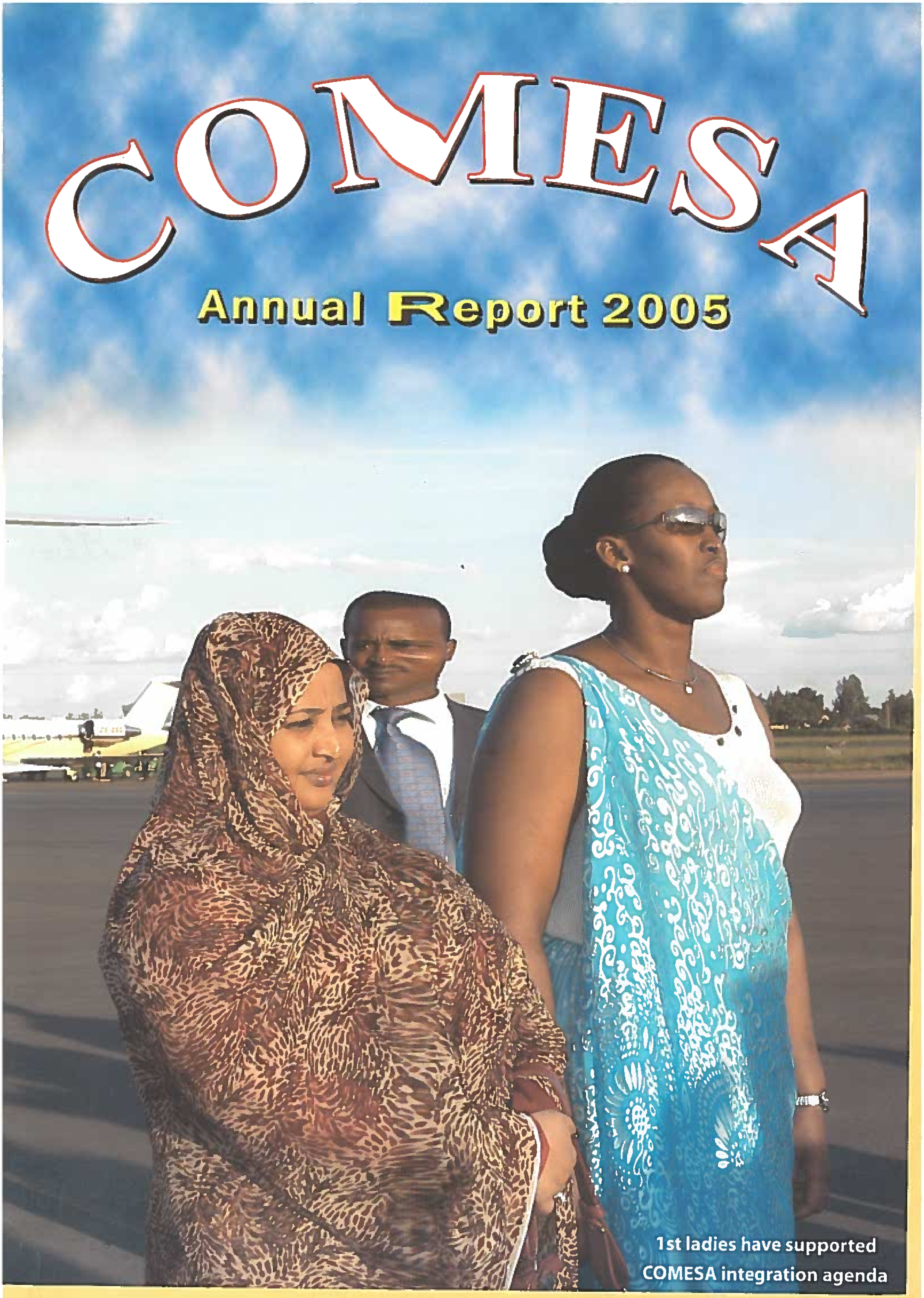
COMESA

Annual Report 2005



1st ladies have supported COMESA integration agenda

COMESA ANNUAL REPORT 2005

The Vision of COMESA

The Member States of COMESA in setting up COMESA, set out a vision to establish "a fully integrated, internationally competitive regional economic community; a community within which there is economic prosperity as evidenced by high standards of living for its people, political and social stability and peace, and a community within which goods, services, capital and labour are free to move across national borders." "One of the six objectives of COMESA as enshrined in the COMESA Treaty is to contribute towards the establishment of the African Economic Community".

COMESA Member States are: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe

COMESA was initially established in 1981 as the Preferential Trade Area for Eastern and Southern Africa (PTA), within the framework of the Organisation of African Unity's (OAU) Lagos Plan of Action and the Final Act of Lagos. The PTA was transformed into COMESA in 1994. The PTA was established to take advantage of a larger market size, to share the region's common heritage and destiny and to allow greater social and economic co-operation, with the ultimate objective being to create an economic community.

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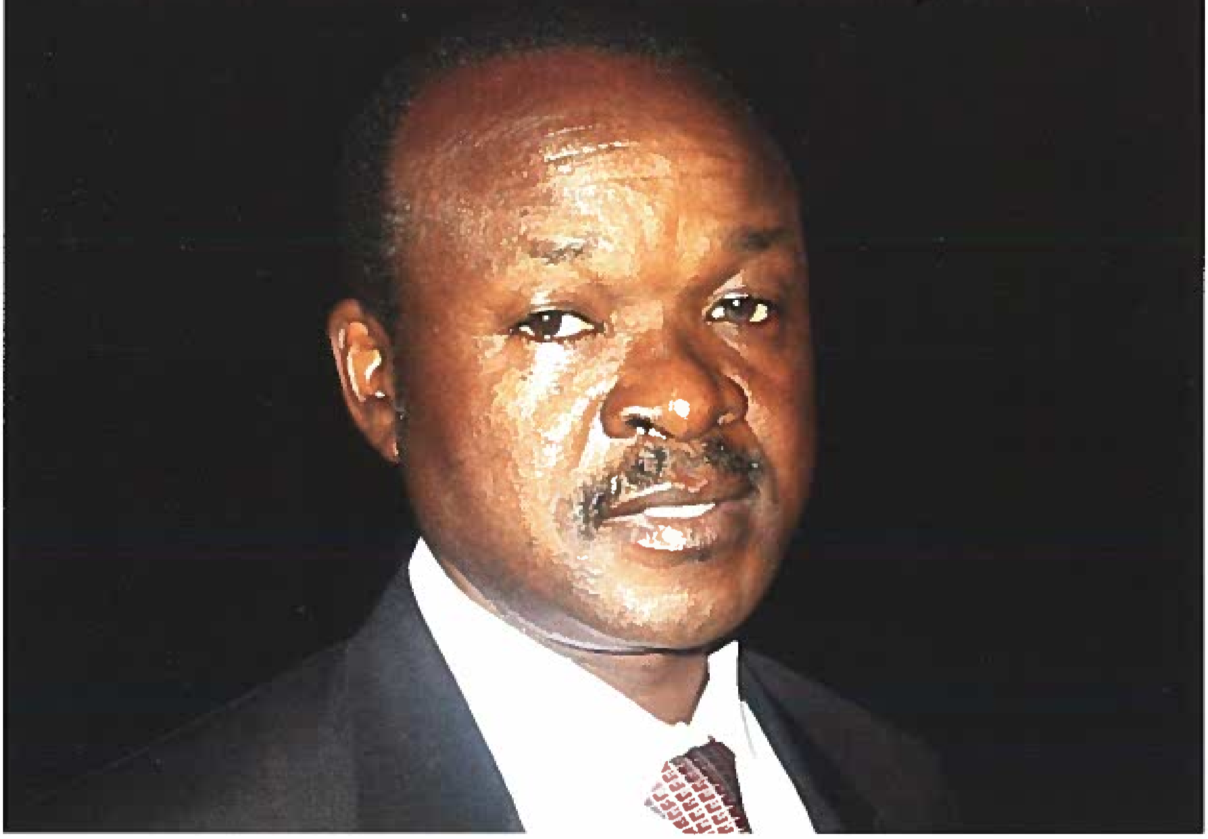

Erastus J.O. Mwencha (MBS)
Secretary General

His Excellency Paul Kagame
President of the Republic of Rwanda and Chairman of the COMESA Authority
State House, Kigali, Rwanda

Your Excellency,

In accordance with the provisions of article 17, paragraph 8 of the COMESA Treaty I have the honour and privilege to submit to you Sir, the Annual Report for the year ending 31st December 2005.

The Report covers the activities of COMESA organs, the Secretariat and COMESA institutions in support of Member States in their quest for regional economic integration.

You will note, Mr Chairman, that as in previous years, COMESA continues to receive more than the normal budgetary contribution from Member States. Your Secretariat also continues to receive support from a number of cooperating partners. This cooperation is also described in the report. The Member States continued to implement the various COMESA integration programmes.

This shows the unflagging commitment of the Member States to COMESA and the continued confidence of our cooperating partners in the organization.

We have every confidence that this spirit of commitment and cooperation will continue as we enhance the region's single market and move towards ever higher levels of integration.

Erastus J.O. Mwencha (MBS)
Secretary General

Foreword by the Chairman of the Authority

His Excellency, Paul Kagame, President of the Republic of Rwanda, Chairman, COMESA Authority

It gives me much pleasure to introduce the COMESA Annual report for the year 2005.

As this report indicates, the Authority Meeting held in Kigali, Rwanda in June 2005 urged member countries which have not joined the COMESA Free Trade Area to do so without delay. Five year after it was launched we would have expected each one of us to belong to this single Market so that we bring in the 400,000 or so COMESA citizens.

When a number of our countries joined the COMESA FTA, we were well aware that we did not have the immediate comparative advantage within the regional market. But we also knew that benefits accruing to integration do not come overnight. Integration calls upon sacrifices; sacrifices for a better tomorrow. On average, most countries in our region have a population of below 20 million people. Protecting such small individual markets is not viable. If we are to attract trade and investment, we must do so as a block. Indeed our eyes should be focussed on the bigger picture of the African Economic Community. The 900 million Africans that occupy our continent should have as their objective one, economic space.

As we continue to enhance our regional integration, and prepare for Africa's integration, we have to look at different processes that support it. We need to invest in infrastructure, particularly in regional and continental networks; in new and renewable energy; in human capital; in productive capacity; and in Information and Communication Technologies.

Information and Communication Technologies deserve special attention because economic development is about information and knowledge. We have widened our regional market to close to 400 million people. But the size of the market can only be useful if those who have what to sell know where there is scarcity, and those who need to buy know where there is surplus. Trade information networks should therefore be part of our priorities. I am made to understand that if we were to bridge information gap and distribute the existing world information megabytes, every person on this planet would get at least 800 megabytes of information in a year. This is more than what our best of University campuses have in our region. And over 70 percent of the world population, most of it in sub-Saharan Africa, have never even heard a dialling tone! Low-cost telecommunications and information systems are simply not luxuries for developing countries in today's world. On the contrary, they are strategic factors of production, central to the development process and to poverty reduction. Bridging the gap should, therefore, equally be at the top of our agenda. We should not allow ourselves to be left behind when the one hundred dollar laptop per child initiative is launched in 2006/2007.

The same can be said of our energy, and transport network. The cost of investment remains too high in our region due to expensive, and quite often, insufficient energy. Our region boasts cheap labour, but there are often labour hours lost because the production plants do not have electricity. We may bridge the information gap and get as much megabytes as we desire, but without power we shall not make much use of it. Part of our FTA should include export of electricity from those who have the capacity to produce more. I hope that in the year 2006 our long awaited COMESA fund shall be operational and that the first targeted infrastructure investment will be in power, rail and road network. It is standard business that if you pay more than 25 per cent of the value of goods on transport, you are not going to be competitive worldwide. Yet in our region, transport costs are quite often as high as 40 percent. These costs are in return transferred to the consumers who on the average already live on less than one dollar per day.

One of the ways to curb the soaring levels of poverty in our region is through the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS), which covers different macro and micro economic sectors. Africa needs to be liberated from poverty. We should not concentrate merely on poverty reduction but on poverty liberation. Unfortunately, however, the EDPRS strategy, which is more result-oriented and addresses the need for economic development, is still foreign to most countries on our continent.

The crucial issues, central to EDPRS are human resource development, sound public financial management and resource mobilization, genuine public - private sector partnership, including the increased role of civil society, so as to enhance the culture of accountability and responsibility in our society . Our region ought to see, in the near future, more and more countries accede to the Africa Pear Review Mechanism (APRM). We, in COMESA, ought to equally consider some form of COMESA Peer Review Mechanism, as we move towards implementation of our Integration programmes.

At the 10th Summit of Heads of State and Government, we committed ourselves to a roadmap for the Customs Union (CU) that is expected to be launched by December 2008. In terms of national and regional planning, 2008 is not far. The roadmap, therefore, needs to be broken down into a clear countdown of activities towards the Customs Union.

Once again, as this report indicates, during the year, our focus did not end with our region. We are aware that the world is becoming narrower, and our economy goes beyond our region. That is why as a region we continued to actively get involved in different world multilateral discussions and negotiations, particularly the economic partnership Agreements (EPAs) with the European Union, and the WTO. We have emphasized that besides market access, the EPAs should have a development content. Our Ministers, as indicated in the report, were quite involved in the 6th WTO ministerial conference that took place in Hong Kong in December and they articulated our interests more than ever before.

Over the last few years, we have come to realise that if we as a people are to determine, or at least influence our destiny, speaking with one voice will be a major tool in the pursuit of this objective. In this context, the value of speaking with one voice was very well demonstrated in Honk Kong.

We know that increased international trade leads to optimal resource allocation. It acts as a catalyst to comprehensibility, and therefore enhanced efficiency. As low-income countries, what we are looking for in the multilateral trading system is an even playing field so that we are able to capitalise on our comparative advantage. Of course, we cannot reasonably demand market access from the developed countries and fair trade rules if we do not open trade between ourselves. At COMESA level we have done quite well in liberalising our trade. But non-tariff barriers remain in our midst. We cannot continue to allow free movement of goods, but hamper the free movement of business men and women who move these goods. The ratification of the protocol on the Free Movement of people is, therefore, long overdue. The AGOA and Everything but Arms (EBA) are on the right paths towards enhancing our market access but, in the case of AGOA, we need to move from the mere goodwill of the American people to some contractual agreements. A contract gives certainty and security to investors.

Last but not least, let me pay tribute to our Secretariat that continues to provide us with excellent technical support, our cooperating partners who have continued to support our Secretariat and helped it to serve us even better. Our other COMESA institutions that have continued to support trade and investment in our region also deserve tribute. I believe, however, that we can make even more use of them. The PTA Bank, for example, is able to mobilise cheap capital form other developing countries such as China and India. Unfortunately, it continues, to lend to only big businesses. We as shareholders, and with the support of our Secretariat, ought to identify how the bank could avail loanable funds to our SMEs, to our small businessmen and women. This could be done through lending to our micro finance institutions. Women in particular are known to be creditworthy when it comes to micro finances loan recovery. We could identify how our insurance companies could insure these loans. Our Leather and Leather Institute could lead us into final leather products. These would qualify 100% under our COMESA Rules of Origin as well as under the AGOA market, thus increasing value of our livestock products.

I hope that the COMESA family will increasingly be of benefit to the ordinary citizen and bring about higher standards of living in our region.

His Excellency, Paul Kagame,
President of the Republic of Rwanda
Chairman of the COMESA Authority

PART 1
Performance of World Economy in 2005

1.1 Global real GDP growth slowed in 2005

The growth of global real gross domestic product (GDP) in 2005 slowed to 4.3 per cent, down from 5.1 per cent real growth in 2004. Never the less, economic growth was the highest for two consecutive years since 1973. However, the upsurge in world oil prices to over US$65 per barrel had a negative impact on world economic growth with the exception of the major net oil exporters. This impact was felt in particular in the manufacturing sector.

The world's largest economy, the U.S., in 2005 suffered the effects of hurricane Katrina, which slowed expected US growth by 0.5 per cent. Another fact contributing to a slowdown in the U.S. economy was a tightening of monetary policy by the Federal Reserve. Needless to say, any slowing of the U.S. economy has global implications.

Oil prices over the last three years have tripled, a rise similar only to the oil price jumps of the years 1973-74, 1978-80 and 1989-90. During each of these previous periods, the oil price jump was followed by a world economic recession. It is believed that the main reason why the 2001-2005 oil prices hikes have not led to recession is robust demand on the part of U.S consumers, which for a continued expansion of the U.S. (and world) economy, albeit at a slower rate.

With the sharp rise in energy prices pushing up consumer prices across most of the globe, a rise in inflation would have been expected. Never the less, core consumer price inflation remained well contained in most parts of the globe, with inflation in industrial countries generally running rates of 2½ per cent or less annually. In the U.S., the availability of "cheap money" supported housing industry, which continues to be a major contributor to the country's GDP. For example, whereas in 2005, the U.S. was estimated to have spent around US$120 billion more on petroleum than the previous year, this figures reflects a tiny fraction of the US$2.5 trillion value of residential housing. Indeed half of all private sector jobs created in the U.S. since 2001 have been in housing related industries. Moreover, a significant portion of the growth in consumer spending has been financed by borrowing against capital gains on homes. Taking into account the role played by the home construction industry, it is not surprising that steel has become a major locus of trade conflicts in recent years.

1.2 Growth divergences across the globe

In 2005, as over the past few years, world economic expansion continued to be led by the U.S. and China, whose growth momentum remained robust. Growth remained highest in developing Asia, particularly China and India, where GDP increased by an average of 7.8 per cent. China recorded the highest growth, with 9 per cent, whilst India's economy grew by 7.1 per cent. Projections for other industrial regions were revised downwards, with the notable exception of Japan. There was renewed weakness in the Euro zone.

There were also divergences in monetary policy across the developed world. Central banks, such as the Reserve Bank of Australia, the Bank of England, and the U.S. Federal Reserve, tightened their monetary policies. The Federal Reserve of Canada raised policy rates, the European Central bank and the bank of Japan remained on hold, while the Bank of England and Sweden's Riksbank reduced interest rates in the second half of 2005.

In July 2005, China submitted to Western pressure and revalued the Yuan by 2.1 per cent. It also allowed a daily fluctuation of 0.3 per cent against the U.S. dollar. Despite the latter move, however, the Yuan remained unchanged against most major currencies.

The U.S. continued to experience current account deficits, although this did not lead to a depreciation of the dollar. Indeed, it appreciated modestly in relation to other major convertible currencies in trade-weighted terms during the first eight months of 2005.

1.3 Political and economic developments in Africa

For Africa, 2005 can be said to have been a turning point. Following the launching in February of the Blair Commission, whose purpose is to re-assess every area of policy towards Africa, 2005 saw the world's rich governments make promises on fostering development in Sub-Saharan Africa (details are discussed in the Africa section of this report).

The year 2005 saw a number of peaceful democratic elections in Africa, including ones in some of the continent's traditional trouble spots, such as Burundi and Liberia. Although peace remains elusive in Somalia, a government and a transitional National Assembly were put in place representing all national groups.

Fourteen countries (five of them from the COMESA region) had significant portions of their debts written off in 2005, with more countries expected to benefit from such forgiveness in 2006.

1.4 Oil prices in 2005 sent shockwaves and 2006 remains unpredictable

By early April 2005, oil prices were up to around US$50 per barrel. This price was about US$10 above the prices of early April 2004 and about US$20 per barrel above the prices of April 2003. In short, there had been steady annual price increase of about US$10 per annum. There was a jump to over US$70 per barrel for light sweet crude immediately after Katrina, but spot oil prices soon fell back to around the US$65 per barrel level prevailing before the hurricane. Using this trend, everything else equal, it would be safe to assume that 2006 would see oil prices back in the US$60-65 per barrel range.

