Security Thematic Programme (FSTP) will further make a positive contribution to improving food security, highlighting the importance of cooperative and cross-border approaches to problems that are international in nature. It will, in particular, support agricultural research and its dissemination, and help decision-makers through improved information systems on the food security situation. It will also promote the priorities set out in the new partnership approach established between the EU and the AU (disaster and risk reduction; agricultural policy development and harmonisation; sustainable management of natural resources), while seeking to generate a high profile for food security policy at international level. Synergies will be sought with ongoing projects on food security under the 9th EDF such as REFORM.

184. The response strategy will particularly focus on:

- Using natural resources efficiently and sustainably (notably in agriculture exploitation and value addition) to derive maximum benefits for the ESA-IO region, including for food security, mitigating the constraints and negative effects associated with the use of these resources;
- Maximising the total value of ESA-IO's natural assets;
- Making a case for safeguarding and improving the remaining assets while contributing to the regional integration process.

185. It will build on the achievements of programmes financed under previous EDFs, including: programmes aimed at protecting the environment from further degradation; addressing increasing the productivity of the livestock sector; and supporting the fisheries sector.

186. The EC Horn of Africa initiative (to be implemented in association with IGAD and COMESA) aims to enhance activities so as to strengthen:

- Interconnectivity in the transport and energy sectors. In the area of transport, the initial focus is on transport facilitation and the creation of an enabling environment for trade. The long-term vision is to interconnect the countries of the Horn through road, rail and energy networks.
- The regional management of water resources as an essential element for food security. A regional water dialogue forum is planned, as are coordinated hydrological observation systems, followed by the creation of a comprehensive regional surface and ground water information system to identify long-term investment needs.
- The overall framework for natural resources governance and its implications for future human security.

187. Building the capacity of relevant institutions/individuals managing the implementation and monitoring of the CU and the common internal market is a key element for strengthening regional integration and is therefore a key component of the response strategy. The four main strands of the EAC integration process are all strongly relevant: the free trade area and customs union, cooperation in the provision of public goods and services, the process of negotiating a common market, and the eventual goal of political union under a federal constitution (following monetary union).

188. EDF resources cannot fully meet the development requirements of the ESA-IO region. For large infrastructure projects, EDF regional resources will be used primarily for preparatory work, leveraging funds from other sources, including the EU–Africa Partnership for Infrastructure, ADB, and EU Member States, in accordance with AU/NEPAD priorities. In specifically justified cases, the EDF could be used for investment in high-priority infrastructure projects.

189. As regards aid channelling modalities, the COMESA Fund and the EAC Development Fund (when developed and assessed positively for eligibility) may be used to channel EDF and related Community resources. The choice of using these Funds or other aid channelling mechanisms (standard EDF contract modalities) will be guided by institutional procedural, and effectiveness and efficiency criteria in terms of aid delivery. Interventions may include, if so foreseen in the mandates of the respective Funds, socio-economic and short-term fiscal adjustment support and for infrastructure projects in the region. The experience with the implementation of ongoing programmes using the COMESA Fund will also be taken into account. In procedural and procurement terms, depending on the capacity of the ROs, their institutional assessment, and the nature and size of the projects, both Contribution Agreements and Financing Agreements will be used to deliver EDF funds.

190. The added value of using Community resources lies in the fact that the EC has a long experience in designing and implementing programmes for deepening and strengthening regional integration and in funding programmes for the sustainable management of natural resources and the environment. For instance, the Cross-Border Initiative, and its successor RIFF, ensured the fast-tracking of COMESA programmes and helped, in the late 1980s and early 1990s, to put in place the Preferential Trade Area for ESA countries. In the mid-1990s, regional integration in the ESA-IO region showed signs of losing momentum. It regained impetus with the resurrection of the EAC and the official launching of the COMESA FTA in October 2000, to which EDF support contributed. The mainstreaming of trade in national and regional development policies has consistently been supported by the EC, and this new dynamic is now delivering positive results, with the ESA-IO region recording increased levels of intra-regional trade and positive levels of economic growth.

