TOWARDS A REGIONAL SMEs POLICY STRATEGY FRAMEWORK FOR SME DEVELOPMENT IN COMESA.

(A draft proposal for consultation)


Funded by USAID – IPAA Programme, COMESA Secretariat.
The draft proposed Policy Strategic Framework result areas will guide the discussions on areas for industrial advocacy and productive capacity building. These areas will be undertaken by the CBC as part of their efforts to support SME strengthening in the region.

This paper is part of a larger Diagnostic Study that is focused the COMESA Regional Development Policy and Strategy.

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1. Background

COMESA is at a critical stage of its integration process. Past efforts to promote intra regional trade and investment have yielded positive results in a range of areas including: customs management and transportation, project finance, institutional development and capacity building among member states. The net result has been tangible growth in trade and increased cross border investment.

The regional integration process has received fresh impetus from the COMESA MTSP 2011 -2015 on policy and program. In this program COMESA’s vision is to have a fully integrated, internationally competitive regional economic community where there is economic prosperity and peace. The main critical pillars for achieving full regional integration are; removal of barriers to factor mobility, building competitive productive capacities and addressing supply side constraints.

Recognizing private sector as the main driver of economic development, COMESA is committed to implementing programs for building productive capacities and technological capabilities in order to enhance industrial and trade competitiveness particularly of MSMEs in member states. In order to achieve impact, COMESA is focusing on its efforts on building regionally diversified and competitive production capacity anchored on agriculture, industry and services sectors based on value addition, innovation and common regional standards.

To this end, COMESA has put in place this regional SMEs development Policy and Strategy in order to promote harmonization of policies and regulatory frameworks and to strengthen the capacities of SMEs in the region by creating a platform for networking and providing business development support.

1.1 Situation Analysis

Since its establishment, COMESA has made considerable progress towards economic integration including trade liberalization, customs management, infrastructure facilitation, trade and project finance institutional development, technical support and capacity building. Progress has also been made in policy coordination and cooperation in productive sectors. The net result has been tangible growth in intra trade and increased cross border investment. With an estimated population of over 450 million and a combined GDP of over USD 345 billion, the COMESA region is potentially one of the largest markets in the continent.

1.2 Performance and Trends.

It is recognized that due to the weak link to the global finance system, the COMESA region have been cushioned from the full force of the impact of global financial crisis. The expected slow global recovery however means continued weak external demand and poor external private capital and remittances inflows. This could result in uncertain growth patterns unless COMESA member states employ the right mix of policy strategy tools and measures to speed up member states economic recovery.
COMESA’s GDP growth averaged 2%-3% growth, while seventeen countries registered GDP growth higher than 3%. Only Ethiopia and DRC expanded their GDP by over 7%. The poor GDP growth affected some key sector in the COMESA region, resulting for example in scaled down capacities in the manufacturing sector. The COMESA Secretariat aims to facilitate improvement of member states by increasing trade volumes and value chain innovation, since and technology by supporting the expansion of intra regional and international markets and production of diversified and competitive goods and services. There is therefore an expected turn in economic performance as the global economy continues to recover with improvements in global demand.

COMESA’s response to this improved global demand will include aligning policy and regulatory frameworks and implementation of programs to address supply side constraints related to limited productive capacities, inadequate infrastructure and technological capabilities within member states.

2. The COMESA SME Development Policy

The SME Policy and Strategy Development flow chart

1. Situation Analysis
   - Background
   - Performance
   - Trends
   - Benchmarking

2. Policy
   - Policy Statement
   - Purpose, Objectives, Focus Areas

3. Strategy
   - Development Strategy
   - Strategic Thrust
   - Specific Measures

4. Impl. plan
   - Implementation
   - Monitoring & Evaluation
   - Key performance Indicators

This regional policy on SMEs development outlines the framework, focus areas and strategies for the design, implementation, monitoring and evaluation of development support to the SME sector in the region.

2.1 Policy Statement

The COMESA Secretariat committed to promoting a regionally integrated, diversified and competitive productive capacity by facilitating the development of sustainable SMEs who can in turn provide opportunities for meaningful employment and wealth creation and add to GDP for citizens of member states thereby contributing to the region’s socioeconomic development. The purpose of this policy is to stimulate sustainable expansion of the SMEs sector in the COMESA region by facilitating the creation a conducive environment for the practice of enterprise with the view to enhance employment and wealth within Member States.