Beside Katrina, and increased oil demand by China, the other key factor that drove up oil prices, and along with them, the prices of most other forms of energy, was the unexpectedly rapid growth of world oil demand against a limited short run capability to expand supply, leading to speculative demand and pricing. Oil prices will continue to have a major speculative component in 2006 when one takes into account the continuing instability in Iraq, one of the world's largest producer in oil, tensions between the U.S. and Iran, and ever increasing oil demand in China the world's largest growing economy.

1.5 Household spending growth in the United States and China likely to fall in 2006

As already indicated, U.S. economic growth was sustained by high household expenditure and the continued boom in housing related industries. Low interest rates fuelled a housing-price bonanza, in which Americans were able to borrow more and therefore saved less. This situation cannot continue indefinitely and it is expected that 2006 may be a turning point. Interest rates are likely to rise, and the housing industry may remain flat or even decline. This situation, combined with continuing high oil prices, may mean that household spending capacity may fall.

The slowing of household spending growth in the U.S. should contribute to the beginnings of a reversal in the decade-long trend of ever-widening US external deficits. In the absence of a pick-up in demand growth in the rest of the world economy — which appears unlikely, especially in the face of high energy prices — the outcome will be a slowdown in the growth of global demand, leading to a fall in the growth of global output. In particular, a significant acceleration of domestic demand growth in Western Europe, Japan, or much of emerging Asia appears unlikely when high energy prices combine with the probable effects on business confidence and investment of slowing exports to the U.S. In China, which has supplied important impetus for global growth in recent years, it is projected that there will be significant slowing of domestic demand growth, which is reflected in the rapidly widening Chinese current account surplus. It is also unlikely that China will submit to significant pressure to revalue its currency significantly. This means that whereas its growth is likely to benefit the oil producers, especially in Africa, Chinese growth is not likely to benefit the developed economies as a whole.

1.6 Europe: The Euro maintained ground but EU suffered setback on Constitution

In 2005, the euro remained the world's most sought after currency. Constitutionally however, the region had a serious set back. French and Dutch voters roundly rejected the European Union's draft constitution in mid-2005; it is unlikely that the issue will be resolved in 2006. Observers believe that it may take several years to come up with a convincing alternative.

It is also worth noting that the voters in these countries were not just reacting to the EU draft constitution but to domestic economic performance. France, for example, suffered from double-digit unemployment, whilst Dutch economic growth was slow compared to the boom of the 1990s.

Preliminary estimates for 2005, as in the preceding three years, called for growth in the Euro zone to be below earlier expectations, but only modestly so: real GDP growth was expected to be 1.25 per cent as apposed to earlier predictions of 1.5 per cent. The German economy is projected to have grown by only 1 per cent. Italy is expected to have exhibited zero growth, and the same is true of the Dutch economy, whilst the French economy is projected to have grown by 1.5 per cent, as opposed to an earlier prediction of 1.75 per cent. The rest of the Euro zone performed as had been expected, with Ireland at the top of the list. Spain maintained about 3 percent real growth.

It is projected that no significant growth will occur in the zone in 2006; only Germany is forecast to experience stronger growth this year. The strength of the currency may be benefiting European consumers of imported goods and services but does not favour domestic growth.

Outside the Euro zone, growth was equally slow. The Danish economy appeared to be growing at about 2 per cent, with no acceleration expected in 2006. Non-EU member Switzerland is expecting growth of about 1 per cent.

Growth in the UK in 2005 is estimated to have been 2 per cent, as opposed to the 2.5 per cent forecast in the first quarter of the year. The monetary policies adopted by Bank of England in 2005, however, did pay off in terms of control of inflation.

1.7 Central and Eastern Europe experienced growth that was slightly reduced but above world average

Turning to Central and Eastern Europe, growth in 2005 fell from the rapid 7 per cent pace of 2004 to about 5 per cent. For the two largest economies in the region, Russia and Turkey, growth slowed from about 7 and 9 per cent, respectively, to about 5.5 per cent. Other countries in the region grew in the range of 3 to 6 per cent, with a size-weighted average of about 4 per cent.

Looking to 2006, the oil exporters (Russia, Azerbaijan and Kazakhstan) should continue to do well in an environment of continued very high world oil prices. The other countries of the region cannot reasonably be expected to do much better, or substantially worse, than in 2005. A slightly lower growth rate for the region as a whole of 4.5-5 per cent is expected this year.

1.8 Latin American economies continued to show significant recovery but slower growth than 2004

Looking at Latin America as a whole, economic growth in 2005 is estimated to have been 4 per cent for 2005, just below the 4.2-4.3 per cent that had been forecast in the first quarter of the year. The decline, as elsewhere, was a result of the increase in oil prices as well as the spill over from Katrina; the latter was particularly important in a region that depends heavily on the US economy.

Latin American growth moderated over the course of the year following a sharp rebound in 2004. The MERCOSUR group (Mercado Común del Sur; Argentina, Brazil, Chile and Uruguay) enjoyed an estimated real GDP growth of 4.4 per cent in 2005, down from 6.0 per cent in 2004 , which had seen a rebound from 2.7 per cent in 2003. Growth in this sub-region in 2006 is projected at 3.8 per cent. The Andean sub-region (Colombia, Ecuador, Peru and Venezuela) experienced an average real GDP growth of 5.1 per cent, down from 7.5 per cent in 2004, which had also represented an upward swing from a mere 1.6 per cent in 2003. Expected growth in the Andes is 4.1 per cent in 2006.

Mexico, Central America and the Caribbean experienced an average growth of 3.1 per cent in 2005, down from 4.0 per cent in 2004, but up from a mere 1.7 per cent in 2003. Expected growth there in 2006 is 3.6 per cent.

Some countries scored successes due to sustained reform. The Banco de Mexico (BOM) can, for example, be credited with the continued pursuit of inflation reduction. Enhanced credibility allowed the BOM some flexibility to respond to economic weakness with easier monetary policy in a way that would have been all but impossible a few years ago. The inflation rate, which had been hovering around 9.5 per cent, was reduced to below 4 per cent. In 2005, Mexico is estimated to have grown at 3.5 per cent; it is projected that in 2006 the country will maintain similar growth (3- 3.5 per cent), with the slower growth being the result of a rise in the cost of fuel. Brazilian economic growth in 2005 is projected to have been 3%, a level at which it is expected to remain in 2006.

Argentina has enjoyed a strong recovery in recent years, with real GDP finally surpassing its mid-1998 peak; from which it had declined by 25 per cent by mid-2002. Argentina's growth in 2005 is expected to have been 6.5 per cent. Strong increases in domestic demand, particularly private investment, has been the key driver of recent growth.

1.9 Asia: the emerging economic powers continued to make a strong contribution to the world economy

In 2005, Japan's real GDP growth remained at a slow 1.5 per cent. The Japanese stock market remained healthy and is expected to do even better in 2006. A major problem is Japan, however, is that the Japanese continue to be only moderately enthusiastic consumers. Japanese banks continued to encourage borrowing by keeping interest rates at close to zero.

Although energy costs are a much smaller share of Japanese GDP than they were in the early 1970s, they remain an important economic factor. A $20 rise in the world oil price in 2006 over what was expected in the first quarter of 2005 would have a significant adverse impact on Japanese consumers and producers. In addition, the negative impact of higher energy prices on key Japanese trading partners will feed back indirectly on Japanese exports.

The Indian and Chinese economies, on the other hand, continue to boom. Over the last few years, China has been responsible for about a third of the total world economic growth. China's GDP growth in 2005 was 9 per cent, amongst the highest in the world, similar to that experienced in 2004.

Chinese domestic demand is expected to have slightly slowed, but this was offset by a strong improvement in the trade balance, as exports continued to surge whilst import growth has slowed substantially. Indeed, China's current account surplus, which reached 4 per cent of GDP in 2004, seemed to be headed towards 7 or 8 percent of GDP in 2005.

The Yuan's continued strong nominal exchange rate vis-à-vis other major world currencies, combined with cheap labour costs, as well as Chinese work discipline explains the continued very strong export growth. Slowing import growth is partly explained by increases in domestic supplies to take the place of imports, including increased domestic steel production and increased coal production to substitute for imported fuels. With investment already amounting to an extraordinarily high share of GDP, and without apparent policy means to spur substantial increases in the share of consumption spending, it is likely that domestic demand growth will slow somewhat further in 2006.

If low domestic consumption continues in 2006, and property prices, one of the most important drivers of Chinese investment, expected to fall, it is forecast that there will be a slowdown in China's real GDP growth to 7-8 per cent in 2006. Taking into account the share of China in world economic growth, such a slowdown may well have a global impact.

For India, despite a somewhat disappointing monsoon season, real GDP growth in 2005 was 7.8 per cent, continuing the trend of the past four years, when economic growth has been in the region of 7 per cent.

In the rest of emerging Asia, growth was somewhat disappointing in 2005, with real GDP expected to have rise by only about 4 per cent, down about 2 percentage points from 2004 and about 1 per cent below the original forecast for the year. More sluggish than expected performance in Korea, Singapore, Taiwan and Thailand accounts for most of the disappointment. The negative impact of high oil prices, even before the recent upsurge, provides part of the explanation for the slow growth, especially for Korea. Thailand also had had to deal with domestic unrest and the tsunami. Slowing growth of imports by China from its Asian trading partners is also part of the story. Indonesia performed a little better than had earlier been expected, despite the tsunami and recent troubles in the foreign exchange market.

Looking to 2006, with even higher world energy prices and somewhat slower global economic growth, it is unlikely that there will be an upturn in these highly open Asian emerging market economies. At the same time, for economies that have enjoyed very strong records of economic growth over a number of years and generally sound economic policies, it is difficult to foresee performance that is much more disappointing than this year. It is forecast that economic growth in 2006 will remain at plus +- 4 per cent.

1.10 Middle East benefited from high oil prices and the possibility of peace

During the year under review, the major oil exporters of the Middle East benefited substantially from an oil price of US$45-$50 per barrel; they will benefit even more from the more recent further upsurge in oil prices. Israel withdrew from the Gaza Strip, and there is at least reason for hope that an improved political and security situation may help to boost growth in both Israel and the Palestine territories. In Iraq, security remained a severe problem, whilst the war of words between the U.S. and Iran continued during the year, with 2006 difficult to predict.

1.11 The years 2004-2006: the strongest continuous growth for African economies

Economic statistics for the whole of Africa remain difficult to obtain. This is mainly due to the fact that traditional analysts continue to include North Africa in the Middle East. Economic growth in Sub-Saharan Africa in 2005 is estimated to have been 4.8 per cent, and it is expected to remain at 4-5 per cent in 2006, making 2004-2006 the strongest three consecutive years of economic growth since the 1970's. Despite the pick-up in economic growth, however, it remains well below the 7 per cent needed to meet the Millennium Development Goals (MDGs).

The prices for key commodities such as coffee, sugar and a number of minerals should remain relatively high in 2006. Since oil prices in 2006 are also likely to remain at elevated levels, the effect on the various African countries will depend on which side of "the well" each lies. Oil producing nations such as Sudan, Angola, Chad, Nigeria and much of North Africa will continue to benefit from the oil price boom. Oil importing countries however will have little to celebrate as they will suffer accordingly.

Cotton exporting countries such as Uganda, Zambia, Benin, Burkina Faso, Mali and Togo may experience short-lived problems in the first season of 2006 due to a decrease in world cotton prices. However, they are expected to benefit when cotton subsidies to U.S. and European farmers are eliminated by the end of 2006, as agreed to at the Hong Kong WTO Ministerial in December 2005. In addition, cotton exports from least-developed countries will be allowed into developed countries duty free and quota free at the beginning of the implementation period for agriculture.

The year 2005 was a positive year for Africa. Even more positive is the fact that for the fifth consecutive year, Africa was on the G8 agenda, indicating that the conscience of the developed world is being awakened.

The democratisation of much of Africa, and increased economic and political stability in many African countries have also in the past few years increased the confidence of the African Diaspora, so dollars from the U.S., UK, Saudi Arabia, Germany, Belgium, Switzerland and France (amongst other countries) sent home by African emigrants in past few years have come to rival development assistance in magnitude. Uganda estimates that money remittances by emigrant workers popularly known as "nkuba kyeyo" now rival in size earnings from coffee, the country's major export product. Rwanda institutionalised its Diaspora as part of its development strategy, holding a "Diaspora Summit" every two years so as to identify their contribution to the national economy. In 2005, Zambia was also finalising the institutionalisation of its Diaspora.

In the past the focus has been on brain drain factor related to emigrant labour. It is now widely believed that there ought to be a focus on how to turn "the brain drain" into a "brain gain." This could be done by having countries that benefit from the emigration of African labour contribute to its replacement and/or assist in the generation of remittances. Zambia, Uganda, Malawi and Kenya, for example, are major contributors to the supply of nurses in the UK. The UK could be requested to contribute to the training of nurses in these countries so as to replace those who leave.

Today, more and more people are living outside their countries of birth than ever before. In 2000, an estimated 175 million people worldwide (one in every 35) were living outside their native countries; so it would seem appropriate to focus on their possible contribution to the development of their native countries.

In 2004, developing countries' received official remittances from developed countries to the tune of US$126 billion, whilst total Foreign Direct Investment came to US$165 and Official Development Assistance (ODA) amounted to only US$79 billion. Official remittances refer mainly to money sent through the banking system, along with money transfers such through such companies as Western Union. It is worth noting, however, that the use of traditional networks such as those involving visiting friends and families, as well as through traders who are paid money and have their counterparts pay in another country, is not included in these figures. Indeed, it is believed that if all remittances went through official channels, they would come to more than FDI annually.

The year 2005 was also a particularly good one for the Least Developed Countries (LDCs). In June 2005 at its summit in Gleneagles, Scotland, the G-8 proposed that three multilateral institutions – the International Monetary Fund (IMF), the World Bank's International Development Association (IDA) and the African Development Fund – cancel 100 per cent of their debt claims on countries that have reached, or will eventually reach, the completion point under the IMF/World Bank Heavily Indebted Poor Countries (HIPC) Initiative.

The HIPC initiative has entailed coordinated action by multilateral organisations and governments to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. This Multilateral Debt Reduction Initiative (MDRI) goes further by providing full debt relief so as to free up additional resources to help these countries reach the MDGs. Unlike the HIPC Initiative, however, the MDRI does not propose any parallel debt relief on the part of official bilateral or private creditors, or of multilateral institutions beyond the IMF, IDA and the AfDF.

The G8 at its July summit also enumerated the initial 14 countries in sub-Saharan Africa that would benefit from the MDRI. All had satisfied donors' conditions under HIPC. Another group of countries will become eligible in 2006.

In December 2005, 13 African Countries (five of them COMESA Member States) were amongst the 19 LDCs who the IMF announced would benefit from the scrapping of 100 per cent of their debts, amounting to SDR 2.3 billion (about US$ 3.3 billion). This final decision came after the IMF's Executive Board had completed an assessment of the first group of countries eligible for relief under the MDRI. The countries that had qualified as a result of the assessment by December 2005 were as follows: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. This is a historic moment, which will allow these countries to increase spending in priority areas to reduce poverty, promote growth, and to make progress towards achieving the MDGs. These countries should receive this debt relief in early 2006.

For this debt relief to take effect, however, the IMF needs to obtain the consent of some of contributors to the Poverty Reduction and Growth Facility Trust Subsidy Account, which is one of the sources of financing for MDRI resources for debt relief.

On top of the debt relief, the July G8 summit pledged an additional US$25 billion annually in ODA for Africa by 2010, about double the current level. Most relief is tied to good governance, poverty reduction and structural reform.

1.12 Africa-China trade and investment boomed in 2005

Trade between China and African nations jumped by 39 per cent in the first 10 months of 2005, according to official Chinese customs data. Over this period, China's exports to Africa totalled US$15.25 billion, whilst the country's imports from Africa were $16.92 billion, a record high. The surge was fuelled by China's increased imports of African oil, most notably from Sudan. Africa is also buying more Chinese-made goods.

China is investing heavily in African oil exploration to help meet its rapidly-growing consumption. In 2003 it overtook Japan to become the world's second-biggest consumer of petroleum products after the U.S. According to the U.S. Energy Information Administration, China accounted for 40 per cent of the total growth in global oil demand over the past four years; 2006 is likely to see a further increase in this share. Africa has become an important source of raw materials for the Chinese manufacturing sector, with a particularly striking example of this being Sudanese oil. With the reaching of a peace agreement between the Sudan People Liberation Army (SPLA) and the government of Sudan in 2005, Sudan is expected to become the largest producer of oil in Africa (after Nigeria), with its oil exports to China expected to increase further in 2006.

According to Chinese Ministry of Commerce sources, China-Africa trade had increased since the start of a new era of cooperation that began with the China-Africa Forum in 2000. Since then, China has scrapped tariffs on 190 products imported goods from 28 of the least developed African countries, and Chinese firms have greatly increased investments in Africa, most notably in the oil sector, as noted above.

In the first ten months of 2005, Chinese companies invested a total of $175m in African countries, according to the official figures. Chinese firms were also taking on significantly more construction projects in Africa, especially infrastructure works. Within the year Chinese textiles and clothing firms were also investing heavily in Africa as a way to get around safeguard quotas that the U.S. and EU had placed on Chinese exports in this sector.

1.13 Africa is becoming one of the more profitable markets for international air travel

Figures released by the International Air Transport Association at the end of 2005 showed growth of 9.9 per cent in revenue per passenger in the African market. This was outstripped by the Middle East, with 12.4 per cent, and Latin America, with 12.3 per cent, but was well ahead of Asia Pacific's 6.6 per cent and Europe's 6.4 per cent.

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PART 2
COMESA in The Global Economy and The State of Integration

2.1 Introduction

The year 2005 marked five years since the launching of the COMESA Free Trade Area, which has deepened integration among COMESA Member States. However, the region, like the rest of the world, was a victim of increased oil prices, whilst drought and food shortages afflicted certain Member States, as did the continuing need to devote resources to fight against malaria and HIV/AIDS. The above notwithstanding, 2005 saw some remarkable achievements, globally, continentally and regionally.

2.2 COMESA Economic Growth in 2005

In 2005 economic growth in the COMESA region is projected to have been 5 per cent, slightly below 2004's growth rate of 6 per cent. The two years taken together, however, saw much more rapid growth than previous ones, viz., the growth rates were only 1.3 per cent in 2003, 2.9 per cent in 2002 and 2001 and 2.3 per cent per year over 1997-2001. Other economic indicators have also recently been unusually favourable by historical standards; for example, the average savings rate in 2004 was 12.6 per cent, compared with 7.4 per cent in 2003. Investment performance improved from 13.8 per cent of GDP in 2003 to 16.3 per cent in 2004.

Intra-COMESA trade grew at 9-10 per cent in 2005; on the heels of 10 per cent growth in 2004, bringing total such trade to US$5.4 billion or 7 per cent of the total global trade of Member States. Intra FTA Trade has grown even faster, averaging 20 per cent per year.

2.3 Consolidation of the Free Trade Area

The FTA, which was launched five years ago, has continued to expand in participation. By the end of 2005, it had eleven member states, with at least two additional Member States expected to join in 2006. The year 2006 is expected to bring Comoros and Libya, the latter long one of Africa's leading oil producers, into the FTA. The FTA's effectiveness can be seen in the growth of intra-FTA trade growth: if intra-COMESA trade as a whole grew at an average rate of some 9 per cent over 2000-2005, for intra-FTA trade was the figure was 13.9 per cent (20 per cent in 2005 alone). In contrast, over 2000-2004, the trade of COMESA countries with the rest of the world grew by only 8.3 per cent per year. In view of the positive intra-COMESA trade developments, the Secretariat continues to work with Member States to explore trade opportunities within COMESA and accordingly to sensitise private sector organisations.