5.4 Regional political integration/cooperation

191. The general objective of this focal area is to assure peace and security and provide a framework for balanced development through higher levels of regional cooperation, including deeper political integration, as many conflicts in the region have a regional dimension. Both EU–Africa strategic documents and individual poverty reduction programmes articulate the crucial importance of peace, security and good governance as prerequisites for development. Wars and conflicts have an impact on all stages of the development cycle, so there is a crucial need for a comprehensive approach to all issues relating to conflict prevention, management and resolution (CPMR), post-conflict reconstruction and peace-building. At regional level, integration within stable

regional blocs has the potential to stabilise countries in a post-conflict situation. Peaceful development is in itself a force for stability. Progress towards the MDGs is in the interest of sustainable peace and security, since it has the potential to reduce tensions over scarce resources such as land and water, and to provide a firm foundation for both individuals and communities to flourish. The prevention of conflict through sensitive development efforts is one objective of the overall national and regional development effort. But in addition to the mainstreaming of conflict prevention, there are specific activities that may be mobilised to this end. One promising field is support for cross-border reconciliation and confidence building; another is supporting civil society in its efforts. The objective is to ensure that there is no relapse into conflict in the region. This will include greater efforts to ensure post-conflict reconstruction and more targeted efforts in conflict prevention and resolution.

192. The existence of a coherent regional perception of the concept of good governance, including in the economic field, will lead to political stability and confidence and will create a stable and predictable business climate, which in turn will attract foreign and local investment.

193. The active participation of economic actors and citizens in regional integration, through increased freedom of movement backed by viable cross-border institutions, can itself exert a powerful influence in encouraging and maintaining stability and interdependence.

194. The EU regional political partnership for peace, security and development in the Horn of Africa provides a political strategy for concrete regional initiatives, and strives to address the root causes of instability in the region. It focuses on three main areas of action: addressing regional cross-cutting and cross-border challenges; encouraging effective regional political and economic cooperation and integration; and addressing country-level strategic political issues with regional ramifications. Concrete activities under the partnership could include joint regional planning in key sectors, intercultural dialogue, the management of migration and the protection of refugees, internally displaced people and persons in need of international protection, the fight against anti-personnel landmines and prevention of smuggling and the trafficking in human beings, the fight against transnational organised crime and proliferation of Small Arms and Light Weapons (SALW).

195. The purpose of the programme is to support the regional pillar of the pan-African architecture for conflict prevention, peace and security and associated flanking policies. In particular, it will strengthen the substantial peace and security component, namely the Partnership on Peace and Security, of the Joint Africa-EU Strategy for Africa. It will be implemented in close coordination with interventions envisaged for the AU under the intra-ACP envelope.

196. At a broader level, IGAD, COMESA, IOC and EAC have been mandated by their members to carry out conflict prevention activities. While CPMR is an explicit component of IGAD's mandate, COMESA has a proven commitment to tackling the effects of conflict on economies across its region, while EAC is implementing the Small Arms and Light Weapons (SALW) component.

197. The Regional Strategy will also support the Initiative for the countries of the Great Lakes (CEPGL) through functional cooperation and by applying the principle of subsidiarity, since the activities under the Initiative aim at consolidating peace processes and economic integration within the region, among other things by focusing on developing areas such as energy, transport, rural development, environment and education.

5.5 Non-focal areas

198. The non-focal areas will include programmes that are consistent with the mandates and strategies of the ROs, including capacity building, support for the IRCC, involvement of Non-State Actors, and addressing cross-cutting issues.

199. The non-focal areas will also include activities supporting the use of results and competencies from past and on-going scientific cooperation, as well as programmes supporting the implementation of the 8th Partnership, as it pertains to the ESA-IO region. Special attention would be given to human and institutional capacity building and encouragement for participation in European Research Framework programmes.

PART II: REGIONAL INDICATIVE PROGRAMME

6. PRESENTATION OF THE INDICATIVE PROGRAMME

6.1 Introduction

200. Within the general framework of the present Regional Strategy Paper, and in accordance with the provisions of Article 10 of Annex IV to the Cotonou agreement, the Parties have agreed on the main priorities for their cooperation and on the areas on which the support of the Community will be concentrated. A detailed Indicative Programme is presented in this chapter, followed by annexes containing a series of tables presenting the intervention frameworks for each focal area ([Annex 3](#)), an indicative activity pipeline timetable ([Annex 4](#)) and the indicative commitment and expenditure schedules ([Annex 5](#)).