2.2 Policy Objectives
To build competitive productive capacity among member states by removing SME’s barriers to trade and business operations and promoting SMEs’ capacity to upscale and effectively compete in regional and global markets.

2.3 Regional Definition of the SMEs Sector

COMESA defines SMEs based largely on SME’s employment levels as this is the only indicator which can used to effectively define SMEs across all member states. The table below provides the general categorization of SMEs in the COMESA region.

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>No. of Employees</th>
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<tbody>
<tr>
<td>Micro</td>
<td>5-9 Employees</td>
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<tr>
<td>Small</td>
<td>10-50 Employees</td>
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<tr>
<td>Medium</td>
<td>150 Employees</td>
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</table>

The SME sector in the COMESA region therefore refers to the sub-category of the private sector comprising enterprises employing between five (5) to one hundred (150) employees across the agricultural, industry and service sectors.

2.4 Beneficiaries of Policy Provisions

The beneficiaries of the policy provisions are all the Private sector and other stakeholders involved in the activities of SMES enterprises in line ministries responsible for national SME development, SME cooperatives, SMEs clusters and individual SMEs in all COMESA member states.

2.5 Policy Focus Areas

COMESA Secretariat will take effective measures to recognize, support, and build a growing, sustainable and competitive SME sector in the region. An overview of major policy measures which the COMESA Secretariat intends to put in place in support of regional SMEs development are listed below:-

- Promoting enabling environment for SME Business operations
- Promoting SME related Infrastructure Development
- Promote development of Regional Value Chains
- Promote SMEs related Infrastructure Development
- Promote technological and production capacity up grade among SMEs
- Facilitate access to appropriate SMEs Financing
- Promoting the SMEs cluster activities.

2.6 The Regional SMEs Development Strategy.

COMESA will apply a systemic market development approach to SMEs development by intervening at macro level to address the policy and regularly issues hindering SMEs development, at Meso level to support development of systems and skills in member state and national partner institutions to effectively design, implement and evaluate pro-poor SMEs development, and micro level to support design and to demonstrate the implementation of selected SME development interventions.
COMESA secretariat will apply a participatory development approach in which member states will be encouraged to involve key national stakeholders in the design, development and implementation of development interventions.

2.7 Policy Strategic Thrust

The strategic thrust of COMESA’s SMEs Regional Development Strategy will be on building competitive productive capacities with the view to enhance the ability of SMEs to effectively and competitively produce and supply value added goods and service to regional and global markets.

2.8 Specific Policy Measures

i. Promoting Enabling Environment for SME business operations

A conducive business environment is essential for economic growth and wealth creation. COMESA will promote creation of an enabling business environment for SMEs development in member states by supporting evidence based policy development that will create a legal and regulatory framework that is less restrictive for SMEs.

The conducive environment include a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate (e.g., government agencies, regulatory authorities, and business membership organizations including businesswomen associations, civil society organizations, trade unions, etc.).

ii. Promoting SME related Infrastructure Development

Inadequate business infrastructure impacts negatively on enterprises at all levels and raises the cost of doing businesses. For SMEs, poor business infrastructure, especially in the rural areas, poses a great challenge to doing business. The removal of infrastructure related supply side constraints is essential for enhanced productive capacities and improved market access. COMESA will support member state to implement programmes that contribute to the improvement of SMEs related Business infrastructure.

iii. Promote Development of Regional Value Chains

Value addition is one way of improving the ability of countries to competitive in regional and global markets. The current level of value addition among COMESA member states is very low. COMESA will support member states to develop regional value chains in selected sectors in order to foster addition to primary products.

iv. Promote technological and production capacity up grade among SMEs

Technology advancement in production is essential for maintaining competitiveness among SMEs. SMEs in member states however have limited access to technologies that can them help improve product quality and productivity.

v. Facilitate access to appropriate SMEs Finance
Access to business financing refers to the availability of financial services including deposits, credit, payments systems and insurance services to enterprises. Access to these financial services can be constrained by limited physical accessibility, affordability or eligibility. In a development context, access to appropriate business financing is critical to the creation, development and expansion the SME sector.