The FTA also provided an excellent capacity building and training opportunity in trade policy and negotiations for the private sector, government officials and even Secretariat staff.

2.4 Customs Union

Having achieved the Free Trade Area, and having agreed on the roadmap for the Customs Union (CU), the region went further to lay the foundations of the eventual COMESA Common Market by focusing on the establishment of the COMESA Common Investment Area, the Regional Investment Agency (RIA) and the Protocol on the Free Movement of Persons.

The 19th Meeting of the Council of Ministers in Kigali, Rwanda, in May 2005 approved a revised Road Map on the Work Programme to be implemented to attain the CET by 2008. Studies were underway to pave the way for the development of a trade policy for the CU and lay out the extent to which Member States may be allowed to enjoy "policy space" under the CU.

Equally important is the finalisation of the identification of goods of economic importance, sensitive products and exemptions, which will set the stage for negotiations on target rates of the Common External Tariff (CET) on intermediate goods and final goods. According to the Road Map, Member States must agree on an implementation plan for the convergence of national tariff schedules to the CET by June 2006. A template to assist Member States in aligning their duty rates on raw materials and capital goods to the zero target rates agreed on by Council was sent to Member States in December 2005.

2.5 State of play in the WTO negotiations

Of the 19 COMESA Member States, 13 are WTO members, whilst four others – Ethiopia, Libya, Seychelles and Sudan – are seeking to accede to the body (meaning that they have Observer status there). COMESA countries in the WTO were very active in multilateral trade negotiations and especially at the 6th Ministerial Conference in Hong Kong in December 2005. Ministers from COMESA played significant roles during the Conference. The Minister of Foreign Trade of Egypt spoke on behalf of the African Group at the Hong Kong Ministerial conference, the Minister of Foreign Trade of Mauritius represented the Group of 90 countries (the G90), the Zambian Minister of Trade represented the LDCs, whilst the Kenyan Minister of Trade and Industry was a facilitator at the Conference.

The region is confident that the results of the 6th WTO Ministerial Conference, whilst not entirely satisfactory, provide a basis on which LDCs in general and COMESA as a region can take forward the development agenda within the WTO.

The multilateral trading system is very important to COMESA, as its rules govern, inter alia, regional integration groups. The multilateral process also significantly affects the trade relations of our Members States individually and severally, making it vitally important that the region continue to be actively involved in it.

2.6 Economic Partnership Agreement Negotiations

As regards the proposed EPA agreements between the EU and the ESA grouping of countries of Eastern and Southern Africa, negotiations intensified in 2005, particularly in the last half of the year. Two Regional Negotiations Forums were held, and preparation and discussion of negotiating positions on development; standards, sanitary and phyto-sanitary issues; fisheries; agriculture, and market access were undertaken.

Both the EU and ESA agreed that the EPAs should be key instruments for achieving the ESA countries' development objectives. Some divergences did emerge in the areas of interventions to achieve development, the implementation mechanism and in linking interventions with trade and the EPA process.

2.7 COMESA Common Investment Area and Regional Investment Agency (CCIA and RIA)

The year 2005 saw two rounds of negotiations amongst Member States to make the COMESA Common Investment Area (CCIA) a reality. It is envisaged that by 2010 the region should be fully functioning common investment area, whereby COMESA investors will be availed equal treatment to national investors. It is further envisaged that similar treatment will be provided to non-COMESA investors by 2015. The Investment Framework Agreement (IFA) that lies between the creation of the CCIA provides investors with rights with respect to such matters as investor/state dispute settlement and accords national and most favoured national treatment to all investors (subject to certain exceptions). The third and final round of negotiations, scheduled for Swaziland in March 2006, will address the few remaining issues. These issues include settlement of disputes between states and between states and investors, the role and work of the institutions created by the IFA, investors' rights should a country withdraw from COMESA (or the CCIA) and refining of the legal text.

The office of the RIA was opened in 2005 in Cairo, Egypt, with a core staff, and will be reinforced in 2006.

2.8 Free Movement of Persons

Kenya, Rwanda and Zimbabwe have signed the Protocol on the Free Movement of Persons, with additional signatures expected in 2006.

2.9 Private Sector and the Consultative Committee

In May 2005 a "Diagnostic Survey of the Business Associations" was completed in cooperation with Pro-Invest. A meeting of the COMESA business community was held and the Consultative Committee of the COMESA Business Council launched. Sensitisation meetings are currently underway. The development of promotional materials and capacity building activities for the business community have also started.

2.10 Continued vote of confidence in COMESA

During 2005, COMESA continued to position itself as a robust and solid regional community, as reflected in the continuing vote of confidence from cooperating partners. A full section of this report details the relevant cooperation activities. Suffice it to say at this stage that in 2005 COMESA signed advance payment agreements with the EU and the U.S. Agency for International Development (USAID). COMESA also embarked on a new initiative on Trade in Services, continued to develop its infrastructure programmes in order to address supply side constraints and enhanced the role of its institutions within Member States.

2.11 EU Programmes

COMESA and the EU signed an advance payment agreement in June 2005 which will boost the delivery of services by COMESA to its Member States. The agreement with the EU that governs the Regional Integration Support Programme (RISP) is funded to the tune of Euro 30 million over five years. Counterpart staff under RISP, with additional recruitment to take place in 2006.

Separately, in 2005 personnel were recruited to start up the European Development Fund's Information and Communications Technology (ICT) project, which is worth US$20 million. National Working Groups were established and the preparation of the first Work Programme was at an advanced stage by the end of 2005. This project is essential if we are to address the ICT divide that currently exists between the developed world and us.

2.12 Trade in Services

By the end of 2005, sectoral assessments of the situation in trade in services in ten COMESA Member States were being finalised. They will form the basis for drawing conclusions and determining the sectors over which those Member States wish to negotiate under the WTO's General Agreement on Trade in Services. It is expected that completion of the assessments will offer the COMESA region an early payoff, since the services sector is increasingly becoming the major employer and contributor to GDP worldwide.

2.13 Infrastructure

Short Term Action Projects under the New Partnership for Africa's Development (NEPAD) include those projects that are at an advanced stage of implementation. To date, funding for some of the projects has been provided through the African Development Bank (AfDB). However, there is need to provide funding for other projects' preparation and implementation by the private sector or under public-private sector partnerships.

2.14 COMESA Infrastructure and Compensation Fund (The COMESA Fund)

The Authority of Heads of State and Government adopted the COMESA Fund in 2002, since which time 13 Member States have signed the associated Protocol. By now, five of the required seven Member States have ratified it, with the remaining two ratifications expected to take place in early 2006. The ratification of this Protocol is of paramount importance if we are to be able to address the infrastructure constraints that face the region and to provide compensation to the Member States for losses of budget revenue arising from the introduction of the CU.

2.15 Supply side constraints, competitiveness and business transaction costs

Within the year under review COMESA continued to take steps to address supply side constraints, increase competitiveness and reduce the cost of transacting business within the region, through amongst other things, undertaking studies on export-led strategies within the COMESA region. A number of studies were carried out that examined such strategies built around gemstone exchanges and the electrical and petroleum sectors. It is hoped that, resources permitting, more of these studies will be launched to address supply side constraints and to lay out linkages to regional and global value chain networks.

2.16 COMESA Institutions and Member States

Developments involving each of the COMESA institutions is discussed separately in this report. It is also important to note that each of these institutions publishes its own detailed annual report. Suffice it to note at this point, however, that the bulk of COMESA institutions performed very well this year, with those in the business sector making profits. The PTA Bank, the African Trade Insurance (ATI) Agency, and the COMESA Re-insurance company (ZEP-Re) were all profitable. ATI had a partnership with the World Bank and many other countries expressed their willingness to join it. Similarly the Court of Justice continued to ensure that COMESA remains a rule-based organisation. A detailed report of COMESA and its institutions is given in Part 4 of this publication.

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Part 3
COMESA's Structures, Decision-Making Process and Activities in 2005

3.1 Introduction

Although many factors have contributed to COMESA's success over the years, there is no doubt that one of the most important ones is the efficiency of its decision-making processes. There follows an outline of the structure and functions of each of the major COMESA organs, how each fits into the policy-making process, the ways in which they relate to one another and to the Member States and the role that they played in 2005.

3.2 The COMESA Authority of Heads of State and Government (The Authority)

The COMESA Authority comprises the Heads of State and Government; the Authority is COMESA's supreme policy-making organ. It is responsible for the general policy, direction and control of the performance of the executive functions of COMESA. It is headed by a Chairman elected for an agreed period, usually a year.

The Authority meets once every year, but may hold an extraordinary Summit at the request of any member of the Authority, provided that one-third of the members of the Authority support such a request. The last extraordinary Summit was held in 2000 at the official launching of the COMESA Free Trade Area (COMESA FTA). No extraordinary Summit has been necessary since then. Summits are held in various Member States, with the host Government and the COMESA Secretariat bearing joint responsibility for their organisation. Usually, the country hosting the summit assumes the chairmanship of the Authority for the year.

3.2.1 Decision making process:

Under normal circumstances, the Authority takes decisions by consensus. Although its meetings are in closed session, at the end of each meeting, the leaders issue a communiqué recording their decisions. The Authority sometimes issues declarations or statements on matters of particular concern. The directions and decisions taken by the Authority are binding on all Member States and other organs to which they are addressed.

3.2.2 Tenth Summit of the COMESA Authority of Heads of State and Government

The Summit of the COMESA Authority of Heads of State and Government was held in Kigali, Rwanda, on 2nd and 3rd June, 2005, under the theme "Deepening Regional Integration through COMESA Customs Union." Group Photo 10th Summit

The Summit was attended by the following COMESA Heads of State and Government:

His Excellency Mr. Paul Kagame, President of the

Group Photo: 10th Summit of the Heads of State and Government, Kigali, Rwanda on 2nd June 2005

Alongside the 10th Summit of Heads of State and Government, the First Ladies held the Second Round Table

Republic of Rwanda; His Majesty King Mswati III, King of the Kingdom of Swaziland; His Excellency Mr. Yoweri Kaguta Museveni, President of the Republic of Uganda; His Excellency Mr. Omer Hassan Ahmed El-Bashir, President of the Republic of Sudan; His Excellency Mr. Ismail Omar Guelleh, President of the Republic of Djibouti; His Excellency Mr. Levy Patrick Mwanawasa, President of the Republic of Zambia; His Excellency Mr. Mwai Kibaki, President of the Republic of Kenya; His Excellency Dr. Bingu wa Mutharika, President of the Republic of Malawi.

The Summit was also attended by the following Heads of State: His Excellency Mr. Olesugun Obasanjo, President of the Federal Republic of Nigeria and Chairperson of the African Union; and His Excellency Mr. Laurent Gbagbo, President of the Republic of Côte d'Ivoire.

The following Plenipotentiaries represented COMESA countries: His Excellency Mr. A. Raouf Bundhun, Vice President of the Republic of Mauritius; His Excellency Mr. Jean-Pierre Bemba, Vice-President of the Democratic Republic of Congo; His Excellency Mr. Ahmed Aboul Gheit, Minister of Foreign Affairs of the Arab Republic of Egypt; His Excellency Dr. Herbert Murerwa, Minister of Finance of the Republic of Zimbabwe; His Excellency Mr. Thomas Minani, Minister of Commerce and Industry of the Republic of Burundi; His Excellency Mr. Sufian Ahmed, Minister of Finance and Economic Development, Federal Democratic Republic of Ethiopia; His Excellency Mr. Charif Maoulana, Minister of State for the Economy, External Trade, Industrial Promotion and Employment of the Union des Comores; His Excellency Woldai Futur, Minister of National Development of the State of Eritrea; His Excellency Mr. Mohamed T.H. Siala, Secretary for Co-operation of the Libyan Arab Jamahiriya; His Excellency Mr. Rakotoarivony Jean Pierre, Head of the Delegation of the Republic of Madagascar.

The 10th Summit was also honoured by a high level representation from the U.S. and the European Commission (EC), who were represented by: U.S. Deputy Secretary of State Mr. Robert Zoellick and EC Commissioner Mr. Louis Michel respectively. China, France and India were also represented by their Special Representatives to COMESA.

The following represented the COMESA Institutions: Dr. Michael Gondwe, President, Eastern and Southern Africa Trade and Development Bank (PTA Bank); Mr. Shadreck Lubasi, Managing Director, PTA Re-Insurance Company (ZEP-Re); Dr. Kombo Moyana, Executive Secretary, COMESA Clearing House; Dr. Geremew Debelie, Director, Leather and Leather Products Institute; Honourable Justice Nzamba Kitonga (SC), President, COMESA Court of Justice; and Mr. William Balu-Tabaaro, Secretary, COMESA Metallurgical Industry Association.

The following economic groupings and/ or cooperating partners were also represented:

Mr. Amanya Mushega, Secretary General, East African Community (EAC); Commissioner Dr. Maxwell Mkwezelamba of the African Union; Mr. Godfrey Onyango, Executive Secretary, Transit Trade Co-ordinating Authority of the Northern Corridor; Mme Monique Andreas-Esoavelomandroso, Secretary General of the Indian Ocean Commission (IOC); Mr. D.U. Agbanelo, Secretary General of the African Regional Standards Organisation; Mr. Albert Muchanga, Deputy Executive Secretary, Southern African Development Community (SADC).

Also represented were the African Capacity Building Foundation (ACBF); the African Development Bank; the EC; NEPAD; the United Nations Economic Commission for Africa (UNECA); the United Agency for International Development/Regional Economic Development Services Office for East and Southern Africa; the World Health Organisation; the World Meteorological Organisation; and the World Bank.

3.3 Opening

His Excellency Paul Kagame, President of the Republic of Rwanda, in his welcoming statement extended the hospitality of Rwanda to delegates attending the Tenth COMESA Summit and Second COMESA Business Summit.

President Kagame invited his colleagues and all the delegates to enjoy the hospitality of Rwanda. He noted that the choosing of Rwanda to host the Summit and other COMESA meetings was a sign of solidarity and confidence in Rwanda's reconstruction and reconciliation efforts. The President highlighted the importance of the Summit, ten years after the establishment of COMESA and the need to complete COMESA's economic, political and security agenda.

President Kagame emphasised the need for COMESA to complete the integration of the region and to produce a definitive timetable for a comprehensive FTA and a clear Road Map for achieving the CU. COMESA, he observed, is an embodiment of better mutual understanding and an instrument for achieving development, peace and stability for the benefit of all Member States. President Kagame pointed out the paradox that despite being endowed with enormous natural and human resources, the continent still suffers from hunger, famine, poverty and other ills.

His Excellency Paul Kagame expressed concern that the GDP of Sub-Saharan Africa is less than two per cent of World Domestic Product. He highlighted the challenges of globalisation and emphasised that to face those challenges we need to take the route of regional integration and strengthen regional blocs such as COMESA. Through COMESA, the President noted, we can pool our resources and create a more stable and predictable environment, which is essential for the private sector to flourish.

President Kagame outlined the actions that COMESA needs to take in order to attain its set objectives. Those actions include making resolute efforts to establish feasible timetables for necessary reforms and working towards great institutional and economic convergence. The President highlighted the main measures necessary, which include the removal of tariff barriers, tariff harmonisation, legal and regulatory reform, rationalisation of the payment systems, investment incentives, tax system harmonisation and labour market reform. In addition he noted that the Protocol on Free Movement of people should be implemented. He also emphasised the need to accelerate the ratification of the Protocol on the COMESA Fund. President Kagame also remarked that there was need to continue sound macro-economic policies, transparency and accountability and generally good governance in the public and private sectors.

President Kagame noted that peace, security and stability in COMESA were of cardinal importance and that an integrated COMESA would suffocate any potential for hostilities, allowing greater investment opportunities. President Kagame further noted that, despite the challenges COMESA faces, progress had been made on many issues and that account had to be taken that Europe also faced similar challenges, such as on expanding membership, which they have since overcome. He further noted that the challenges of multiple membership, although real, can be addressed through the harmonisation of trading bloc's CETs, so as to ultimately form one large trading bloc as an initial stage for establishment of the AEC.

Finally, President Kagame emphasised the opportunities offered by COMESA such as the FTA and CU, as well as other trade opportunities and facilities from the U.S. and EU, and observed that through trade the emancipation of all people can be attained.

The outgoing Chairman of the Authority, His Excellency President Yoweri Kaguta Museveni, President of the Republic of Uganda, expressed appreciation for the hospitality extended to the delegations by the people of Rwanda. He recognised the invaluable assistance that he had received from the members of the Bureau in discharging the responsibilities that had been entrusted to him.

In reviewing and reporting on developments within COMESA during the period of his Chairmanship, President Museveni highlighted progress made in conflict resolution, the improvement in the stability of the macro-economic environment and improved economic performance in most Member States, an increased focus on the part of the international community on Africa's development challenges, the greater political inclusiveness that has seen women assume a greater role in politics and other spheres of public and business life and the progress made in addressing the region's trade performance

President Museveni called for greater efforts to be made to raise economic growth rates through increasing investment. He also observed that agricultural and industrial development should be complementary for the attainment of the MDGs.

In the area of international trade, President Museveni called for creating a more equitable and fair international trading system that is transparent and free. He called for faster implementation of COMESA programmes to counter the negative impact of global developments through the consolidation and expansion of the COMESA FTA and timely attainment of the COMESA CU.

President Museveni stressed the importance of good governance and a stable macro-economic environment, adequate infrastructure, efficient domestic financial markets and supportive institutions as preconditions for successful engagement in the world economy.

In conclusion, President Museveni called for the implementation of agreed programmes in a timely manner and for the engagement of the private sector in policy making and the building of public private partnerships.

3.3.1 Bureau in 2005/2006

After the formal opening of the Summit, the Authority: elected by acclamation the Republic of Rwanda as Chairman, the Republic of Djibouti as Vice-Chairman and the Republic of Uganda as Rapporteur.

In accepting the Chairmanship of the COMESA Authority, His Excellency, Paul Kagame, President of the Republic of Rwanda, expressed gratitude for the honour bestowed on the people of Rwanda and himself on the appointment. He also thanked the outgoing Chairman, His Excellency, Mr. Yoweri Kaguta Museveni, President of the Republic Uganda, for his leadership of the organisation over the past year.

President Kagame called for closer and intensified relations amongst Member States to make COMESA a means towards collective development and a united voice in international fora.

As Chairman of COMESA, President Kagame advised that he would be addressing issues of concern to the region, such as the need to consolidate and strengthen regional integration, the development of much needed regional infrastructure, the challenges arising from multilateral negotiations, issues relating to value chains and how the industrialisation of COMESA economies, the HIV/AIDS pandemic afflicting the region and the need to foster symbiotic ties between COMESA, the EAC and SADC in order to advance the agenda of the African Union.

President Kagame highlighted the need for infrastructure such as good roads, rail, air and telecommunication networks as a prerequisite for

The Bureau of the Authority: 2005-2006

Chairman and Vice Chairman of the COMESA Authority

strengthening the regional integration agenda. He called on Member States to their pool resources to work on intra-COMESA roads and rail links to reduce the cost of doing business in the region.