201. The countries of the ESA-IO region are well aware of their need to create larger markets through deeper regional integration if they are to achieve the 6-7% growth rates that are necessary to reduce poverty. In line with the response strategy, the Regional Indicative Programme will assist ESA ROs in meeting the challenges of implementing their medium-term strategies, which focus on establishing customs unions and moving to common markets and monetary unions in order to increase equitable prosperity across the whole region.

202. Through the first focal sector, Regional Economic Integration, the RIP will provide support for appropriate regional policies to be put in place in core areas (customs union, common internal market, services, rules) and tackling supply-side constraints as well. The analysis has shown that an inadequate regulatory environment adds significantly to the cost of doing business and impedes the creation of new markets, as do deficient regional infrastructure — in particular for transport — and insufficient management of natural resources, environment and food security. With 70% of the population depending on agriculture, strategies to improve food security also merit continued support.

203. The second focal sector focuses on regional political integration/cooperation issues such as policies to embed peace and democracy, since they are vital to attract investment and to achieve sustained development in the region.

204. In each of the focal sectors, ROs have formulated objectives for the medium term, which are reflected in the seven areas of the EPA development matrix ([Annex 14](#)). The RIP will seek to contribute to their achievement by supporting the development of harmonised regional policies and their implementation in these areas. Where consistent with the regional priorities, activities under the Horn of Africa Initiative can be funded by the RIP.

205. Cross-cutting issues will be mainstreamed through all interventions supported by the RIP, in line with the ROs' mid-term strategies, in order to achieve gender equality and equity and to protect the environment through sustainable use of natural resources.

206. The amounts mentioned in this chapter indicate the overall distribution of funds between focal area(s) and other programmes. This distribution can be modified following mid- and end-of-term reviews.

6.2 Financial instruments

207. This Indicative Programme is based on the indicative initial allocation for the ESA-IO region, amounting to around €645 million.

208. The indicative allocation will be distributed as follows:

- **Regional Economic Integration** (including Infrastructure (comprising energy), and Natural Resources, Environment and Food Security): 85% of the total allocation (€548 million).
- **Regional Political Integration/Cooperation**: 10% of the total allocation (€64 million).
- **Other programmes**: 5% of the total allocation (€32 million).

209. The projects financed under this programme will be implemented in accordance with the relevant provisions of the Financial Regulation applicable to the 10th EDF, in particular Article 29. Two financing mechanisms will be employed. Contribution Agreements will be used where appropriate and where the lead RO has demonstrated, by means of an institutional assessment, that it meets international standards in management, accounting, audit and procurement. In all other cases (in particular taking into account the size and nature of projects), traditional financing agreements will be the preferred financing mechanism.

6.2.1 Other Financial Instruments

210. Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007 – 2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security" and the programme for accompanying measures for ACP Sugar protocol countries, as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance. [In relation to Agriculture, the 1 billion Facility that covers short and medium term interventions to address the high food prices would also be available to the countries of the ESA-IO region and to the ROs therein.] For the Sugar Protocol countries benefiting from accompanying measures, the actions envisaged in that context shall be complementary to above financial instruments.

6.2.1 Monitoring and evaluation

211. Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this RSP will be undertaken in line with the Technical and Administrative provisions that are attached to each individual Financing Agreement prepared to implement this RSP.

The results and impact of the Community's cooperation with the ESA-IO region implemented through the RIP and through external actions funded by the general budget of the European Community, will be

assessed by means of an independent external evaluation. This region-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