SMEs in COMESA member state however have limited access to appropriate business finance that can meet their growth requirements. In addition, the cost and conditions for available finance is relatively high and beyond the reach of most SMEs. COMESA will collaborate with relevant stakeholders to facilitate development of financing programmes and schemes to enhance MSMEs access to appropriate business financing.
## 3. PROPOSED RESULTS FRAMEWORK FOR REGIONAL SME DEVELOPMENT

### 1. RESULTS FRAMEWORK FOR REGIONAL SME DEVELOPMENT

<table>
<thead>
<tr>
<th>#</th>
<th>Expected Outputs</th>
<th>Key Performance Indicator</th>
<th>Main Implementing Agencies</th>
<th>Key activity clusters</th>
<th>Annual milestones</th>
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<tr>
<td>Result Area 1: Enabling Environment for SME business operations facilitated</td>
<td>Improved SME policies and harmonized laws and regulations to enhance regional trade and investment</td>
<td>Increase in number of MS with national SME Policies strategy.</td>
<td>MS Dev. agencies</td>
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<td></td>
<td></td>
<td></td>
<td>Government Ministries Private Sector NGOs</td>
<td>• Conduct capacity development training on business environment reform</td>
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<td>• Facilitate public-private dialogue at the regional level</td>
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<td></td>
<td>• Facilitate development of national SME Policy strategy.</td>
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<td></td>
<td>• Strengthen capacity of national Institutions to coordinate and implement SME-related policies and regulations and incentives</td>
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<td>MS have improved understanding of relevancy of SMEs Policy</td>
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<td>MS have SMEs analyzed their respective SME environment</td>
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<td>MS conduct policy review or develop MSE Policies and implementation plans</td>
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<td>MS implementing provision of MSE Policies</td>
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<td>Preliminary Assessment of effectiveness of SME Policies</td>
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<td></td>
<td>Improved Trade regulations, customs administration</td>
<td>Increase in number of SMEs trading across borders</td>
<td>MS Dev. agencies</td>
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<td>Government Ministries Private Sector NGO</td>
<td>• Facilitate improved overall quality of regulatory governance</td>
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<td></td>
<td>• Develop Trade Information and Business Intelligence Networks</td>
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<td>• Develop systems for simplified and speedy access to alternative dispute-resolution mechanisms</td>
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<td></td>
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<td></td>
<td>SME Associations and Development Agencies are conversant with COMESA Trade regulations</td>
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<td>Simplified dispute resolution system developed</td>
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<td>Two Trade Information Networks piloted</td>
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<td>Trade Information Networks rolled out to 10 Member States</td>
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<td>Trade Information Networks in 19 Member States</td>
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<td>#</td>
<td>Expected Outputs</td>
<td>Key Performance Indicator</td>
<td>Main Implementing Agencies</td>
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<tr>
<td>Result Area 2: Enhanced SME related business Infrastructure</td>
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</table>
| Improved country road networks connecting member states | Number of Member States interconnecting roads improved | MS Dev. agencies Government Ministries Private Sector NGOs | • Conduct study of impact of road infrastructure on national competitive productive capacity  
• Disseminate results to Member states  
• Facilitate inclusion of Member States Interconnector Roads development into national Roads Budgets | Infrastructure Study Conducted | Interconnector Roads development Strategy in place | Memb er State s prioritize Interconnec tor Road s for develop me nt | Five member States implement Interconnector Roads Rehabilitation |
| Cross border multi facility economic zones | Increase in the number of cross border multi facility economic zones | | • Facilitate establishment of incentivized cross border economic zones  