Regarding the programme for the COMESA CU, President Kagame called on Member States to commit themselves to the diligent implementation of the Roadmap. He gave the example of the North American Free Trade Area – fears expressed before it came into effect that it would disrupt business were dispelled after its establishment. Similarly, he observed, any fears about the COMESA CU would also prove unfounded.

President Kagame further urged Member States to address the supply side of regional integration through adding value to goods and services produced in the region so as to increase the benefits derived from the trade liberalisation programme.

The incoming Chairman undertook to lead COMESA Member States through the coming year with resolve and purposeful commitment to the realisation of the goals of COMESA.

3.4 Addresses on some Key issues :

His Excellency Olesugun Obasanjo, President of the Federal Republic of Nigeria and Chairperson of the African Union, made a brief statement, in which he lauded COMESA leaders for continuing to deepen integration in the sub-region. President Obasanjo observed that whilst the free movement of goods and persons was the ultimate objective in integration, one key issue that needs to be addressed is the problem of infrastructure. He noted that it is important for the Regional Integration Communities in Africa to continue working together under the auspices of the African Union. He emphasised that Africa needs to accelerate integration in view of comparative advances in this sphere made elsewhere in the world. Finally, he commended COMESA leaders for having successfully resolved many disputes in their region.

His Majesty King Mswati III of the Kingdom of Swaziland in his statement commended Member States for their achievements in implementing COMESA's regional integration programmes, which have benefited the citizens of the Member States. His Majesty underscored the need for intensive training programmes for new entrepreneurs, including the establishment of a comprehensive information database that could be used by government planners, producers and traders in the import and export sectors. In addition, he emphasised the need for establishing industries to add value to the region's abundant raw materials. On the issue of financing, His Majesty informed the Summit that the Kingdom of Swaziland was exploring ways and means of raising funds for entrepreneurs and that a national conference for promoting growth, job creation and investment opportunities would be convened to address the matter. In conclusion, His Majesty expressed appreciation for Member States' continued support to the Kingdom of Swaziland by granting a derogation to the Kingdom and expressed the hope that the negotiations between Swaziland and the partner States in the Southern African Customs Union would be concluded in the not too distant future so as to enable Swaziland to participate on a reciprocal basis in the COMESA FTA.

His Excellency Dr. Bingu wa Mutharika, President of the Republic of Malawi, delivered a statement in which he lauded COMESA States for realising the vision of COMESA as a building bloc of the AEC, as well as a stepping stone to the multilateral trading system. His Excellency highlighted the achievements of COMESA, which among others, included the COMESA FTA, air transport liberalisation and the Common Investment Area. His Excellency noted with satisfaction that African countries were moving away from dependence on foreign aid for economic development and had adopted the strategy embodied in the COMESA Treaty of realising sustainable development through trade and investment. It was against this background that his Government has adopted a strategy for transforming the country from a predominantly importing and consuming nation to a producing and exporting country through value addition. In conclusion, His Excellency informed the Authority that Malawi with her neighbouring countries were working on the Nacala and Mtwara development corridors, including the development of the Shire-Zambezi waterway linking Malawi and Zambia to the Indian Ocean via Mozambique. The Shire-Zambezi waterway would also open up new outlets for Rwanda and Burundi through Malawi and would contribute to an average 60 per cent reduction of transport costs.

His Excellency Mr. Levy Patrick Mwanawasa briefed the Summit on the preparations by the LDCs with regard to the ongoing WTO negotiations, focusing on debt, agriculture, market access and development financing. His Excellency expressed concern that the deadlines for concluding the negotiations continued to be missed as a result of unfulfilled promises by developed countries.

President Mwanawasa noted with appreciation that since Cancun, developing countries have continued to build alliances so as to speak with

His Majesty King Mswati III of the Kingdom of Swaziland

one voice and ensure that the multilateral trading system was just and equitable to developing countries. Regarding agriculture, His Excellency deplored the export subsidies and domestic support provided by developed countries; those policies continue to marginalise developing countries.

President Mwanawasa noted that even in cases where unilateral market access has been provided, non-tariff barriers continue to be used as market barriers against African exports. Regarding debt, His Excellency called for total debt cancellation and for the industrialised countries to agree on a "Marshall Plan" for Africa.

President Mwanawasa deplored the double standards with regard to debt cancellation, in that there are some wealthy countries whose

His Excellency Dr. Bingu wa Mutharika, President of the Republic of Malawi lauded COMESA States for realising the vision of COMESA as a building bloc of the AEC

debts were being cancelled whilst the LDC's were being subjected to harsh conditionalities under the HIPC Initiative. In conclusion, His Excellency emphasised the need for value addition as a basis for Africa and COMESA's transformation from producers of primary goods to economies that produce industrial processed goods.

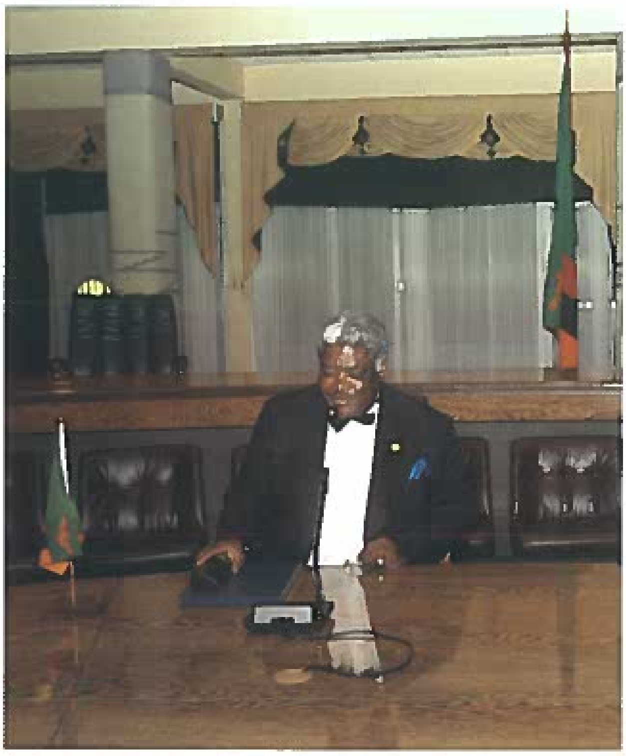
3.5 Summit: Decisions, recommendations and commendations

3.5.1. The Summit took the following general actions:

- NOTED the Report of the Secretary General on the state of integration in COMESA and the COMESA Annual Report for 2004,
- CONSIDERED and ADOPTED the Reports of the Nineteenth Meeting of the Council of Ministers and the Sixth Meeting of the Ministers of Foreign Affairs,
- ENDORSED the summary conclusions of the Second COMESA Business Summit and AGREED on the need to maintain public and private sector partnership,
- ENDORSED the Communiqué of the Second Meeting of the First Ladies of the COMESA Heads of State and Government, which took place concurrently with the Tenth COMESA Summit,
- DECIDED that the candidacy of Dr Donald Kaberuka (Rwanda) for the office of President of the AfDB should be supported by COMESA Member States,

3.5.2 On Trade and Customs:

- DECIDED that the COMESA CU should be established by December 2008,
- URGED the Member States not yet participating in the FTA to do so to enable them to participate in the CU,
- EXTENDED the derogation to the Kingdom of Swaziland from reciprocating tariff preferences for one year to enable her to complete consultations with her SACU partners on allowing her to join the COMESA FTA,



His Excellency Mr. Levy Patrick Mwanawasa briefed the Summit on the preparations by the LDCs with regard to the ongoing WTO negotiations

- NOTED with satisfaction the growth in intra-COMESA trade and urged business persons to intensify efforts to build regional business linkages,
- URGED Member States to expeditiously eliminate the remaining non-tariff barriers in order to further enhance intra-COMESA trade,
- REITERATED the need for those Member States that have not yet ratified the Protocol Establishing the COMESA Fund to do so by December 2005,

3.5.3 On Private Sector Development and Investment:

- ADOPTED the Charter for the Establishment of the COMESA RIA,
- AGREED that COMESA should operate as a community in which cultural and social events are continuously organised and that the CU should act as a catalyst for other areas of cooperation, including in the area of Science and Technology, to ensure that there is more interaction and movement of people and services across borders,
- URGED the private sector to form a representative regional body to coordinate their inputs into COMESA policies and programmes as provided for under Article 18 of the COMESA Treaty,
- AGREED to facilitate investments by the private sector in value addition projects so as to enhance sustainable development and employment creation,

3.5.4 On Agriculture

- NOTED the continuing need to enhance the food security situation in the region,
- URGED Member States to expedite implementation of COMESA programmes that address the food security concerns of the region,

3.5.5 On Multilateral Issues:

- CALLED upon the Developed Countries to fulfil their obligations under the Doha Development Agenda,
- URGED the Eastern and Southern African countries to ensure that EPA negotiations with the EU give priority to development issues,
- CALLED on the EU to design innovative development assistance delivery instruments that respond to the specific requirements of regional integration,
- WELCOMED the decision by the EU to commit additional resources to finance the adjustment costs under future EPAs,
- CALLED on the EU and its Member States to ensure that there is coherence in its policies on trade, agriculture and development so as not to adversely affect the capacity of COMESA Member States to achieve the MDGs, and in particular to ensure that the reform of the EU sugar regime is fair and equitable to all stakeholders and is respectful of its international commitments,

3.5.6 On Infrastructure Development:

- EMPHASISED the need to place the development of infrastructure at the core of the COMESA regional integration agenda,
- ENDORSED the Zambezi-Shire waterway project, which is being promoted by the Government of Malawi and has been endorsed by NEPAD, and which will significantly reduce transport costs for landlocked States in Central Africa and the Great Lakes region,
- CALLED on COMESA's cooperating partners to support implementation of the COMESA five year priority infrastructure projects by availing the needed financial resources to complement budgetary allocations by Member States,

3.5.7 On Cooperation Between COMESA and Its Partners:

- APPRECIATED the support received from cooperating partners in the implementation of COMESA programmes and URGED them to continue to provide such support,
- NOTED with satisfaction the continued collaboration between COMESA and other regional organisations in Africa,
- Pursuant to the decision by the Chairmen of COMESA and SADC to set up of a joint task force to discuss the coordination and harmonisation of COMESA/SADC activities and, having regard for the on-going negotiations on EPAs and the movement towards CUs by both COMESA and SADC, MANDATED the Chairperson of COMESA to meet with his SADC counterpart before

the end of 2005 with the aim of entering into a concrete Memorandum of Understanding providing for the harmonisation and coordination of the two body's trade regimes,

3.5.8 On the admission of Libya as the 20th Member State of COMESA:

- ADMITTED the Libyan Arab Jamahiriya as a full Member State of COMESA,

3.5.9 On Peace and Security Matters:

- COMMENDED COMESA Member States for their ongoing efforts to address issues of peace and security in the COMESA region, and URGED them to intensify their search for modalities for addressing such issues,
- URGED the international community to ensure support to the Disarmament, Demobilisation, Reintegration, Rehabilitation and Resettlement programme in Burundi by releasing the pledged financial assistance,
- COMMENDED the people of Burundi for successfully holding a peaceful national referendum leading to an agreed roadmap for democratic elections there,
- URGED the UN Security Council to further extend the mandate of the United Nations Operations in Burundi beyond June, 2005, taking into account the new dates for elections so as to ensure that those elections take place peacefully,
- COMMENDED and CONGRATULATED the people and governments of Djibouti, Ethiopia and Zimbabwe for successfully holding peaceful democratic elections that were credible, transparent, free and fair and reflected the will of the people of the said countries,
- COMMENDED Egypt, Malawi, Uganda, Libya and Zambia for sending official missions to observe these elections,
- COMMENDED the Government and People of the Republic of Rwanda for their resolve and resilience in pursuing truth, justice and reconciliation, including the use of "Gacaca" traditional methods in order to bring to justice the perpetrators of the 1994 Genocide and to consolidate the unity of the people of Rwanda,
- NOTED with appreciation the progress made by the people of the Democratic Republic of Congo towards the holding of democratic elections and urged COMESA Member States and the international community to continue supporting the peace process, unification process, and the rehabilitation and reconstruction of the country,
- NOTED with appreciation the progress made in the consolidation of peace in Comoros and URGED COMESA Member States and the international community to support the donor conference for the reconstruction of Comoros to be hosted by Mauritius,
- Once again URGED COMESA Member States to encourage and support the UN and AU in their efforts to address the impasse in the Eritrea-Ethiopia Peace Process,
- EXPRESSED appreciation to the Government and people of Kenya, the Intergovernmental Authority on Development (IGAD), and the international community for facilitating the conclusion of a final agreement on the conflict in Southern Sudan,
- COMMENDED the Government of Sudan and the Sudanese People's Liberation Movement for reaching the historic comprehensive Peace Agreement signed on 9th January, 2005,
- URGED the Government and people of Sudan to continue working with the UN and AU in the search for a lasting peaceful solution to the conflict in the Darfur Region of Western Sudan,
- URGED COMESA Member States to continue involving civil society and the private sector in addressing issues of peace and security so as to have a holistic approach to conflicts in the region

3.5.10 On Economic and Social Development

- NOTED with satisfaction the progress made in enhancing the role of women in leadership positions in COMESA Member States

3.5.11 On COMESA Institutions

- DIRECTED the PTA Bank as soon as possible to finalise, jointly with the Government of Burundi, the practical modalities of ensuring the definitive return of the Bank to Bujumbura, and
- COMMENDED ZEP-Re for attaining a high international rating and agreed on the need for Member States to continue supporting

the institution through full subscription to their allotted shares.

3.5.12 Judges for the Appellate and First Instance Divisions appointed

The 10th Summit was a milestone in the enhancement of the COMESA justice system in that it marked the effective constitution of the Appellate Division. The Summit appointed Justice Nzamba Kitonga (SC) (Kenya), Justice Ernest Linesi Sakala (Zambia), Justice Borhan Mohamed Tawhid Amrallah (Egypt), Justice Kheshore P. Matadeen (Mauritius) and Justice Duncan G. Tambala (Malawi) as Judges of the COMESA Court of Justice's Appellate Division.

The Authority also appointed Justice Samuel Rugege (Rwanda), Justice Adrien Nyankiye (Burundi), Justice James Munange Ogoola (Uganda), Justice Menberetsehai Tadesse (Ethiopia), Justice Luke Malaba (Zimbabwe), Justice Stanley B. Maphalala (Swaziland) and Justice Hortense Rabenjarivelo neé Rakotomena (Madagascar) as Judges of the COMESA Court of Justice's First Instance Division.

Justice Nzamba Kitonga (SC) (Kenya) was appointed as President of the COMESA Court of Justice, and Justice Samuel Rugege (Rwanda) was appointed as Principal Judge of the COMESA Court of Justice, First Instance Division.

3.5.12 Management of the COMESA Secretariat Management

In line with the restructuring of the COMESA Secretariat that started in 1998 , the Summit appointed Ambassador Nagla El Hussainy Rakha (Egypt) as Assistant Secretary General (Administration and Finance) for an initial term of five years. The Secretariat will therefore have two Assistant Secretaries General, one for Administration and Finance and the other for Programmes, in line with the ever expanding volume of work.

3.5.13 Closure of the Summit

Before the closure of the Summit, His Excellency Dr. Bingu wa Mutharika, President of the Republic of Malawi in moving the vote of thanks commended COMESA Member States for their remarkable achievements made in integrating member states economies. His Excellency recalled that as Secretary General of the Preferential Trade Area (PTA), he presided over the transformation of the PTA into COMESA and oversaw the implementation of COMESA Programmes as Secretary General of COMESA.

President Mutharika paid tribute to three Heads of States with whom he worked when he was COMESA Secretary General for their contributions to regional integration. He paid tribute to His Majesty King Mswati III, under whose Chairmanship he was able to convince the EU, U.S., the World Bank and IMF to support PTA programmes. He further noted that during the PTA era cooperating partners supported programmes up to US$10 million, whilst during the three year Chairmanship of His Majesty support from cooperating partners had increased to US$ 100 million.

The Second Head of State to whom President Mutharika paid tribute was His Excellency Dr. Kenneth Kaunda, the former President of Zambia, who tirelessly worked to promote regional integration and to provide facilities to the Secretariat. He further noted with satisfaction that the Government of Zambia continued to support COMESA as manifested by the excellent headquarters facilities that it had made available.

The third Head of State to whom President Mutharika paid tribute was His Excellency President Robert Mugabe of Zimbabwe, an ardent advocate of pan-African and COMESA integration. He recalled that during his tenure as Secretary General of the PTA and COMESA, President Mugabe went out of his way to provide financial assistance to the Secretariat when it experienced financial difficulties. He expressed satisfaction that COMESA was moving in the right direction with regard to equitable gender representation as signified by the appointment of a woman Judge to the COMESA Court and the first woman Assistant Secretary General.

President Mutharika also welcomed the membership of Libya which would not only strengthen COMESA's integration agenda but also contribute to the realisation of the AEC. On the way forward, he emphasised the need for value addition and for Member States to support one another in building the AEC. Finally, he asked Member States to support the Blair Commission Report and to lobby other G8 countries to endorse it.

In closing the Tenth COMESA Summit, the Chairperson of the COMESA Summit, His Excellency Paul Kagame, thanked their Excellencies for their support for COMESA, which had contributed to cementing cooperation, peace and development. He re-affirmed the importance of strengthening strategic private-public partnerships in COMESA and looked forward to the contribution of the private sector to COMESA programmes. He also urged the private sector to work with Member

States in ensuring that all Member States were part of the COMESA FTA and in the implementation of the road map for establishment of the COMESA CU.

3.6 The COMESA Council of Ministers

The COMESA Council of Ministers is responsible for overseeing the functioning and development of COMESA and ensuring the implementation of agreed policies. Its responsibilities include making recommendations to the Authority on matters of policy aimed at the efficient and harmonious functioning and development of COMESA; giving direction to all other subordinate organs of the Common Market (other than the COMESA Court of Justice) in the exercise of its jurisdiction; and making regulations, issuing directives and taking decisions. Other responsibilities are making recommendations and providing opinions in accordance with the provisions of the COMESA Treaty; when the need arises, requesting advisory opinions from the COMESA Court of Justice in accordance with the provisions of the Treaty; considering and approving the budgets of the Secretariat and the Court; and endorsing the Staff Rules and Regulations and Financial Regulations of the Secretariat.

The regulations, directives and decisions of the Council are binding on Member States and all COMESA subordinate organs of COMESA to which they are addressed.

The COMESA Council comprises Ministers whose Ministries are responsible for the coordination of COMESA activities (so-called Coordinating Ministries); Member States select their own Coordinating Ministries. The Chairman, Vice-Chairman and Rapporteur - who together form the Bureau of Council - are Ministers from the COMESA Member States currently holding the Chairmanship, Vice-Chairmanship and Rapporteur of the COMESA Authority, respectively.

The Council meets twice a year to review the progress and operations of its subordinate institutions. The Council may hold Extraordinary Meetings at the request of a Member State, provided that such requests are supported by at least one-third of the Member States. In 2005 the Council did not hold an extraordinary meeting. The Council takes decisions by consensus, or failing to that, by two-thirds majority of its members. Where a Member State lodges an objection to a proposal submitted for Council decision, that proposal shall, unless such objection is withdrawn, be referred to the Authority for decision.

3.6.1 Ninetieth Meeting of the Council of Ministers

During the year under review, the Nineteenth Meeting of the Council of Ministers took place in May, just ahead of the Tenth Summit of the Authority. The Summit elected its Bureau for 2005/2006 as follows: Rwanda - Chair, Djibouti - Vice Chair and Uganda - Rapporteur. The Council presented a report on their activities to the 10th Summit.