6.3 Focal areas

6.3.1 Regional economic integration

212. The following objectives will be pursued:

- Supporting actions for implementing customs unions and moving to a common market and monetary unions. The actions will concentrate on RO priorities taking into account what is to be achieved by the process of regional integration and EPA-related needs;
- Support for RO actions in developing and implementing harmonised regional policies to remove supply-side constraints and expand competitive supply capacities in priority sectors like agriculture, wildlife and coastal and marine resources and fisheries;
- Trade-related assistance and capacity development in ESA-IO countries for trade policy, negotiation of regional/multilateral trade agreements, and trade facilitation, including for the small and vulnerable economies in the ESA-IO region;
- Support for member countries in participating fully in the regional trade arrangements as well as in the implementation of other trade arrangements by alleviating the impact of social, economic and fiscal adjustment costs;
- Support for private sector development to enable firms to take full advantage of regional integration policies and to foster higher productivity and more value-adding activities in the region;
- Removal of supply-side constraints, particularly in physical infrastructure;
- Support the region in developing sustainable energy policy based on improving access to sustainable energy services and regional electricity markets integration;
- Support for the region to improve land and water resources management with a view to enhancing its capacity to increase agricultural production and to become more self-sufficient in food production;
- Enhancing the capacity of the region in the conservation of natural resources and management of environment;
- Addressing of regional integration issues affecting small and vulnerable economies;
- Strengthening data quality and harmonisation at RO level;
- Institutional capacity building.

213. The major policy measures to be taken by the ESA-IO region for the successful implementation of the response strategy are:

- Further harmonisation and convergence of the ROs' integration agendas;
- Adoption of trade policies that will result in movement towards a customs union and implementation of a common external tariff and in movement towards a common market and monetary union;
- Implementation of EPA commitments;
- Further mainstreaming of trade within the development agenda of the region;
- Implementation of trade liberalisation measures in line with WTO (where applicable);
- Consistency with national programmes as well as pan-African programmes.

For indicative purposes, €548 million is reserved for this focal area.

214. The major interventions envisaged are as follows:

Trade-related assistance and capacity building

215. Assistance to the ROs in implementing their economic integration mandates, namely through:

- Improved availability, quality and comparability of statistical information to support regional economic integration;
- Development and implementation of instruments and legislation for trade liberalisation and tariff reform (including TRIPS regulations and monitoring and removal of NTBs);
- Support for the development of expertise and capacity to analyse and comply with SPS/TBT regulations and for establishing the appropriate physical infrastructure, such as laboratories. Coordination, exchange of experience and dissemination of good practice can also play a role in this field.
- Putting in place domestic regulations and addressing market access issues in the services sector, so that ESA-IO countries can benefit more from trade in services;
- Further development of customs procedures, as well as support to Customs systems modernization through means of best practices, tools and international standards, including the implementation of the WCO SAFE Framework of Standards leading to trade facilitation and simplified measures. Costs will also be reduced through trade and transport facilitation instruments, including one-stop border posts;
- Implementation and monitoring of the EPA in member states;
- Support for harmonisation of policies between ROs;
- Improving the availability, quality and comparability of statistical information to support regional economic integration. Support for trade facilitation measures through the EC Horn of Africa Initiative, including creating customs management compatibility, harmonised procedures and one-stop border posts in the Horn of Africa region;
- Enhancing development capacity in trade-related issues such as competition policies, transparency in public procurement, and the legal and regulatory framework.

216. Support for ROs in enhancing their capacities for the implementation of customs unions as well as support for RO initiatives to move towards a common internal market and monetary union, and to improve the harmonisation of policies.

Alleviation of the impact of economic and fiscal adjustments on public expenditure

217. Support for regional mechanisms such as the COMESA Fund Adjustment Facility and EAC Development Fund to assist Member States in addressing short-term budgetary constraints and facilitate the economic adjustments required for the implementation of regional integration policies.

218. These adjustments are related to major policies linked to customs union implementation and preparation for the common market and monetary unions. To take full advantage of regional integration, support will address the following areas:

- Compensation for potential revenue losses; and
- Social and economic costs of adjustment, such as production restructuring and the effects of unemployment;

Support for private sector development

219. Support for ROs in the drafting and implementation of regional programmes for:

- Undertaking fiscal, judicial, legal and financial-sector reforms to facilitate private sector investment in the region, particularly cross-border investment;

- Addressing production, marketing, distribution and transportation (PMDT) constraints and increasing regional added value in production supply chains and in marketing and distribution channels;
- Promoting investment in the region;
- Improving competitiveness;
- Supporting the participation of business institutions and intermediary organisations in regional integration; and
- Facilitating trade promotion activities in the region.