• Establish common User Processing Units in Multi-facility economic Zones | Concept paper on cross border economic zones developed | Five Cross Border Economic zones Identified | One Cross Border Economic Zone pilote d |
| Improved operating Infrastructure for MSEs | Increase in number of industrial technology parks | MS Dev. agencies Government Ministries Private Sector NGOs | • Conduct Study on international best practice in establishment of Industrial Technology Parks  
• Facilitate development of Industrial Technology parks in selected Member States  
• Facilitate training for Member States in Concept of Industrial Parks | Study conducted | Capacity building of member states conducted | Pilot Areas for Industrial Technology Parks Established |
<table>
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<tr>
<th>#</th>
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<td>Yr 1</td>
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<tr>
<td>### Result Area 3: Increased capacity to produce value added products and services###</td>
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</table>
| Regional Value addition capacity enhanced | Number of regional value chains developed | MS Dev. agencies Government Ministries Private Sector NGOs | • Facilitate development of regional value chains  
• Build the capacity of Member States to implement value chain development programs  
• Conduct study on international best practice in cluster development  
• Conduct analysis of resources available and modalities of utilizing for possible cluster development  
• Conduct cluster development training for Member States  
• Facilitate establishment of selected clusters | Value Chain Development opportun ity Study | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 |
| Value chain specific technical skills and business development services geared towards improving productivity and competitiveness among SMEs | Widely accessible national BDS market information systems covering the supply of, and demand for, BDS for selected sectors and target groups |  | • Conduct an assessment of capacity and business needs of SMEs in selected value chain  
• Develop catalogue of available support services for SMEs  
• Develop and/or adapt BDS products that enhance SMEs productivity and competitiveness  
• Conduct regional capacity development training for BDS providers in selected BDS products | Needs Assessment study conducted | BDS Product and Services to SMEs identified and catalogued | BDS providers Trained | Cluster development locations identified | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 |
<table>
<thead>
<tr>
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<td>Result Area 4: Improved and competitive production capacity among SMEs</td>
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</table>
|   | FDI in production and processing equipment promoted | Increase in number of multinational companies manufacturing production and processing equipment | MS Dev. agencies Government Ministries Private Sector NGO | • Identify sector within high regional production potential  
• Identify potential investors to the COMESA Region  
• Market COMESA Region as destination for FDI on machinery production | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 |
|   | Modern production technology application among SMEs in COMESA Region enhanced | Increase in number of SMEs applying technology enhanced production facilities | MS Dev. agencies Government Ministries Private Sector NGOs etc. | • Promote development and commercialization of locally developed technologies within the region  
• Facilitate brokerage of competitive production technologies to SMEs  
• Facilitate technology upgrading training for SMEs | One Technology fair Conducted | Two locally developed technologies commercialized |
|   | Business Linkages between the Gvt and SMEs Companies and domestic SMEs enhanced (Public procurement) | Increase in number of SMEs supplying goods and services to the government | MS Dev. agencies Government Ministries Private Sector | • Create awareness among policy makers about the need to link the domestic industry to Foreign Investment  
• Conduct Regional business linkages opportunity studies | Express interest by large firms to SME upgrading program development | SMEs are doing business with large firms |
<table>
<thead>
<tr>
<th>#</th>
<th>Expected Outputs</th>
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<th>Main Implementing Agency</th>
<th>Key activity clusters</th>
<th>Annual milestones</th>
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<td></td>
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<td></td>
<td>NGOs</td>
<td>• Facilitate establishment of linkages between large companies and SMEs</td>
<td>engage in business with SMEs</td>
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<td></td>
<td></td>
<td>• Develop and implement skills transfer programs for SMEs</td>
<td>ed</td>
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</table>