3.6.2 Twentieth Meeting of the Council of Ministers, Lusaka, Zambia, December 2005

The Twentieth Meeting of the Council of Ministers, held in Lusaka on 5th and 6th December, 2005, discussed the various reports that resulted from the meetings of subordinate bodies that had preceded it, including those of the Intergovernmental Committee and Administration and Budgetary Committee, and also received reports from the various COMESA institutions.

The meeting, which took place in the run-up to the WTO's 6th Ministerial Conference in Hong Kong, China, agreed a common COMESA position to be taken at the Conference. The meeting also reiterated the need to maintain cohesion on the EPAs and in WTO negotiations.

On the FTA, the meeting learnt that an additional three countries, namely Comoros, Libya and Uganda would be joining the arrangement in 2006. This would bring on board close to three quarters (14 out of 19) of the COMESA Member States.

The meeting resolved that the COMESA Fund would go into effect in 2006. It also agreed on infrastructure programmes to be financed under NEPAD and via the COMESA Fund. The meeting discussed and agreed the setting up of a regional electricity grid, as well as the identification of medium- and long-term projects on energy supply, including ones involving new and renewable forms of energy. The meeting also decided to fast track monitory harmonization.

On food security, the meeting decided to establish mechanisms for setting up regional commodity exchanges, with a view to bridging of the gaps between the surplus and deficit countries in various sub-regions. The same meeting approved the five-year COMESA Strategic Plan.

3.7 Other Ministerial Meetings

3.7.1 Third Meeting of the Ministers of Agriculture, Cairo, Egypt, November 2005

The third meeting of COMESA Ministers of Agriculture took place in Cairo, Egypt, 16th-17th November, 2005, to review the progress made in enhancing agricultural cooperation and developments within the region, as a follow-up to the previous such meeting, which was held in Nairobi, Kenya in October, 2004.

In addition to Ministers from the COMESA Member States, the Cairo meeting was attended by senior representatives from African and international organizations and cooperating partners, who included, amongst others, the African Union, Inter-Africa Bureau for Animal Resources, the AfDB, the Food and Agricultural Organization of the United Nations, the Eastern and Central Africa Programme for Agricultural Policy Analysis, the Association for Strengthening Agricultural Research in Eastern and Southern Africa, the African Agricultural Technology Foundation, the U.S. Embassy in Egypt, USAID's Regional Agricultural Trade Expansion Support (RATES) Programme, the Non-governmental Organisation International Development Enterprises, and the Ambassadors of COMESA countries based to Egypt. The private sector/business community in the region was represented by Mr. Mostafa M. El-Ahwal, President of the COMESA Business Council.

The Meeting was officially opened by Ahmed El-Liethy, the Egyptian Minister of Agriculture and Land Reclamation. The Ministers of Agriculture rededicated themselves to increased cooperation, but observed that for such cooperation to be effective, it had to be accompanied by measures to improve infrastructure connectivity and to improve the efficiency of transport systems within the region. The Ministers noted that COMESA has on-going programmes in the infrastructure sector and that just two months earlier COMESA Ministers of Transport, Communications and Public Works had met in Egypt to address issues of infrastructure development in the region.

The Meeting addressed several key issues, amongst them the critical need to develop irrigation capacity within the region so as to allow most countries in the region to move away from their current dependence on rain-fed agriculture; coordinated agricultural research and technology transfer; the need for a regional policy on biosafety and biotechnology; efforts to stem the ravages of the tsetse fly and trypanosomiasis; measures to mitigate the threat of Highly Pathogenic Avian Influenza (HPAI) or "bird flu"; devising a regional response to the catastrophic spread of Cassava Mosaic Virus Disease (CMVD) and Banana Xanthomonas Wilt (BXW) in the African Great Lakes Countries; fisheries and livestock development; measures to accelerate the implementation of the Comprehensive Africa Agriculture Development Programme (CAADP) under NEPAD; and the impact of HIV/AIDS on production and productivity in small-holder agriculture.

3.7.2 Ninth Meeting of COMESA Ministers of Justice and Attorneys-General, Addis Ababa, Ethiopia, April 2005

The Ninth Meeting of COMESA Ministers of Justice and Attorneys-General took place on 21st April 2005 in Addis Ababa, Ethiopia. The Prime Minister of Ethiopia, His Excellency Ato Meles Zenawi, opened the meeting. The Prime Minister emphasised that Ethiopia as host country for the AU was fully committed to the ideals and objectives of COMESA. He informed the meeting that Ethiopia was particularly proud that COMESA is playing a meaningful role in supporting the Member States in ongoing multilateral negotiations with the EU.

The Ministers meeting was preceded by one of the Committee on Legal Affairs, which took place over 18th-20th April in the same city.

The Ministers adopted the Draft Regulations on Implementation of the COMESA CU. The Regulations, which were subsequently adopted by the Council of Ministers, were prepared in order to provide a detailed legal and administrative framework for the CU.

The Ministers of Justice and Attorneys-General also considered the Draft Charter for the Establishment of the COMESA RIA. The RIA, which shall act as a catalyst for accelerated investment in the region, will be located in Cairo, Egypt. The Charter provides for the legal framework and status of the Agency.

The Meeting adopted new Rules on the Election of the Judges to the COMESA Court of Justice. Following the expansion of the Court from seven to twelve Judges, and its division into two Divisions (First Instance and Appellate), it became necessary to amend the election rules to allow for the election of the new Judges. (The Ministers of Justice and Attorneys-General have been delegated the power to elect the Judges of the Court by the Authority.)

The Meeting also elected the Judges of the COMESA Court of Justice, subsequently appointed by the Authority, as indicated above.

3.7.3 Sixth Meeting of the Ministers of Foreign Affairs - COMESA Programme for Peace and Security, Kigali, Rwanda, June 2005

The Sixth Meeting of the COMESA Ministers of Foreign Affairs took place on 1st June, 2005 in Kigali, Rwanda. The meeting took place at a time that some positive developments were emerging in the peace and security situation in the region. The most significant of them is the signing of the Comprehensive Peace Agreement between the Sudan Government and the Sudanese Peoples' Liberation Movement in January 2005, which marked the end of a 21 years of conflict in Sudan. In Burundi, signs of the ending the transitional phase of the establishment of democratic processes were already being seen after the holding of a successful referendum on a new constitution in February 2005.

His Excellency Bernard Makuza, Prime Minister of the Republic of Rwanda, acknowledged these developments during his opening address to the Ministers of Foreign Affairs. He noted that these developments mark a positive trend towards lasting and sustainable peace in the region and particularly lauded African mediation efforts, which have contributed greatly to the resolution to the conflicts in the region.

The meeting of the Ministers of Foreign Affairs, which was held at the eve of the Tenth Summit of the COMESA Heads of State and Governments, came up with a total of 62 recommendations aimed at enhancing the peace and security situation in the region. These recommendations were presented to the Heads of States at their Summit.

The highlight of the meeting was the careful review of conflict situations in the COMESA region, including peace processes and other interventions. The ministers examined the situations in several COMESA Member States and made recommendations. Their reviews included the situation in Angola, Burundi, Comoros, Democratic Republic of Congo, the Ethiopia-Eritrea Peace Process, Rwanda, Sudan and Rwanda. The Ministers also reviewed the progress made in the Somali Peace Process.

The Ministers commended the various positive developments that marked the year, including the progress made in the Burundi peace process and the efforts by the governments of DR Congo and Burundi at strengthening bilateral agreements between them. The government of Rwanda was also commended for its achievements in the democratisation, reconciliation and reconstruction process. The Ministers paid tribute to the COMESA Member States that were supporting Comoros in the national reconciliation process and further urged them to assist in mobilising additional support to the donor conference that was to be held later in the year. The Ministers noted that they were encouraged by the efforts being made towards resolving the conflicts in Sudan and commended the government of Sudan, the Sudanese People's Liberation Movement, the government of Kenya and IGAD in reaching the landmark agreement of January 2005.

The Ministers also noted some of the challenges still faced by the region and made several recommendations to assist in addressing them. The Ministers particularly expressed concern over the crisis in Darfur, which they said poised a very serious threat to the gains made in resolving the north-south conflict in Sudan. They recommended that the parties in Darfur should all adhere to and implement the signed agreements and protocols, and also be encouraged to negotiate under the auspices of the AU. On the situation in DR Congo, the Ministers noted an increase in violence in the eastern parts of the country. They urged the Government of DR Congo, UN Mission to the Democratic Republic of Congo and the AU to continue to increase the political and military pressure on DR Congo-based insurgents of the Forces démocratiques de libération du Rwanda, including the option of forceful disarmament. They also made an urgent call for the removal of all impediments to the implementation of the Ethiopia-Eritrea Boundary Commission ruling of 2002.

The Sixth Meeting of the Ministers of Foreign Affairs also reviewed the activities being carried out under the COMESA Programme on Peace and Security. These include the process of accreditation of civil society and private sector to the Programme and a regional workshop on linking peace, security and regional integration in Africa. The Ministers also considered the proposed activities for the Programme for 2005/6, which include the involvement of COMESA parliamentarians in conflict prevention, management and resolution, and continued involvement of civil society and private sector organisations. The Ministers noted the need for an interface meeting between government and non-state actors in order to develop common strategies toward enhanced peace and security in the region.

The Ministers commended the Secretariat for making efforts in cooperating with the AU and also with such initiatives as the UN/AU Great Lakes Initiative. The Ministers looked forward to the enactment of the memorandum of understanding between the AU and the RECs and urged COMESA to work together with the AU towards establishing a continental conflict early warning and response mechanism. The Ministers also urged COMESA to put more efforts into peacekeeping by assisting in building the capacity of the armed forces of Member States and also by continuing to work together with IGAD towards the establishment of the East African Standby Brigade.

COMESA has also been involved in the observation of elections and other polls in Member States in part as a conflict prevention tool. The overall objective has been to promote democratic processes and institutions in the region and also to ensure that the wider populations perceive the political process as democratic.

The meeting of the Ministers of Foreign Affairs was preceded by the Sixth Meeting of the Committee on Peace and Security, which was held over 29th to 31st May 2005 in Kigali.

3.7.4 Extraordinary Meeting of the Ministers of Justice and Attorneys-General, Lusaka, Zambia, November 2005

Ministers of Justice and Attorneys-General from the COMESA region met in Lusaka, Zambia, on 30th November 2005 to consolidate the judicial arrangements for COMESA. The Meeting agreed on revised Rules of Court for the COMESA Court of Justice that take account the Court's recent restructuring.

The Authority in 2004 agreed an expansion of the Court from seven to eleven judges. The COMESA Court is also now divided into two divisions. As discussed above, the First Instance Division is headed by the Principal Judge (Justice Sam Rugege of Rwanda) and the Appellate Division is headed by the Judge President (Justice Nzamba Kitonga of Kenya); the latter is also the overall head of the Court. The revised rules now provide for appeals procedures and for the roles of the Judge President and the Principal Judge.

The Ministers also made administrative decisions intended to consolidate the workings of the Court. In particular, the Meeting noted that the Court would soon relocate to its permanent seat in Khartoum, Sudan.

3.7.5 Sixth Meeting of the Ministers of Transport, Public Works and Communications, Sharm al-Sheikh, Egypt, September 2005

The Sixth Meeting of COMESA Ministers of Transport and Communications and Public Works took place in the Egyptian resort of Sharm Al-Sheikh over 14th-15th September, 2005, to discuss the development of transport and communications in the region. The Ministers' meeting was preceded by a meeting of the Committee on Transport and Communications, which took place over 11th-13th September, 2005, in the same city. The Committee of Transport and Communications reviewed reports from earlier "build-up" meetings, such as the 8th meeting of the Directors of Civil Aviation, the COMTEL (the COMESA Telecommunications Project) Steering Committee, a transport regional workshop, the Associations of Regulators for Eastern and Southern Africa and a meeting on postal policy guidelines. The Committee discussed these reports and the presented recommendations to the Ministers of Transport and Communications. The Ministers made strategic decisions on how to enhance transport and communications infrastructure.

3.8 Technical Committees

COMESA has a number of Technical Committees, whose responsibilities include preparing comprehensive reports on the implementation of the COMESA integration agenda, monitoring timetables, prioritising programmes within their respective sectors and monitoring and keeping under constant review the implementation of co-operation programmes in those sectors.

Currently active COMESA Technical Committees include the following: the Committee on Administrative and Budgetary Matters; the Committee on Finance and Monetary Affairs; the Committee on Agriculture; the Committee on Industry; the Committee on Legal Affairs; the Committee on Trade and Customs; the Committee on Gender; and the Committee on Transport and Communications.

The Technical Committees consist of representatives of Member States designated by those States for the stated purpose. All Technical Committees, except for the Committee on Finance and Monetary Affairs, which reports to the Committee of Governors of Central Banks, submit their reports and recommendations to the Intergovernmental Committee, or to the respective Ministerial meetings, as indicated above. In the year under review all the above committees met at least once.

3.8.1 Intergovernmental Committee

The Intergovernmental Committee comprises the most senior civil servants at Ministerial levels (Permanent/Principal Secretaries/ Secretary Generals), or officials of equivalent rank, nominated by the respective COMESA countries. Its responsibilities include developing programmes and action plans in all sectors of co-operation, except in the finance and monetary sector; monitoring and ensuring proper functioning and development of COMESA in accordance with the provisions of the Treaty; and overseeing the implementation of the provisions of the Treaty. The Intergovernmental Committee meets twice a year and submits its reports and recommendations to the Council of Ministers. The Committee met in Kigali, Rwanda, in May 2005 and again in Lusaka, Zambia, in December 2005 to discuss progress in implementation of COMESA Programmes and to make recommendations to the 18th and 19th Meetings, respectively, of the Council of Ministers.

3.8.2 Tenth Meeting of the COMESA Committee of Governors of Central Banks, Bujumbura, Burundi, November 2005

The Tenth Meeting of the COMESA Committee of Governors of Central Banks (CGCB) was held on 19th November 2005, in Bujumbura, Burundi. This was preceded by the Tenth Meeting of the Finance and Monetary Affairs Committee over 15th-18th November, 2005.

The Meeting was attended by delegates from 14 member countries. The meeting was also attended by two COMESA financial institutions, the AU Commission, EAC, AfDB, the Association of African Central Banks and the Bank of Tanzania.

The Meeting elected a Bureau for a period of one year, with Burundi as Chair, Zambia as first Vice-Chair, Madagascar as Second Vice-Chair, Malawi as First Rapporteur and DR Congo as Second Rapporteur.

The Meeting discussed measures aimed at enhancing monetary integration in the region in the context of the ultimate objective of creating a monetary union. The measures are intended to build the necessary financial infrastructure for merging the region's national markets for the free movement of goods, services, capital, labour and persons as a means of achieving accelerated self-sustaining economic development of the countries of the region. In this regard, the Governors discussed and took important decisions on the following:

I) Implementation of policies that enhance the attainment of greater macro-economic convergence

COMESA is implementing a phased Monetary Harmonisation Programme, which is designed to culminate in the formation of a monetary union by 2018. The first phase is the achievement of macro-economic convergence. The second phase is the achievement of currency convertibility between national currencies of Member States. The third phase is exchange rate union. The final stage is monetary union involving a single currency issued by a common central bank. To achieve these stages of monetary cooperation, Member States are required to reduce their macro-economic disharmonies by implementing policies that will enable them to attain the agreed upon macro-economic convergence criteria which includes the following:

- an overall budget deficit/GDP ratio (excluding grants) of not more than 5%;
- an annual average inflation rate not exceeding 5%;
- minimising Central Bank financing of the budget towards a "0" target; and
- external reserves of equal to or more than four months of imports of goods and non factor services.

Governors agreed that achievement of macro-economic convergence is a key for creating a favourable environment for price stability, increased domestic and foreign investment, enhanced integration and economic growth.

II) *Fast tracking the establishment of the COMESA Monetary Union*

The Governors noted that there are two ways of moving countries into a monetary union, namely, the shock or "big bang" approach and the "gradualist" approach. Under the big bang approach, the integration process is driven by a rapid move towards fixed bilateral exchange rates, followed fairly quickly by the establishment of a common monetary authority and a single currency. Under the gradualist approach, the creation of a monetary union is preceded by a lengthy transition period accompanied by convergence conditions. The Governors agreed that the following are some of the benefits that can be derived from the monetary union:

- elimination of exchange rate risks within the region;
- reduction of the costs of conducting cross-border business;
- saving on currency conversion costs in trade with partner States;
- facilitating cross border comparison of goods and services; and
- deepening of financial markets in all Member States.

COMESA Member States are foregoing these benefits by not forming a monetary union. This loss is compounded into a much larger one by waiting for the Member States to achieve macro-economic convergence before formation of such an arrangement. Consequently, the Governors decided that the Secretariat should undertake a feasibility study on fast-tracking the monetary union.

III) *Restructuring of the COMESA Monetary Cooperation Meetings*

To enable itself to focus entirely on monetary affairs and matters that enhance monetary cooperation, the CGCB decided that the Finance and Monetary Affairs Committee will be the only technical committee reporting directly to the CGCB. The Governors set up three technical sub-committees, namely, the Monetary and Exchange Rate Policies Sub-Committee; the Financial System Development and Stability Sub-Committee; and the Resource Mobilisation Sub-Committee. The Monetary and Exchange Rate Policies Sub-Committee is responsible, amongst other things, for devising monetary policy strategies and appropriate monetary policy instruments. The Financial Systems Development and Stability Sub-Committee is responsible, inter alia, for developing strategies for diversifying the financial system and instruments at the national and regional levels. The Resource Mobilisation Sub-Committee is responsible for mobilisation of financial resources, amongst others, through FDI and equity investment. These sub-committees will all report to the Finance and Monetary Affairs Committee. These structures will allow for greater interaction and exchange of experience, with the aim to strengthen coordination of monetary and exchange rate policies amongst member States and promote macro-economic convergence.

In view of the responsibilities that the COMESA Clearing House will assume following implementation of the new Regional Payment and Settlement System (REPSS), which will enable the Clearing House to become self-financing, the Governors decided on a new governance structure for the COMESA Clearing House. In this connection, the Clearing House will now have a Board of Directors comprising five members selected from five geographical clusters in the COMESA region, who will be appointed on a rotating basis following the alphabetical order of the names of the countries in each cluster. Since the Clearing House is a payments arrangement, individuals appointed to the Board of Directors shall be Heads of Departments responsible for payments systems in Member States' Central Banks, with their deputies responsible for payment systems as their alternates on the Board. The Governors remain the supreme decision making body of the Clearing House.

3.9 The Consultative Committee of the Business Community and other Interest groups

This Consultative Committee provides a linkage and facilitates dialogue between the business community and other interest groups on the one hand and other organs of COMESA on the other. It is responsible for ensuring that the COMESA organs take the interests of the business community and other stakeholders in the region into consideration. It is in this vein that the Second COMESA Business Summit was held from 30th-31st May, 2005 in Kigali, Rwanda, to share views on their increased role in regional integration agenda. Over 500 businesspersons from all COMESA countries and an additional seven countries from Africa, Europe, the U.S. and Middle East attended the Summit.

Official Opening of the Second Business Summit

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

The following are the key issues and recommendations that were presented to Council for consideration.

3.9.1 Promoting Regional Investment Competitiveness: Realities, Challenges and Opportunities

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

3.9.2 Building Regional Centres of Excellence in the COMESA Region

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

The Business Summit recommended to Council that the COMESA Secretariat should undertake a stocktaking exercise of existing and potential Centres of Excellence to ascertain the comparative and competitive advantages in selected COMESA countries. This exercise would include identifying core competencies and the reasons for failures of Centres of Excellence in the past. Illustrative centres of Excellence could include ones in: Textiles and Apparel, Tourism, ICT, and Agriculture (e.g. specialty coffee). The COMESA Secretariat should present to Council a full report of the stocktaking exercise including recommended ways forward at the latest by May 2006.