Removal of supply-side constraints

220. In line with the ROs' medium-term strategies, the 9th EDF RIP will support a study for (i) developing a comprehensive regional Transport and Communication Strategy (TCS), and (ii) developing infrastructure proposals on the basis of the regional Priority Investment Plan (PIP), both under the 9th EDF RISP programme (9 ACP RSA 19, TCS/PIP component):

(i) TCS: this should propose the necessary steps for further regional harmonisation of the policy, institutional and regulatory framework in the transport and communications sectors, as well as an integrated strategy encompassing all modes of transport (roads, railway, ports, aviation) and inter-modal transport, as well as ICT. It must also provide recommendations for additional actions to develop and extend transport facilitation instruments already agreed in the region (Transit Charges, Road Design and Signs, Axle Load Limits, Vehicle Dimensions, Carrier License).

(ii) PIP: this should update the existing COMESA 5-year Priority Plan for Regional Infrastructure, based on submissions by member states, and propose an appraisal and decision-making process, including specific criteria and methodologies for project selection and prioritisation. Public-private partnership options and modalities for infrastructure investment would also be promoted and given consideration.

The different actions (institutional development, technical capacity building, physical projects, etc.) resulting from the TCS/PIP study will constitute the basis for support under the 10th EDF. However, EDF resources cannot fully meet the development requirements of the ESA-IO region. For large infrastructure projects, EDF regional resources will be used primarily for preparatory work (sector plans, feasibility studies, project proposals, and business plans), leveraging funds from other sources, including the EU–Africa Partnership for Infrastructure, ADB, and EU Member States, and should facilitate private investment in regional infrastructure development in accordance with AU/NEPAD priorities. In specifically justified cases, the EDF could be used for investment in high-priority infrastructure projects, also using credit enhancement mechanisms and other financial instruments.

221. Support to move projects from the identification stage to bankable status, and leverage funds to:

- Upgrade available infrastructure and transport systems;
- Improve communication and telecommunication systems, namely through the implementation of the COMTEL, EASSy and SEGANET initiatives;
- Improve marine transportation and port facilities;
- Address energy requirements

In accordance with paragraph 183 regarding the aid delivery modalities this support may be channelled through the planned Infrastructure Facility component of the COMESA Fund and EAC Development Fund.

222. Support the ROs in developing a regional framework to enhance sustainable energy production, management, distribution and technology transfer, based on improved access to sustainable energy services, increased investment in energy infrastructure, including promotion of renewable energy and energy efficiency and improving of electricity interconnections.

223. Supporting regulatory and legislative harmonization in the region, facilitating cross-border trade, promoting regional integration of electricity markets and capacity building through the specialised regional institutions in the energy sector such as the Eastern Africa Power Pool (EAPP), the Regional Association of Energy Regulators for Eastern and Southern Africa (RAERESA) (which will be established soon) or the already existing African Forum for Utility regulators

Improvement of land and water resources management to develop agricultural and food production

224. Support for ROs in the elaboration and implementation of regional programmes aimed at:

- Contributing to the implementation of CAADP, in particular: extension of the area under sustainable land management and reliable water control systems; increasing food supply, reducing hunger, and improving the response to food emergency crises; and agriculture research, plant protection approach and practices, technology innovation and dissemination;
- Implementation of livestock and pastoralism as a core asset for the livelihood of the people of the region;
- Developing meteorology, disaster risk management, and adaptation to climate changes;
- Capacity building, training and institutional support.

Improving the capacity of the region to derive economic benefit from its marine resources and manage them in a sustainable way

225. Support for ROs in the elaboration and implementation of regional programmes aimed at:

- Enhancing institutional capacity to enable the region to derive economic benefit from marine resources in a more sustainable manner (aquaculture could be such an alternative);
- Combating illegal, unreported and unregulated fishing activities;
- Ensuring a proper balance in the benefits gained by populations from using marine resources through programmes to assist the development of small and medium-scale fisheries; and
- Supporting measures to mitigate the environmental impact of mineral and extractive industries.