### Result Area 5: Improved access by SMEs to appropriate business financing

| | Regional SME credit guarantee scheme established | Number of SMEs accessing business financing under the credit guarantee scheme | MS Dev. agencies Government Ministries Private Sector NGOs | • Develop a regional credit guarantee scheme | Draft credit guarantee scheme in place |
| | | | | • Identify Commercial Banks to implement credit guarantee scheme | Pilot Scheme for five Member States developed |
| | | | | • Pilot scheme in selected Member States | Credit Guarantee Scheme piloted |

| | Use of lease financing for SME lending promoted | Increase in number of SMEs using lease financing | MS Dev. agencies Government Ministries Private Sector NGOs | • Facilitate implementation of lease financing mechanisms among SME Financing Institutions | Pilot Lease Financing strategy for identified clusters developed |
| | | | | • Promote use of leasing financing among SMEs | Credit rating system piloted |
| | | | | • Evaluate result of leasing financing scheme | Credit rating system evaluated |

| | Financial Institutions apply SME oriented credit rating systems | Number of Financial Institutions using SME oriented credit rating systems | MS Dev. agencies Government Ministries Private Sector NGOs | • Develop/adapt SME credit rating system | SME Credit rating system developed/ adapted |
| | | | | • Identify commercial Banks to implement credit rating system | Credit rating system piloted |
| | | | | • Create awareness among commercial banks about SMEs capacities | Credit rating system evaluated |
| Access to finance for women owned/managed Enterprises enhanced | Increase in number of women owned enterprises accessing business financing | **meetings** | **Awareness raised among Commercial banks in Member states**<br>**Gender orientation and Auditing Training for Financial Institutions**<br>**Facilitate gender mainstreaming in financial services provision** | **Financial Institutions conduct gender audits of their service delivery systems**<br>**Gender mainstrea**<br>**Financial Institution**<br>**Mainstream gender their service delivery**<br>**Evaluatio**<br>**n of impact of gender mainstreaming conducte**<br>**Capacity of SMEs to articulate their business financing needs enhanced**<br>**MS Dev. agencies Government Ministries Private Sector NGOs**<br>**Facilitate training of Trainers in COMESA member states**<br>**Train targeted SMEs in financial management and business growth strategy articulation**<br>**Assessment of SMEs Financing needs and limitation conducted**<br>**SME Capacity development program developed**<br>**SMEs in Member States Trained** |


4. Implementation Arrangements

The smooth implementation of the regional SME policy strategy will depend on the clarity of the roles and responsibilities the main actors. While MSMEs development activities cut across institutional mandates of various government Ministries, Agencies, Local Authorities, NGOs and development partners, there is need for a clear demarcation of responsibilities and accountabilities. The implementation framework shall operate at four main levels, namely;

At macro level captured by stakeholders with a mandate for defining and coordinating conducive policy and regulatory framework for ‘doing business’ within the set system boundaries. This includes relevant Government Ministries, statutory bodies and national umbrella bodies; At meso level where there is the national institutional environment, with stakeholders with a mandate to facilitate or physically deliver development support services SMEs; at micro (the market place) made up by stakeholders directly involved in the market exchange of goods or services. Stakeholders at this level the individual SMEs and their Associations.

Based on the framework above, the systemic development framework described above, interventions will be tailored to the specific needs of the corresponding core stakeholders and whilst recognizing the need for interventions at all levels that reinforce the links between those levels.

The implementation framework underpinning this SME Policy and strategy is based on the assumptions that:

- The main role of Government is to create a conducive political and legal environment that stimulates a vibrant environment for business development and conduct. In particular, Government defines the rules of engagement between market stakeholders, monitor and where applicable enforces compliance.

- The private sector, in turn, plays a much larger role in the facilitation and physical provision of a wide range of support services to SMEs; private sector providers are thought to be often more demand-oriented and cost-efficient in the service delivery since their economic survival depends on attracting paying customers in acutely price-sensitive markets. Public sector providers also have a role to play in service provision, particularly where most vulnerable target groups are concerned and market mechanisms fail; however Government should create a level playfield for competition between public and private sector providers, by removing preferential access of public providers to service transaction subsidies and by facilitating non-discriminate access to technical program support for all parties.

- Generally, the “user pays” principle should always apply, that is the support beneficiaries at all system levels should at least contribute in cash or kind. When the buying decision is put in the hands of the customer (beneficiaries), service providers are forced to offer cost-efficient and demand-oriented services.

5. Monitoring and Evaluation

The COMESA Secretariat shall be ultimately responsible for monitoring and evaluating the implementation of the provision of this Policy. The COMESA Secretariat shall conduct period monitoring exercises to assess level of application by Member States of the provisions of the policy and to determine whether interventions activities are contributing towards achievement of the policy goal and identified development objectives.

A fully-fledged Logical Framework matrix will be elaborated prior to the finalisation of the Implementation Strategy. This will include developing the performance indicators, targets and sources of verification for ensuring results-based management and self-monitoring of the policy interventions. The exact performance
thresholds for each indicator will be validated by local stakeholders at the outset of the Policy Implementation.

The responsible unit in the COMESA Secretariat will produce annual work plans to guide implementation and annual reports to document progress on implementation. The monitoring process will include performance reviews and field visits as appropriate.

Annual reviews will be conducted by the responsible COMESA Secretariat Unit while the mid-term evaluation and final evaluation will be undertaken by independent consultants. The M&E system will be aligned to the COMESA monitoring and evaluation framework.

The monitoring and evaluation efforts will assess among other things the following three key areas:-

- **Technical performance** to assess quality, effectiveness, and relevancy of policy interventions in achieving set objectives.

- **Time performance** to ensure that programmes and projects are implemented on schedule and that they are being implemented within stipulated time frames.

- **Cost performance** to review the relationship between projected cost of interventions, actual expenditure, and the resulting outputs.