3.9.3 Promoting Industrial Growth through Investments in Value Addition Operations

The session examined what is being done in the region to build a coalition around specific projects and programmes likely to spark greater investment in sectors the with potential for contributing to the expansion of the regional economy. The session recognised the need to make ICT a priority sector, the current constraints in the operation of the FTA including deficiencies regarding dispute resolution and issuance of Certificates of Origin, and the region's continuing infrastructure needs.

The Business Summit recommended to Council that the COMESA Secretariat be given a stronger mandate and capacity to be able to monitor and assess the operations of the FTA regime and to resolve trade and business disputes. The Secretariat should by May 2006 report back on progress in this direction. In addition, it recommended that COMESA take steps by December 2006 to further harmonise the system for issuing Certificates of Origin.

3.9.4 Harnessing the Region's Energy Resources to Promote Industry

The session examined various possible courses of action in resolving the regional energy deficit, including joint exploration and exploitation of energy resources in the region. The participants noted some of the constraints facing the sector, including the low level of private sector participation. The participants emphasised the need for development of network interconnectivity, renewable energy resources, public-private sector partnerships and disaggregation of generation, transmission and distribution. The Business Summit recommended that the COMESA Secretariat convene a meeting of energy experts by December 2006 with a view to finding ways of addressing the energy sector issues raised by the Business Summit.

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

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

The session noted the need for policy coherence amongst countries, donors, regional and international organisations. During the discussions participants emphasised the need for COMESA to work towards a shared vision in regional integration. The business community was called upon to devise a strategy to assist governments to transform the informal sector into a formal one. Finally, COMESA Member States were called upon to reduce domestic debt.

The Business Summit recommended that the COMESA Secretariat (under the existing Trade and Investment Framework Agreement with the U.S.) negotiate with the U.S. government to allow COMESA countries to export to the U.S. the undelivered U.S. import quota for sugar. It also recommended that the Secretariat assist Member States in coming up with national export led strategies. It further recommended that the Secretariat before the next Business Summit reinforce and re-engineer business partnerships in the COMESA region to bridge the existing disconnect between COMESA Secretariat and the business sector. Finally, the Business Summit called on the Secretariat to devise a strategy aimed at strengthening intra-regional trade in raw materials and inter-mediate products.

3.10 The COMESA Secretariat

The COMESA Secretariat is the technical arm of COMESA. The Secretariat's function is to provide a wide range of services, such as coordination of technical studies and follow-up of implementation of the COMESA integration Agenda. It is headed by the Secretary General, assisted by two Assistant Secretaries General, Divisional Directors and professional staff specialised in various fields.

In the view of the continued expansion of COMESA programmes, and in line with the re-organisation and restructuring of the Secretariat that began in 1998 and COMESA's wider role at continental and international negotiations, the Authority at its 10th Summit appointed an Assistant Secretary General (Administration and Finance). The Assistant Secretary General (Programmes) has been in office since 1998, so there are now two such positions. With the arrival of the new Assistant Secretary General (Administration and Finance), the Secretary General will have more time to concentrate on high level policy matters and promotion of COMESA regional interests at international level such as the WTO negotiations and EPAs.

The restructuring of the COMESA Secretariat, which began in 1998, has had as its primary objective the maintenance of a core permanent staff, whilst making provision for hiring of consultants on as needed basis. During 2005, the Secretariat, with the assistance of international

Left to Right : **Erastus Mwencha, COMESA Secretary General, Sindiso Ngwenya, Assistant Secretary General (Programmes) and Victoria Mwewa, Director of Administration. In 2005 the Secretariat was enhanced to provide for an Assistant Secretary General, Administration and Finance.**

consulting firms, carried out a Mid Term Review intended to look at the existing structure and the increased demand for technical services due to expanded programmes and recommended the way forward. The Review was discussed by the Committee on Administration and Budgetary matters, which gave their recommendations to the Council of Ministers.

At the same time, during the year under review, the Secretariat continued to prepare for ISO 9000 Certification. Maintaining a lean and efficient Secretariat is of critical importance given the modest size of its budget. Training of staff, both internally and externally, has been a major plank in this endeavour, with technical and financial support provided by the EU, USAID and the ACBF.

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PART 4
The COMESA Family of Institutions

Over the years, COMESA has continued to create and to promote a family of independent institutions whose broad purpose is to support its integration agenda. These include the Court of Justice, PTA Bank, ZEP-Re, Clearing House, LLPI and ATI. Each of these institutions prepares a detailed annual report, so what follows is only a brief synopsis for each of them for 2005.

4.1 COMESA Court of Justice

The COMESA Court of Justice is the supreme legal body of COMESA. The Court is independent of the Authority and the Council. It is charged with the proper interpretation and application of the provisions of the Treaty. It enhances the overall regional integration process by ensuring the maintenance of the rule of law within the region through the just resolution of disputes. Its general jurisdiction is to adjudicate as well as to give advisory opinions on all matters referred to it under the Treaty.

The decisions of the Court are binding and final. All decisions of the Court on the interpretation of the provisions of the COMESA Treaty take precedence over the decisions of national courts.

4.1.1 Host Agreement

The Eighth Summit of the Authority in Khartoum, Sudan, in March 2003, decided, under the terms of the Treaty, that the Seat of the Court would be in Khartoum, Sudan. Following that decision, negotiations were commenced with Sudan on an agreement to host the Court. The negotiations were completed in December, 2003, and the Host Agreement was signed on 26th January, 2004. The Agreement was ratified by Sudan on 8th December, 2004 and came into force 30 days later (on 8th January, 2005).

4.1.2 COMESA Court to move to its residences and permanent site

During the year the Government of Sudan reported that the permanent site and residence for the Court had been identified and the Court was expected to relocate to Sudan in February 2006.

4.1.3 Study on Court's organisational structure

A study on the new organisational structure for the Court, its human resource requirement levels and the terms and conditions of service of staff and officials of the Court as it prepares to relocate has been completed with USAID financial assistance and is before this Meeting for consideration.

4.1.4 COMESA Treaty amended to include appellant system

An amendment to the COMESA Treaty to, amongst other things, provide for an Appellate Division and a First Instance Division were adopted by the Authority in June 2004 in Kampala, Uganda, and came into force upon adoption. The nomination of judges to the new court bench was done by the 9th Meeting of the Ministers of Justice and Attorneys General in Addis Ababa, Ethiopia in April 2005. This was followed by their appointment by the 9th Meeting of the COMESA Authority in Kigali, Rwanda, in June 2005.

4.1.5 Fourth Meeting of the COMESA Court of Justice

Following the appointment of the judges to the reconstituted Court, the Court held its fourth meeting in September, 2005, in which it, amongst other things, considered its budget for 2006 and draft amendments to the Rules of Court to operationalise the Appellate Division and the First Instance Division. In adopting the draft amendments, the Court considered the new Article 38(2) of the COMESA Treaty, which now requires that the Rules of Court establishes must be approved by the Council before they can become effective. The Court urged the COMESA Authority after following appropriate Treaty procedures to repeal this provision, as it will inhibit the efficient operations of the Court and compromise the Court's integrity, independence and freedom to make its rules following the usual international practice.

4.2 COMESA Trade and Development Bank (PTA Bank)

The year 2005 saw Seychelles accede to PTA Bank membership. This increased the number of the Bank's shareholders to 19. Other COMESA Member States that are shareholders are Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Sudan, Uganda, Zambia and Zimbabwe. Tanzania and Somalia are also Members for historical reasons, whilst China

is the only non-African shareholder and the AfDB is an institutional investor.

During 2005, the PTA Bank approved investments in excess of US$500 million, whilst the Bank's cumulative total disbursement was over US$1.3 billion. In addition, during the period under review, the Bank continued to co-operate with such other financial institutions as the Exim Bank of India, the Dutch Development Finance Company and the Bank of China so as to mobilise trade and Investment funds.

4.3 COMESA Reinsurance Company (ZEP-Re)

In the year under review, ZEP-RE maintained steady growth in terms of premium income and its operations. The number of countries under its coverage approached 40 countries, as it extended its operations well beyond the COMESA region and indeed beyond Africa altogether. ZEP-Re continued to operate in 43 countries, conducting business with 218 companies within and beyond the COMESA region. During the year, ZEP-Re opened an office in Khartoum.

During 2005, ZEP-Re enjoyed a written premium income of US$18,200,796 by 30th September, 2005, compared to US$17,245,921 over the same period in 2004. The company's total assets rose from US$24,530,914 as at 30th September, 2004 to US$31,354,843 as at 30th September, 2005. Investments also rose from US$16,710,551 as at 30th September, 2004, to US$21,776,248.18 as at 30th September, 2005. The company recorded claims amounting to US$4,919,403 as at 30th September, 2005, compared to US$11,762,703 for the same period in 2004. An underwriting profit of US$1,209,759.53 was made for the period ending 30th September, 2005, compared to US$967,902.00 for the same period in 2004.

New Zep - re headquarters, Nairobi, Kenya

ZEP-Re maintained its regional credit rating of "AA" and an international credit rating of BBB- for the year 2005 with the firm Global Credit Rating. This rating will enable it to compete effectively and better serve the region. In line with the objective of investing in the region, the company has a new headquarters building, the ZEP-Re Place, situated in the Upper Hill area of Nairobi, Kenya; the building was officially inaugurated on 1st August, 2005.

The total paid up share capital of the company as at 15th November, 2005 stood at US$11,148,830.85.

4.4 COMESA Leather and Leather Products Institute (LLPI)

The main activities of the Institute are to help leather manufacturing enterprises in the private and public sectors to improve their production, marketing and trade activities by providing training, information, technological inputs, amongst other things.

Since its establishment, the Institute has implemented a number of programmes and projects in the area of human resource and institutional development, trade and investment. LLPI's training programmes have been designed to target groups who come from a number of sectoral occupations; the trainees have included such trainers in training centers in a number of Member States, including technical managers, supervisors, technologists, maintenance engineers and others. Participants in these "train-the-trainer" exercises have gone on to train leather technicians, technologists and operators in various institutions and firms throughout the region. The course syllabi and training materials still serve as a reference and text in most LLPI Country Units.

Including the project on Adding Value to African Leather, which is under implementation, the following trainings were conducted over May-November 2005:

- Office operations – Level II Training for LLPI women senior secretaries and logistics officers
- Entrepreneurship Development Training for SMEs Managers
- Leather Garments Design and Pattern Making for SMEs Technologists
- Raw Hides/Skins and Semi-Processed Leather Grading, Classification and Quality Assessment Training–Workshop for graders of tanneries and experts from regulatory institutes
- Sub-regional Training Programmes in Leather Footwear Design (Technology) and Pattern Cutting were implemented over 18th July–27th August, 2005, in Addis Ababa for 20 participants, drawn from 12 COMESA Member States (Burundi, DR Congo, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Uganda, Zambia and Zimbabwe), with funding provided by the Arab Bank for Economic Development in Africa.

4.5 COMESA Clearing House

The Clearing House interacted extensively with Central Banks and commissioned studies on the implementation of a new regional payments and settlement system. The new system aims to minimise the need for the use of hard currency in intra-regional trade as well as to enhance the convertibility of regional currencies. It is expected that the new regional payments and settlements system will become operational before the end of this year.

4.5.1 Restructuring of the Clearing House

Recognising that the Clearing House provided valuable services in 1980s, the Governors of Central Banks requested that a study be done to examine the future role of the clearinghouse. The study was conducted in 1997 with technical assistance from the EU, the World Bank, and AU/UNECA.

The study identified three priority areas of possible activities: the running of a clearing operations (REPSS); African Commerce Exchange; and the establishment of the African Trade Insurance Agency.

4.5.2 The Establishment of a Regional Payment and Settlement System

The PTA, COMESA's predecessor, set up a Clearing House in 1984, which enabled the member States to trade in national currencies. It operated until 1996, when the liberalisation of the foreign exchange markets in Member States called into question its continuing existence.

Since 1997, work has been going on to establish a regional payments and settlement system that takes into account the changed economic environment. Studies were undertaken on the management of risks for REPSS and on the comparative study between Real Time Gross Settlement and Multilateral Netting Systems. These studies were discussed by the Committee of International Payment Experts from Central Banks. The COMESA CGCB approved the recommendations that REPSS adopt a multilateral netting system that converts all payments in local currencies to a "settlement currency" (U.S. dollars or Euro) based on a fixed daily rate for transfer between countries, and that imbalances in the settlement currency be settled on a daily basis.

Detailed business processes, system operations and procedures, including message flows, queuing, access controls, settlement, country and system interdependencies, physical infrastructure, costing and cost recoveries have been worked out. REPSS is expected to go live by 2006.

4.5.3 African Commerce Exchange

The African Commerce Exchange (ACE) is an electronic commerce superhighway for a vast range of financial and other business transactions with the aim of providing a SWIFT (Society for Worldwide Interbank Financial Telecommunication) Service Bureau to small and medium sized banks on a shared cost basis. ACE is cost effective because it enables sharing the costs of an advanced technological platform amongst the stakeholders in the industry. By spreading these costs over a larger volume of transactions, significant cost savings in salaries, maintenance, hardware, licensing fees, upgrades and training are available for all stakeholders. ACE was launched during the Summit of Heads of State and Governments in Mauritius in 2000.

Efforts to establish ACE's SWIFT Service Bureau in the region have been intensified. Currently 19 countries (nine of them COMESA States) are utilising the Bureau for their SWIFT connections. The COMESA countries doing so are D.R. Congo, Kenya, Malawi, Mauritius, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe.

4.6 Africa Trade Insurance Agency (ATI)

ATI came into existence in January 2001 through an initiative of COMESA, with the support and financial assistance of the World Bank. ATI's basic objective is to deal with the perception of high risks associated with government action and the fear of such political events as war and civil unrest. These factors have severely constrained the financing of productive activity in Africa. ATI has become a credible insurance mechanism for dealing with this problem. ATI accomplishes its objectives by providing insurance, coinsurance, reinsurance and other financial services for the promotion of trade and investments into and within Africa. Its target market includes both African and foreign companies operating in Member States and engaged in productive activity. ATI insures the export and import of goods or services, as well as the financing by foreign banks and financial institutions of exports to ATI-participating countries.

During 2005, AT) extended its scope of operations by making available its political and commercial risk insurance cover to business entities not just within COMESA but across the African continent. The Agency's cumulative risk cover had exceeded US$125 million by the end of 2005.

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PART 5
COMESA Free Trade Area, Progress Towards A Customs Union and Way Forward

5.1 The Trade and Customs Committee

During the year under review, the Trade and Customs Committee examined the consolidation of the FTA and progress towards the CU. The 16th and 17th Meetings of the Trade and Customs Committee, took place in April and October 2005 in Lusaka, Zambia. Both meetings were preceded by workshops on the CU.

The Meetings of the Trade and Customs Committee examined the consolidation of the FTA, the CU, Customs co-operation and other trade-related issues in accordance with decisions of the Council of Ministers.

The 16th Trade and Customs Committee concentrated on the preparations towards the CU. With regard to developments in intra-COMESA trade, the Committee noted that intra-COMESA trade had continued to grow by 10 per cent to reach US$5.4 billion in 2004. Estimates also showed that intra-FTA trade had grown to US$ 2.5 billion and exports under AGOA had already reached US$ 752 million by March 2004. However, such trade remained only about 7 per cent of the global trade of the Member States. It was noted that a number of producers were taking advantage of the FTA, which had also stimulated investment in certain sectors and was benefiting the region in terms of increased production, trade and consumer welfare.

5.2 FTA to expand in 2006

At the 10th Summit of Heads of States and Government, when the Libyan Arab Jamahiriya was admitted as a Member Statement of COMESA, it committed itself to joining the FTA and other COMESA programmes and institutions by June 2006. Meanwhile, at the 17th Meeting of the Trade and Customs Committee, Comoros formally announced that it would join the FTA in 2006. One or two other states are also expected to join the FTA in 2006, bringing the total number to about 14.

With respect to the CU, the Committee noted that there was need to develop a coordinated programme of capacity building to prepare Member States on all the elements of the CU work programme and proposed a revision of the Cairo Road Map towards the Customs Union with the following elements:

- establishment of a structure for the management of the programme for the establishment of the CU;
- implementation of a programme to harmonise tariff rates within the agreed COMESA CET ranges;
- a programme to increase intra-COMESA trade;
- simplification and harmonisation of Customs legislation and procedures;
- development of regional standards for traded goods; and
- building of capacity for the implementation and management of the COMESA CU.

The revised Roadmap (contained in Annex I to this Report) to guide the CU work programme was adopted by the Council of Ministers at its 19th Meeting held in Kigali, Rwanda, in May 2005.

The 17th Meeting of the Committee also examined the issues in line with the decisions taken at the Summit and Council of Ministers held in Kigali, Rwanda, in May-June 2005.

With regard to the consolidation of the trade regime, the Committee noted that trade amongst the member States revealed a high potential for increased intra-COMESA trade, as indicated by the fact that several products exported in relatively large volumes to third countries were imported in similarly large or greater volumes by Member States from third countries. The Committee recommended that a firm-level Trade Flow Analysis be undertaken to identify the firms that export the identified products outside COMESA and import them from outside COMESA, and then to hold buyer/seller meetings as an important step in boosting intra-COMESA trade.

With respect to the implementation of the COMESA Rules of Origin, the Committee also recommended that the workings and processes for the application of the change in tariff heading origin-conferring criterion be adopted and implemented by Member States, except for headings 11.01, 11.02, 15.07, 15.08, 15.10, 84.22. 84.39-84.42, 84.76-84.79, 85.09, 85.10, 85.12 and 85.16, and Chapters 50, 51, 53, 54 and 55.

In the area of services liberalisation, the Committee recommended that work on the assessment of services be expedited so as to enable Member States to begin work on the formulation of a regional framework for liberalising services in the region

With regard to the preparations towards the establishment of the CU, the Committee reaffirmed its commitment to a co-ordinated approach to building the capacity of Member States towards implementing the CET. The Committee developed the Terms of Reference for the studies on Regional Trade Policy and Policy Space that Member States had requested.

The Committee noted, that whilst countries cannot belong to more than one CU, there was scope for nations to maintain or enter into new preferential trading arrangements with third parties, on condition that there were legal provisions regulating such relationships and administrative arrangements were in place to curb trade diversion. The Committee recognised the challenge for COMESA, which is a building block of the AU's AEC, in harmonising the COMESA CET and other instruments with those of other Regional Economic Communities (RECs).

5.3 Status of Tariff Reduction by non-FTA Members as at 31st December, 2005

Country	Level of Tariff Reduction
Comoros	80%
Eritrea	80%
Uganda	80%
Ethiopia	10%
DR Congo	0%
Seychelles	0%
Angola	0% (inactive)
Swaziland	Under Derogation

Source: Member State Tariff Schedules

The FTA now accounts for 54 per cent of COMESA's total population and just over 80 per cent of its collective gross product. Trade between FTA countries continues to grow.

COMESA has not only removed customs tariffs, but it has also been implementing a programme for the elimination of non-tariff barriers (NTBs) and technical barriers to (intra-regional) trade. Such traditional NTBs as quotas, licensing and foreign exchange restrictions have long since almost disappeared from trade within COMESA.