Conservation of natural resources and management of the environment

226. Support for ROs in the elaboration and implementation of regional programmes aimed at:

- Contributing to the implementation of the African Monitoring of the Environment for Sustainable Development (AMESD) initiative and the Global Monitoring of the Environment and Security for Africa (GMES-Africa) activities;
- Developing capacity for integrated environmental assessment and reporting with a particular focus on climate change and sea-level rise, depletion of freshwater aquifers, coral reef bleaching and coastal erosion, in line with the conclusions of the UN International Conference on SIDS, so as to address problems related to coastal

- vulnerability and adaptation planning in the context of climate change and sea-level rise;
- Contribute to ensure the sustainability of the IOC Network for the Coral Reef Monitoring and surveillance, contribute to the enlisting of vulnerable coral reefs and identification of environmental sensitive areas for protection and restoration, identification and control of alien species and contribute towards the conservation of marine biodiversity.;
 - Strengthening of national plans, programmes and legislation for forest management, inventory and monitoring, including the sharing of information on trade in illegally harvested forest products;
 - Following up the pilot project on environmental education (EDF 8 ACP RIN 4) with a particular emphasis on: biological assessment; socio-economic valuation of restored ecosystems and eco-tourism; cost analysis of restoration and maintenance; and island management plans.

6.3.2 Regional political integration/cooperation

For indicative purposes, €64 million is reserved for this focal area.

227. The major interventions envisaged are as follows:

Support for the regional pillar of the pan-African architecture for conflict prevention, peace and security.

This focal sector focuses on improving governance and security, in particular in the border regions, and on developing and supporting policies and programmes that address competition in natural resources. It will follow up 9th EDF conflict prevention, management and resolution (CPMR) in partnership with the countries of the region and with NSAs. It will assist in the implementation of preventive crisis management and post-conflict measures to address peace and security issues in the region, since one of the priorities in the mid-term strategies of the ROs is to establish capacity and operations to cover the whole conflict cycle notably through early warning mechanisms, early reaction and post-conflict reconstruction programmes.

For countries seeking deeper regional cooperation in political, defence and security matters, the following strategic interventions could be supported:

- Establishment of a regional mechanism for disaster/crisis preparedness and reaction including by capacitating and involving civil society This will include the establishment of a regional mechanism for stability and peace-building (ranging from early warning systems to post-conflict peace-building), thus responding to the requirements of conflict prevention, management and resolution (CPMR). The emphasis will be on preparing a strategy to anticipate conflict by addressing the root causes of violent conflicts, establishing procedures and agreeing on the division of roles with AU and UN agencies, based on experiences in the region. In addition, promotion of CPMR in partnership with civil society, including the setting up of a networking mechanism within civil society;
- Establishment of Regional Border Commissions to handle boundary disputes and promote border co-operation;
- Establishment of joint measures to combat the proliferation of illicit small arms and light weapons, to control terrorism and to enhance the exchange of criminal intelligence, together with joint operations and patrols between partner states;

- Establishment of mechanisms to address conflicts over resources e.g. fresh water, the sea, ports and inland mineral deposits;
- Capacity building in the area of peace and security will include support for new cross-border confidence-building measures such as the establishment of dialogue and research-policy linkages and the harmonisation of police training in the region;
- Promotion of good governance and democracy through the APRM.

Support for post-conflict reconstruction

In order to achieve a smooth transition between humanitarian and long-term post-conflict strategies, interventions in the following areas could be warranted for conflicts or crises with a regional dimension:

- Reinforcement of public institutions and provision of public services;
- Reinforcement and training of police forces;
- Provision of instruments for food security;
- Rehabilitation and construction of rural infrastructures; and
- Creation of conditions for the reception of refugees and IDPs.

Launching of structured dialogue with regional partners on governance and security, which will serve to develop common perceptions of challenges to democracy and stability, to exchange best practices, to promote civil society involvement in governance and security issues, and to develop concrete proposals for the region.

Support for the peace and security activities developed under the EU's regional political partnership for peace, security and development in the Horn of Africa, such as intercultural dialogue, the management of migration the protection of refugees, internally displaced people and persons in need of international protection, the prevention of smuggling and trafficking in human beings, the fight against transnational organised crime, and proliferation of Small Arms and Light Weapons (SALW).

6.4 Other programmes

228. An indicative amount of €32 million has been reserved for the following purposes:

- Assisting the region in knowledge development and capacity building (including for non-state actors); and
- Enhancing the capacity development of ROs and improving inter-regional coordination.

229. The major interventions envisaged are:

Support for ROs in the elaboration and implementation of regional programmes aimed at:

- Setting up a platform for international and bilateral donors and other partners to promote sustainable development in the SIDS in line with the conclusions of the UN International Conference on SIDS in January 2005 and to contribute to the achievement of the millennium development goals in the SIDS;
- Establishment of a pilot regional centre of excellence that would address the issue of human resources development;

- Strengthening cooperation between the region's higher education and research institutions with special emphasis on fostering cooperation in the fields of economics, science and technology, conflict studies and academic capacity-building. This shall be done taking full account of the range of recently completed or on-going cooperation initiatives in the region together with the policy position of the RO in these areas. Institutions that may be considered for support under this heading are: the Indian Ocean University 'without walls'; the East African Inter University Council; the African Economic Research Consortium; Nyerere Centre for Peace and Research.
- Support for the IRCC;
- Promotion of good governance in the tax area and
- Capacity building in addressing cross-cutting issues such as gender issues, HIV/AIDS, malaria and TB, and involvement of non-state actors;
 - Supporting the use of results and competencies from past and on-going scientific cooperation
 - Development of programmes supporting the implementation of the 8th Partnership as it pertains to the ESA-IO region, with special attention to human and institutional capacity building and encouragement for participation in European Research Framework programmes

Support for ROs in enhancing their capacities in the implementation of the 10th RIP and improving coordination among ROs as well as supporting RO initiatives to improve the harmonisation of policies.

6.5 Duly mandated organisations

230. For the implementation of this Indicative Programme, the regional organisations duly mandated through the IRCC Mechanism are:

- Common Market for Eastern and Southern Africa (COMESA)
- East African Community (EAC)
- Inter-Governmental Authority on Development (IGAD)
- Indian Ocean Commission (IOC)

231. In order to implement the activities set out in the present Indicative Programme, the duly mandated regional organisations and governments will appoint Regional Authorising Officers. The function of Regional Authorising Officer is defined by analogy with the description of the function of National Authorising Officer in the Cotonou agreement (Annex IV, Articles 13, 14 and 35).

232. The list of duly mandated organisations and governments of ACP States, as well as their respective responsibilities in the implementation of the Indicative Programme, can be amended by an exchange of letters between the Regional Authorising Officer(s) and the Chief Authorising Officer.

6.6 Cooperation with other countries or regions

233. The ROs may collaborate with other countries or regions as well as Overseas Countries and Territories (OCTs) and Outermost Regions (ORs) of the EU to implement projects under this Regional Indicative Programme. Specific attention will be given to the development of concerted EDF and European Regional Development Fund (ERDF) programming with parallel co-financing arrangements, with a view to strengthening ACP/OR functional cooperation at ESA regional level¹⁷. The concerned ROs will set up appropriate coordination mechanisms for appraising joint EDF/ERDF initiatives with the Outermost Regions (see [Annex 12](#)).

234. Participation requests, including an indication of the funding source, are to be submitted to the duly mandated ROs holding the presidency of the IRCC. Funding to enable the participation of OCTs and OR will be additional to the funds allocated to the ACP States under the RIP.¹⁸

235. Activities under the Initiative for the countries of the Great Lakes (CEPGL) cut across various areas, including energy, transport, rural development, environment and education. Indicatively, €30 million will be set aside for these. Moreover, complementary actions will be included in the Central Africa RIP, and could be envisaged in the NIPs for the countries concerned.

236. For the purpose of the implementation of the activities aiming at supporting the CEPGL under the present Indicative Programme, the European Commission will assure the responsibilities of Delegate Regional Authorising Officer. These responsibilities will be carried out until a permanent CEPGL Executive Secretariat will be appointed, with full capacity to assure the delegated RAO responsibilities.

¹⁷ Cf. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 'Strategy for the Outermost Regions: Achievements and Future Prospects', COM(2007) 507 Final, 12 September 2007.

¹⁸ Annex IV, Article 6.2, Revised ACP/EC Partnership Agreement, 25 June 2005.

237. The ROs may also participate in projects of other regions, notably neighbouring regions. Adequate funding for such participation will be made available under this RIP. The region itself may cooperate in pan-African and intra-ACP cooperation schemes, including those involving non-ACP developing countries.

238. The participation of other countries / regions / outermost regions in projects under this RIP or the participation of countries of this region in projects of another region may not entail delays in the implementation of this RIP in order to avoid negative consequences for its mid-term and final reviews.