5.3 Benefits of COMESA FTA

As tariff rates have come down, many consumer items produced in the region have become more affordable. Increased competition has led to superior products rolling off local assembly lines. The consumer has also access to a better and wider variety of such industrial products as cement and iron and steel products. In fact, an analysis of the top intra-COMESA exports has shown that a very good mix of regionally produced agricultural and industrial products is now available to the consumer.

The FTA presents enormous opportunities for industrial and commercial interests. COMESA represents a single area of free trade and investment with a single market inhabited by close to 400 million people and a collective gross product of over 388 U.S.$ billion. It offers a great opportunity to engage in large-scale production, enjoy economies of scale and to compete with the rest of the world on markets previously unavailable to individual countries.

5.4 Trade in Services

The COMESA Trade regime has in the past concentrated on trade in goods. However, COMESA is cognisant of the fact that Trade in Services can act as a catalyst that opens up new opportunities. In the year under review, therefore, training events on Trade in Services were held in collaboration with the ECA Hub.

Four one-week training workshops for participants from eighteen COMESA and non-COMESA States were conducted. The workshops (the last of them in French for Francophone states) were the continuation of a joint effort by USAID's Regional Economic Development Support Office (REDSO), the ECA Hub and Manchester Trade to provide technical assistance to Sub-Saharan African government officials on the background and skills necessary to participate effectively in regional and multilateral negotiations on Trade in Services. The seminars were designed to improve the understanding of such officials on the nature of Trade in Services, concentrating on the WTO's General Agreement on Trade in Services (GATS) and regional and bilateral trade agreements on Services. The seminars culminated in a treatment of the necessary steps to realise a COMESA-wide Services trade agreement.

The training workshops consisted of two parts: (a) a primer on Trade and Services in the GATS, and (b) COMESA's interests in Services trade. The first part focused on policy themes and technical approaches in the Services area. The seminars also covered various approaches to multilateral, bilateral and regional agreements, and provided an understanding of how a COMESA-wide agreement might be negotiated.

5.5 AGRICULTURE

5.5.1 Agricultural Strategy

During 2005, the Secretariat, working with Member States, moved towards finalisation of its Agricultural Strategic Framework. The Framework maps out how COMESA intends to deal with the agricultural challenges in the region. The region faces major food security challenges nearly every year. Accordingly, attaining food security is the region's highest goal in agriculture. To deal with food insecurity, the Strategy emphasises making agriculture competitive by increasing productivity through implementation of programs in expanding markets, increasing adoption of technologies and ensuring an appropriate policy environment for agricultural development.

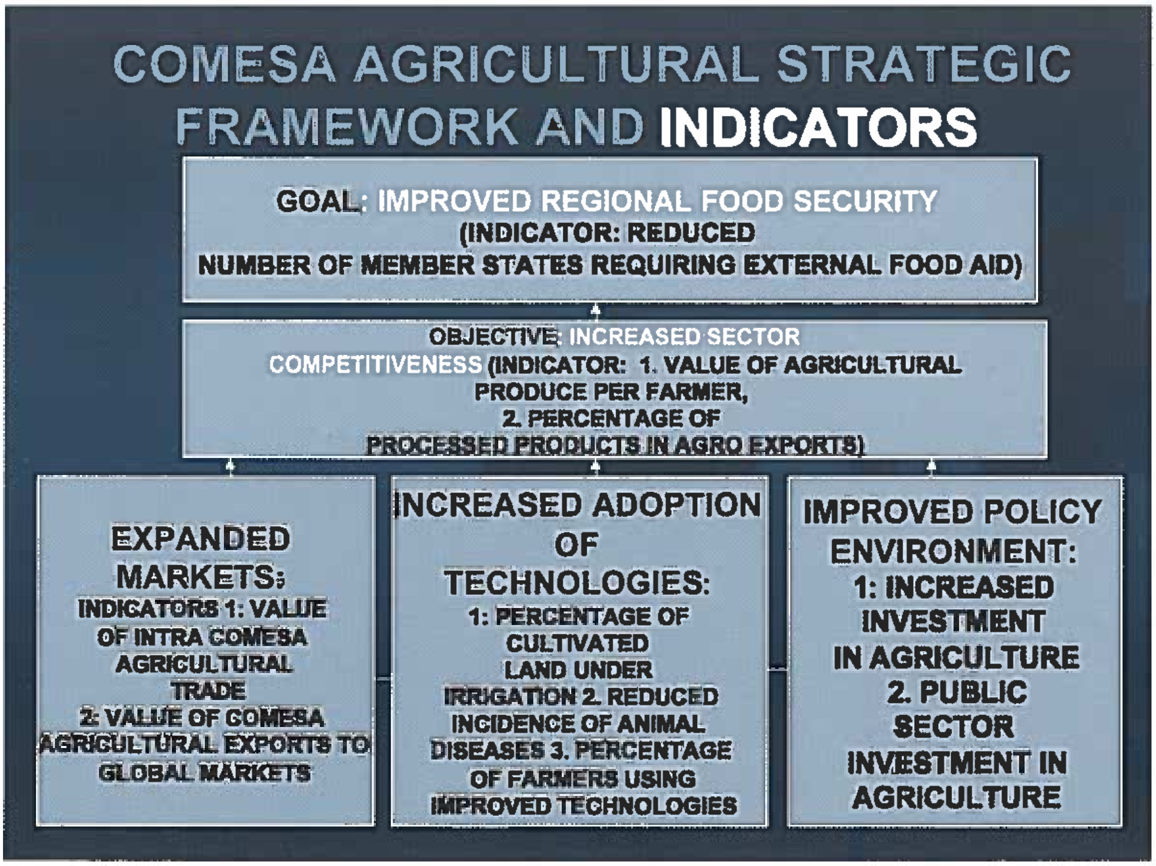
The framework is captured below:

5.5.2 Irrigation Development

During 2005, COMESA began implementation of an irrigation sector expansion project supported the Indian government. Eleven (out of 20) Member States had submitted requests to the COMESA Secretariat for support to harness their irrigation potential. These States include Burundi, Egypt, Eritrea, Ethiopia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. As an initial action, Indian irrigation experts visited Zambia in September 2005 to assess the potential for expanding the land area under irrigated agriculture and to identify existing irrigation schemes that were candidates for expansion. Irrigation development is one of the key pillars identified under NEPAD's CAADP.

5.5.3 Fertiliser Sector Development

At the Third Ministers of Agriculture Meeting in Cairo in November 2005, the Ministers directed that the issue of persistent agricultural inputs shortages be dealt with systematically. In line with that directive, the Secretariat initiated a series of high-level consultations with NEPAD on the preparation of a Regional Fertiliser Strategy. At year end, a draft strategic framework for agricultural inputs was in place, which emphasised taking a holistic approach encompassing the entire



agricultural inputs regime including chemical fertilisers, development of phosphate rocks, organic fertilisers, seed sector development and certification and crop protection chemicals. The strategy on fertilisers would also promote joint procurement of fertilisers by Member States to cut the cost of the commodity to farmers.

5.5.4 Grain Trade

The first Regional Grain Summit was held in Nairobi, Kenya, in October 2005. At the Grain Summit, which was attended by over 300 stakeholders (including various cooperating partners), it was agreed that in order to enhance agricultural trade in the region, it was vital to carry out the following:

- implement the "Maize Without Borders" Policy;
- ensure accurate/reliable information to instil confidence in the management of food security and to have clear institutional leadership (Food and Agriculture Marketing Information System or FAMIS, Regional Agriculture Trade Intelligence Network and SADC Early Warning); and
- institute effective consultations with private sector stakeholders on issues of deficits/ surpluses across the region; and
- clarify the role of government in agriculture and trade issues

5.5.5 Market Information

During 2005, progress was made on the implementation of the AfDB-funded project on a COMESA-wide FAMIS. The market information programme was further boosted by an offer from Egypt to develop a Web-based database to capture business contact information and profiles of private sector enterprises in the COMESA region.

5.5.6 Dealing with Avian Flu

Following the outbreak of HPAI (avian or bird flu), which has already begun to appear in COMESA region, the Secretariat initiated consultations to identify a regional surveillance and control centre to deal with the threat. Progress had been made in that regard by the end of 2005, with Egypt offering at the Agriculture Ministers' Meeting in Cairo in November the use of its facilities as one of the testing centres for avian flu in the region.

5.6 Private Sector Development and Investment Promotion

5.6.1 Low Cost Building Materials

Under the Low Cost Building Materials activity, supported by the Commonwealth Secretariat, a Workshop was held from over 14th-16th December, 2005 in Lusaka, Zambia, where it was agreed that the following be done:

- The COMESA Low Cost Building Materials and Technology Association be revived; all countries present appointed one delegate to the board of directors. This body will lead the follow-up to the project and use Information Technology to coordinate activities
- Member States form a "National Focal Point," which will eventually operate a "Centre of Excellence" in low cost building materials; the following Member States appointed delegates to represent them as focal contacts: Ethiopia, Malawi, Mauritius, Mozambique, Seychelles, Swaziland, Uganda and Zambia.

5.6.2 COMESA Common Investment Area

The CCIA initiative saw the holding of the second round of negotiations being in August, 2005, in Malawi, at which most issues were agreed regarding national treatment of investors throughout the region. The third round of negotiations, to be held in March 2006, is expected to be the final one.

This initiative was given a further boost during the year when the Egyptian government provided office space in Cairo to the RIA's staff. The Agency's objectives will be make COMESA one of the major destinations for regional and international; investors, whilst simultaneously enhancing national investment; and to carry out other activities in the area of investment promotion, facilitation and advocacy in conformity with the COMESA Treaty. At the end of 2005, candidates were interviewed for positions to staff the RIA.

5.6.3 Harmonised Standards

In its continued effort to facilitate trade, COMESA held its Fifth Technical Workshop over 19th-21st December, 2005, in Nairobi, Menya, during which the Sub-Committee on Standards Harmonisation resolved to recommend 100 Standards for adoption as COMESA Harmonised Standards. The adoption of these standards will bring the number of COMESA Harmonised Standards to 206. The new Standards cover Building and Construction Materials, Agricultural and Food Products, as well as Quality Management, Environment Management and Accreditation.

During the Workshop the Sub-Committee also agreed to expand areas of harmonisation to include Packaging Materials for Goods, Cosmetics, Soap, Detergents and Pesticides, Occupational Healthy and Safety, Footwear, Trade in Services and as well as such indigenous Foods such as caterpillars.

Recognising the importance of developing standards for indigenous products, the Sub-Committee mandated the Comoros and the DR Congo to gather information on the subject and submit with justification a proposal to the COMESA Secretariat to seek funding for undertaking the project. The Sub-Committee further recommended that the Secretariat consider convening a regional meeting to discuss the subject of indigenous products and technologies in trade with respect to standards. Also recognising the importance of the international Standard on Food Safety Management (ISO 22000) in the international food trade, the Sub-Committee recommended that the Secretariat hold a joint workshop with the International Organization for Standardization (ISO) on the implementation of ISO 22000.

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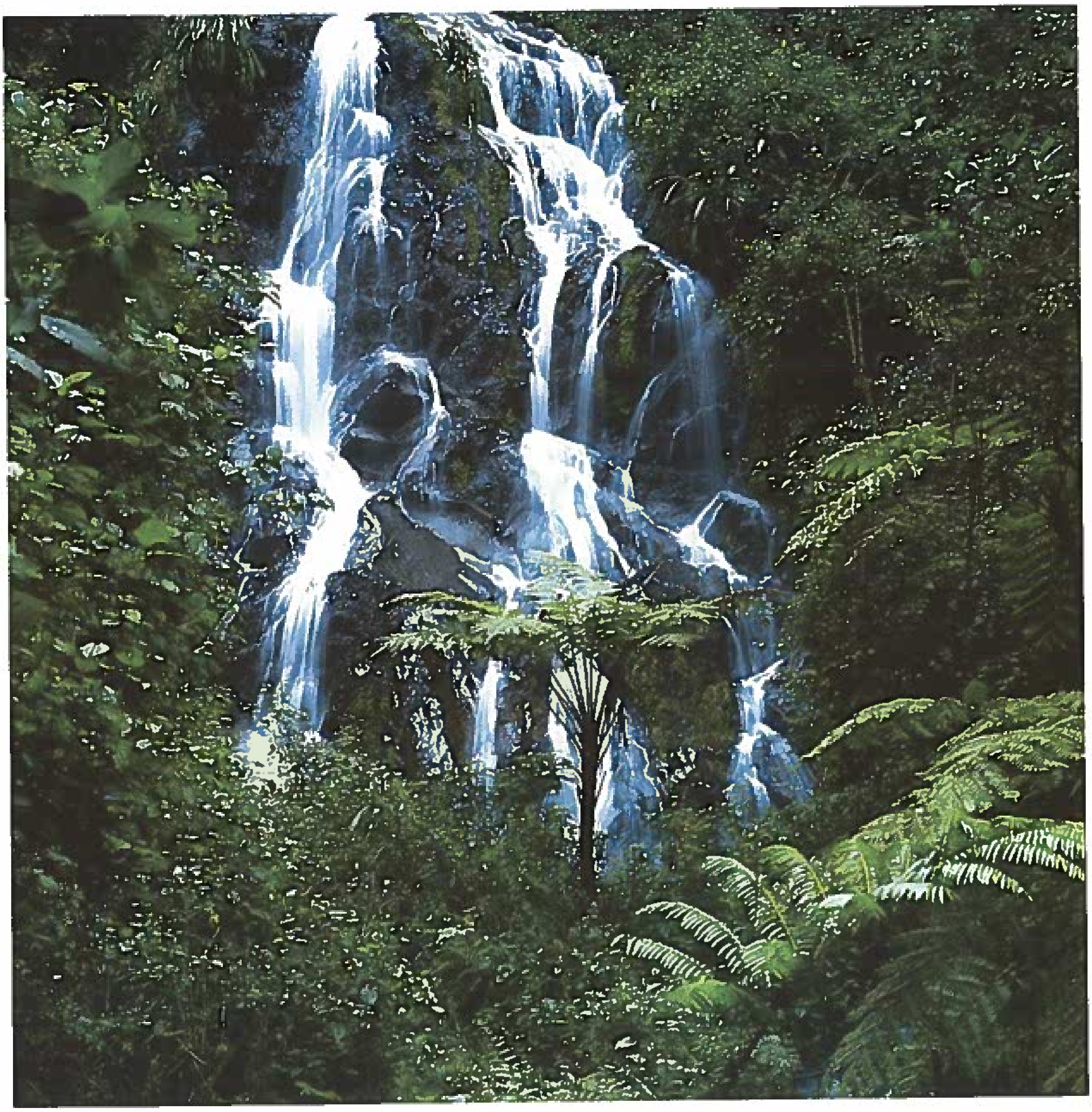

Part 6
Co-operation Activities

In 2005 COMESA again achieved considerable success in mobilising technical and financial resources from co-operating partners. Perhaps the year's biggest achievement in this vein was COMESA's signing of a Contribution Agreement with the EC after undergoing an extensive institutional audit. COMESA had expanded its collaborative effort and initiated constructive dialogue with new partners like China and Canada. In general, it was a time when COMESA actively participated in and contributed to such major events as the AU Summit, the African Partnership Forum (AFP), the AGOA Forum and Corporate Council on Africa Summit, amongst others, where matters affecting Africa were discussed.

Progress made in implementation of projects and programmes financed by co-operating partners is described earlier in this Report under the various thematic areas, which largely correspond to the technical Divisions of the COMESA Secretariat. Accordingly, this section of the report focuses only on matters that are not captured in these Divisional reports.

6.1 Collaboration with the European Union

The following were the major developments in 2005 in this regard:

6.1.1 Contribution Agreement

In December 2004 to January 2005, the Commission carried out a painstaking institutional audit, which involved the whole Secretariat and its work processes, including administrative matters, financial procedures, planning and programming as well as technical programme management, was carried out by the Commission. At the end of the exercise, the Commission was satisfied with COMESA's work procedures, which facilitated the signing of the Contribution Agreement between COMESA and the EC on 22nd July, 2005. The signing of the Agreement enabled the EC's allocation of Euro 30 million to the new RISP. Since then, under a new arrangement not previously tried elsewhere, COMESA has been implementing this important programme using its own administrative and financial procedures. Once COMESA successfully implements RISP under the Contribution Agreement, other major cooperating partners may follow similar approaches

6.1.2 Mid-Term Reviews

In 2005, the EC and the four partner organisations, namely, COMESA, the EAC, IGAD and IOC, undertook important mid-term reviews on the Regional Strategy and the Regional Indicative Programme (RIP) and the Inter-Regional Co-ordinating Committee (IRCC). In both cases, the purpose of the joint reviews was to ascertain whether or not the programmes were still relevant, on track and having the desired impacts.

The reviews confirmed that both the RIP and the IRCC co-operation mechanisms achieved these desired attributes. However, in the case of the RIP, the review noted the unsatisfactorily slow rate of disbursement, which was mainly due to the EC's lengthy and difficult procedures. However, the fund allocated for the IRCC was deemed to be well utilised. Although the reviews were joint, the final decision, which has yet to be announced, rests with the EC.

6.1.3 New EU Strategy for Africa

Recently, the EC developed a new Strategy for Africa taking into consideration the short and medium term strategies of the AU, the NEPAD Programme, the need to achieve the MDGs and the report of Tony Blair's Commission for Africa. The Strategy was adopted on 12th October, 2005 at a joint EC/AU meeting. The strategy provides a framework for action by all EU Member States and the Commission in support of Africa's efforts to attain the MDGs. It also proposes a strategy for partnership for security and development between the EU and Africa for the coming decade. The Strategy is an outcome of a European Council decision in June 2005 to provide Africa with more and better development aid and to speed up implementation of programmes. The Strategy focuses on key requirements for suitable development, such as peace and security, good and effective governance, trade, interconnectivity and so on. More specifically, it concentrates on partnerships for infrastructure development and provides support for programmes that facilitate interconnectivity at the continental level. The Strategy is considered as a turning point in EU-Africa relations.

The EU in May 2005 agreed to increase its Member States' collective target for ODA to 0.56 per cent of gross national income by 2010 and to achieve the

0.7 per cent target by 2015. Half of the additional funding, amounting to US$10 billion, is expected to come to Africa.

6.2 Collaboration with the U.S. Government

6.2.1 USAID/REDSO

After the Limited Scope Grant Agreement, which was operational from September 1998 to September 2004, came to an end, COMESA-USAID relations have been governed by the Strategic Objective Grant Agreement (SOAg) signed in September 2003 and running for three years. The second amendment to the SOAg was negotiated and signed between COMESA and REDSO on 14th September 2005. Under this amendment, a total of US$ 2.5 million was allocated by USAID to support COMESA programmes in the area of Institutional Strengthening, Intra-COMESA Trade Development, Development of COMESA/U.S. Trade and Peace and Security.

In addition to programmes directly managed by COMESA, USAID sponsors two more contracted programmes, namely, the ECA Global Competitiveness Hub and the RATES Programme. The ECA-Hub was contracted by USAID/REDSO to implement programmes that complement and enhance COMESA's integration programme, whilst the RATES programme is assisting and complementing COMESA in its efforts to increase the value and volume of regional agriculture trade.

In September 2005, COMESA and REDSO agreed on the US$5 million Great Lakes Crop Crisis Control Project, which aims at mitigating the catastrophic spread of CMV and BXW as a means to reduce the incidence of serious famine and food insecurity.

Encouraged by its own institutional audit, which it carried out in December 2004, REDSO (as well as the one done by the EC), REDSO in September in 2005 expressed its agreement to move COMESA from a "reimbursement" to an "advance" form of disbursement of funds. This is yet another demonstration of trust and confidence in COMESA's ability effectively to handle and utilise donor funds. This move will substantially reduce the financial pressure on COMESA, relieving it of the need to pre-finance REDSO-supported projects.

6.2.2 AGOA Forum, CCA Summit, and TIFA

In 2005 COMESA actively participated in the Corporate Council on Africa Summit in June in Baltimore, Maryland, in the U.S. and in the AGOA Forum in July in Dakar, Senegal, in July. In both fora, COMESA had an opportunity to engage the U.S. public and private sector and to mobilise support on matters of concern to the COMESA region and to Africa in general. These issues included the negative consequences of AGOA's Third Country Fabric Provision, U.S. agricultural subsidy, the lengthy nature of the procedures involved in U.S. Pest Risk Assessments and so on.

In June 2005, COMESA and the United States Trade Representative Office held the 3rd meeting on COMESA/U.S. TIFA in Washington, DC. TIFA is a framework for consultation between the U.S. and COMESA regarding all trade and investment matters. The afore-mentioned issues of concern to Africa and other matters, such as the Doha Round of WTO and enhancing U.S. investment in Africa, were discussed and matters identified that need to be followed up on by both parties.

6.3 Collaboration with France

Efforts to establish and expand the scope of cooperation with France have produced satisfactory outcomes. Current forms of cooperation started with promoting the use of the French language and improving its proficiency among COMESA staff in order to facilitate better communication and services to the COMESA Francophone Member states. The French government, through its Embassy in Lusaka, has facilitated language training for the Secretariat staff by sending a number of groups, including senior and middle level managers to the La Reunion for one-month periods each to enable them to converse, read and write in French.

The French Government has also continued to attach experts and young interns, on a short-term basis, to assist the Secretariat's Translation Services and Public Relations Units. France had also donated equipment and facilities (such as modern translation software) to help build capacity and skills and to improve the quality of the information communicated to the Francophone Member States.

6.4 Collaboration with UK/DFID

Trade and Trade expansion remain at the centre stage of COMESA's integration agenda. This approach blends well with strategic actions of other partner organizations such as the UK's Department for International Development (DFID), which increasingly recognises the potential of trade to provide sources of sustainable growth and eventually removing the need for development assistance. Because of the innovative focus of COMESA's agenda and its lead role in guiding the ESA group to negotiate EPAs, DFID provided COMESA with 1 million pounds to implement a capacity building project on Trade in Services.

The objective of the DFID programme on Trade in Services is to first of all undertake a comprehensive assessment of the state of Trade in Services in COMESA countries, upon which potential initial offers could be made to the EU for the ESA EPA negotiations.

COMESA notes the leading role that the UK is currently playing in reducing poverty in Africa. In this connection, further to the special report on Africa which the United Kingdom commissioned in 2005 to help Africa achieve the MDGs by 2015, the UK has announced that it will achieve the 0.7 per cent ODA/GNI by 2013.

Particularly in 2005, during its Presidency of the G8, the UK made special efforts to forge a new covenant between rich and poor countries by promoting debt cancellation, opening up the EU market and increasing investment in Africa. In addition, the UK also offered the World Bank US$200 million to support those countries that have demonstrated capacity to absorb more aid, turn-around countries and regional programmes. The UK also recently offered US$20 million to assist the establishment of the Infrastructure Consortium. COMESA hopes to benefit from some of these initiatives and plans to mount a COMESA mission in 2006 to initially identifying additional areas of collaboration.

6.5 Collaboration with Canada

Canada has also shown increasing interest in COMESA's programmes. Although the level of cooperation is still at a low level in terms of programme support, important steps have been taken. The Institute of Development Research Cooperation, which is mainly funded by the Canadian government, jointly with the EU, has funded COMESA's Policy Research programme. In 2004, the Canadian International Development Agency (CIDA) provided COMESA with limited funds, amounting to 250,000 Canadian dollars, to help organise workshops aimed at promoting and popularising the NEPAD programme framework in COMESA Member States. COMESA has also benefited from the Canadian Project Preparation Facility, which is being managed by the AfDB.

Seeking to further expand its cooperation with Canada, COMESA in June 2005 undertook a mission led by the Secretary General to explore further areas of collaboration. As a follow up to COMESA's mission, CIDA has proposed to send a mission to COMESA early next year, to develop a strategy for cooperation in jointly identified priority sectors, particularly in promoting regional trade within COMESA.

6.6 Collaboration with India

Within the framework of the comprehensive Memorandum of Understanding between COMESA and India, the Indian government is currently sponsoring three programmes in the areas of irrigation development, pharmaceutical development and low cost housing. The former involves sending irrigation engineers and technicians to assess the irrigation needs and potential of selected Member States with irrigation potential and to map strategies for irrigation development and capacity building. These experts have already visited Zambia and submitted their report. They will be visiting Eritrea and Uganda. The programme will cover about eleven COMESA member States. In addition, India designated its High Commissioner in Zambia as a special representative to COMESA, effective January 2005. Such accreditation reaffirms the un-equivocal interest and confidence India that has in COMESA as a regional organisation.

Although India is considered a developing country in terms of the world development indexes, it has made considerable progress in industrial development and technology, especially adaptable, appropriate technology and IT/ICT. This expertise is a potential source of inspiration to COMESA countries in their quest to industrialise, to add value to their products and to increase their competitiveness in both regional and international markets.

COMESA therefore wishes to further expand and enhance its cooperation with India. In this regard, COMESA is working with the Indian High Commission in Lusaka to organise a COMESA technical mission to meet and hold discussions with various Indian officials and map out an operational scope of cooperation.

6.7 Collaboration with China

For a long time, now the Chinese leadership have worked to develop political and economic relations with Africa based on mutual respect for each other's integrity. Furthermore, China's recent economic and technological successes have inspired COMESA to establish firm and reliable cooperation with the country. Accordingly, enhancing collaboration with China was included in the 2005 Work Programme outlining COMESA's cooperation priorities.

China is already cooperating with COMESA through its participation and contribution in two COMESA specialised institutions, namely ATI and the PTA Bank; China is the only non-African shareholder in the latter. China's Ambassador to Zambia has been designated as a Special Representative to COMESA.

On the basis of the China-Africa Cooperation Forum, and building on existing relations, at the invitation of the Chinese Ministry of Information Industries, the COMESA Secretariat undertook a mission to China in April 2005. The mission's objective was to identify areas of collaboration, with a view to promoting trade and investment between the COMESA region and China. Chinese support for the construction of a new COMESA Centre was also discussed. The Secretariat is currently following up with the Embassy in Lusaka to concretise collaboration in some of the identified areas.

6.8 Collaboration with Germany

Germany has not to date agreed on formal co-operation programmes with COMESA. However, the Secretariat recognises Germany's important position in the EU, as well as the development assistance that Germany gives to individual COMESA Member States in the areas of Private Sector Development, Small & Medium Enterprise Development and Promotion, Trade and Investment Promotion, Conflict Prevention, Institutional Capacity development, Agriculture and Rural Development, Water and Natural Resources Development and Sustainable Energy Promotion.

It is in realisation of the above that the COMESA Secretariat has initiated dialogue with the German Embassy and the Gesellschaft für Zusammenarbeit (Germany's agency promoting international development) in Lusaka with a view to identifying areas of mutual interest for collaboration. The German Ambassador to Zambia was designated as a Special Representative to COMESA in 2004.

6.9 Collaboration with Japan

Although COMESA does not have a co-operation programme with Japan, the Secretariat notes and appreciates the massive development assistance that Japan has provided to COMESA Member States at the bilateral level. Furthermore, within in the framework of the Tokyo International Conference on African Development and more recently NEPAD, Japan's interest in Africa has intensified. In this context, it is important to note that Japan is the only donor country that has taken a concrete step to identify 14 NEPAD infrastructure projects for its assistance.

The government of Japan has recently developed interest in working with COMESA and invited the Secretary General to visit Japan in November 2005. A critical sector of interest to both COMESA and Japan is infrastructure development. Therefore, during his mission, the Secretary General discussed with the government of Japan the idea of their providing support the COMESA Fund. COMESA is also exploring the possibility of Japan's taking up shares in the PTA Bank and working with the ATI in its business dealings.

6.10 The World Bank/IMF

The World Bank has not traditionally had a strong regional orientation in its development actions, preferring to focus on bilateral project/programmes with individual countries. Although this stance has not greatly shifted and the country-based model remains strongly entrenched, regional initiatives have recently gained in recognition and importance. Accordingly, the Bank has recently set up a Regional Integration Department and has started working with RECs in Africa and elsewhere. The Bank is also actively participating in the APF. In this connection, the COMESA Secretariat appreciates the concrete steps taken by the Bank to embark on the African Infrastructure Country Diagnostic Study, which will come up with a quantitative diagnosis of the state of Africa's Infrastructure sector.

Moreover, the Bank's recently formulated Africa Action Plan recognises the importance of regional approaches to building and maintaining infrastructure in key trade corridors, to creating common institutional and legal frameworks in such areas as customs administration, competition policy and the regulation of common property resources (such as fisheries), and to developing common solutions to transborder problems in health. In addition to seeking to leverage the Bank's lead role in analytical work and policy advice, COMESA is currently consulting with the Bank regarding its participation in this major initiative. A COMESA mission, led by the Assistant Secretary General (Programmes) visited the Bank and IMF in August 2005 year to set the stage for further and stronger cooperation on account of COMESA's experience, expertise and leading role in regional integration. The Bank also has a plan to send its own delegation to COMESA in early 2006 with a view to jointly mapping out a structure of cooperation.

6.11 African Development Bank

COMESA has over the years successfully implemented with funding from the AfDB a number of important projects. Noteworthy examples include the Agricultural Marketing Promotion and Regional Integration Project (AMPRIP) and the Public Procurement Reform Project (PPRP). The $8.6 million AfDB supported AMPRIP was launched in April 2004 while the PPRP closed implementation activities in December 2004. A successor programme on procurement is being negotiated.

Now that regional integration has a prominent place among the AfDB's activities, COMESA's efforts to engage the Bank in its various spheres of integration programmes will be maintained and scaled up. Besides these projects, the AfDB is a leading partner and coordinator of the NEPAD Short Term Action Plan (STAP) for infrastructure development, which makes COMESA-AfDB collaboration even more critical. In this connection, it is worth noting that in the framework of the APF, an Infrastructure Consortium was inaugurated in London on 6th October, 2005; the Consortium has a small, dedicated Secretariat hosted by the AfDB. The main mandate of the Consortium is to build a strategic partnership amongst donors to facilitate the development of infrastructure in Africa as prioritised by NEPAD and national governments.

6.12 Collaboration with Cuba and Italy

As part of its effort to bring on board new partners in development, COMESA has initiated consultations with the government of Italy and Cuba, which have expressed interest in collaborating with the body. In fact, the Cuban Government has already designated its Ambassador to Zambia as a Special Representative to COMESA. The process for designating Italy's Ambassador to Zambia is underway.

6.13 Collaboration with AU/NEPAD

As in previous years, in 2005 COMESA worked very closely with the AU. Particularly, COMESA's contributions to the negotiation of the Protocol on Relations between AU and the RECs, on the Great Lakes Conference and on Peace and Security is noteworthy.

With regard to NEPAD, COMESA serves as one of the Lead Organizations for the Infrastructure and CCADP programmes. COMESA has also participated in the various APFs. The 5th APF, which met in London on 3-5th October, made concrete moves towards the implementation of NEPAD programmes. The meeting discussed the African Action Plan prepared by NEPAD and another Action Plan prepared by the UK on behalf of the development partners, both reflecting agreed priorities and actions to be taken for the development of Africa. Having considered both documents. The APF decided that the two Action Plans needed to be merged into a Joint Action Plan (JAP) with time bound benchmarks, so as to assist the Forum in monitoring and reporting on delivery of financing and policy commitments, and identifying issues and difficulties. A joint Task Team was set up to prepare the JAP. Furthermore, the Forum has established a Special Support Unit, which will be hosted by the Secretariat of the Organization for Economic Co-operation and Development (OECD). The purpose of the Unit is mainly to co-ordinate the efforts of partners.

During the Forum, the OECD Secretariat reported that if partners honour their commitments, there will be an additional US$25 billion a year in aid for Africa starting in 2010. While the Forum was happy to know this good news, it expressed its concern on whether Africa will have the capacity to absorb such a large inflow of resources.

6.14 Collaboration with UNECA

In 2005 COMESA continued to enjoy close collaboration with UNECA both at the Headquarters and at the Sub-regional offices in Kigali and Lusaka, respectively, particularly in the areas of infrastructure, trade and gender. At a recent meeting with the Director of the Lusaka Sub-regional office, it was agreed that COMESA would be able to make use of the excellent capacity that UNECA has at its African Trade Policy Centre. The Centre has undertaken extensive studies on the EPAs, which can be shared with COMESA.

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Part 7
Appendixes

7.1 Appendix : COMESA Trade Figures

Statistical Tables: Comesa Information By State

Country	Surface area (sq km)	Population, total (Millions)	Population growth (annual %)	GDP (current US$ millions)	GDP Per Capita, US$	GDP growth (annual %)	Total Exports (US millions)	Total Imports (US millions)
	Constant	2004	2004	2004	2004	2004	2004	2004
Burundi	27,830	7.3	1.88	657.2	89	5.5	81.0	173.0
Comoros	2,230	0.6	2.36	366.5	596	1.91	7.9	63.0
Congo, Dem. Rep.	2,344,860	54.8	3.01	6570.5	120	6.3	1413	1873
Djibouti	23,200	0.7	1.41	663.1	927	3	41	275
Egypt, Arab Rep.	1,001,450	68.7	1.73	75147.8	1093	4.3	7679.8	11686.8
Eritrea	117,600	4.5	1.99	924.6	207	1.77	35	650
Ethiopia	1,104,300	70.0	1.94	8076.9	115	13.37	333.1	1384.7
Kenya	580,370	32.4	1.65	15600.3	481	2.1	2015.5	4411.3
Libya	1,759,540	5.7	2.05	29118.8	5132	4.5	20844	5650
Madagascar	587,040	17.3	2.56	4364.0	252	5.25	1003.4	1714.7
Malawi	118,480	11.2	1.99	1812.9	162	3.83	693.6	694.0
Mauritius	2,040	1.2	0.98	6056.1	4907	4.2	1613.8	2761.7
Rwanda	26,340	8.4	2.8	1845.0	219	5.66	80.5	165.3
Seychelles	450	0.1	1.26	703.5	8306	-2	169.3	409.0
Sudan	2,505,810	34.4	2.39	19559.0	569	6	2034.5	3743.6
Swaziland	17,360	1.1	1.29	2412.9	2155	2.12	2697.5	2270.2
Uganda	241,040	25.9	2.5	6833.3	264	5.73	602.8	1762.3
Zambia	752,610	10.5	1.37	5388.6	511	4.65	1604.5	2184.3
Zimbabwe	390,760	13.2	0.37	8304.5	631	..	1697.3	1730.6
Source: World Development Indicators, World Bank and COMESA Merchandise Trade database								
Trade figures for, Congo DR, Djibouti, Eritrea and Libya obtained from WTO database								

7.2 Appendix : Audited Financial Statements for the Year 2004

1. INTRODUCTION

The Secretary General submits the 2004 Report, together with the accounts of the Common Market for Eastern and Southern Africa Secretariat for the year ended 31 December, 2004.

2. MEMBERSHIP AND BUREAU OF COMESA

The 2004 Bureau was constituted by:-

Uganda	: Chairman
Rwanda	: Vice Chairman
Sudan	: Rapporteur

3. BUDGET

The 2004 Programme budget amounting to COM 6,298,209 (2003 : COM $ $ 5,923,455) was approved by the Sixteenth Meeting of the COMESA Council of Ministers in December, 2003. The technical programme budget priorities were the development of the roadmap for the COMESA Customs Union; the negotiations to agree on the Common External Tariff (CET); the consolidation and expansion of the Free Trade Area (FTA); the operationalisation of the COMESA Common Investment Area (CCIA); the strengthening of the COMESA industrial and agricultural base; and the strengthening of the support services in transport, telecommunications as well as administrative and legal matters. Performance recorded under these sectors is outlined in the 2004 Annual Report. The strengthening of support services, among other things involved the filling of eight professional vacant posts at the COMESA Secretariat.

4. GENERAL REVIEW OF THE YEAR

In his report for the year, the Chairman of the COMESA Authority, His Excellency President Yoweri Kaguta Museveni, President of the Republic of Uganda, noted that the COMESA regional integration agenda was gathering momentum, and more stakeholders such as the business community, the civil society and the MPs, were increasingly getting involved in the decision making process. The people of Eastern and Southern Africa had continued to benefit from cross border trade offered by the COMESA trade regime but much more needs to be done to maximise the benefits the region can offer. The Chairman called for clearer elaboration of the programme of cooperation in services sector, with special attention being given to the hospitality, leisure and tourism.

The Chairman decried the scourge of exporting unprocessed raw materials from our economies, pointing out that it was synonymous with being donors to the developed world. "It will be difficult for us to fully control our destiny as long as our main exports are low value commodities. I am glad that COMESA has now started on a programme to promote value addition to our exports", he added.

In addition, the region must continue to fight for fair trade terms for our exports under the multilateral negotiations such as the WTO, the current EPA negotiations and AGOA. However, this must go hand in hand with regional initiatives such as increasing domestic savings to expand domestic investment; investment in the information and communication technology and agriculture, in order to enable the region acquire the capacity to compete in the global market place

In conclusion, the Chairman observed that COMESA was on the right path and the investment Member States had made in regional integration was beginning to produce results.

External Auditors for 2003 and 2004

PricewaterhouseCoopers (PwC) commenced its second year as COMESA external auditors. COMESA looks forward to working with PwC during an interesting period, which will see an expanding mandate, membership and resource base. We are sure PwC will make a valuable contribution in supporting the Secretariat realise its mission, " To provide excellent technical services to COMESA in order to facilitate the region's sustained development through regional integration"

Information Technology

During the year, COMESA continued to invest in its IT Infrastructure with a view of not only improving internal operations but also improving linkages with its Member States' public and private sectors. This amongst others involved: -

- Upgrading of the Local Area Network and re-engineering the server room;

- Upgrading and enhancing of the email system;
- Translation of the Web-site to French and
- Staff training.

Emerging Framework with Development Partners

COMESA continued to enjoy strong support from its co-operating partners, thanks for the strong political and financial commitment of its Member States to the Organisation's integration agenda. During 2004, the cooperation partners' resource disbursement amounting to COM$ 10.4.million gave strong impetus to programme and project implementation.

COMESA's co-operation with bilateral nations has been progressively expanding and now includes the United States of America; United Kingdom; France; India; the Peoples Republic of China; Canada; Germany and Japan.

COMESA's co-operation with multilateral organisations has also continued to expand with the EU remaining the major partner of COMESA. In this regard, COMESA in collaboration with the EAC continued to negotiate with the EU regarding the operational modalities of the Contribution Agreement of Euro 30 million to be disbursed between 2005 and 2010. These resources will enable COMESA strengthen its programmes in the sectors of economic integration, trade liberalisation, development of transport and communications infrastructure and sustainable development of the region's economic resources. The African Development Bank continued its support of the region's Public Procurement Reforms and the Project on Agricultural Institutional Strengthening and Marketing was completed to the funding stage. Significant cooperation was also recorded with the African Capacity Building Foundation (ACBF); the Commonwealth Secretariat; the World Bank; the African Union/NEPAD and UNIDO.

Formula for contribution to the COMESA budget

The applicable formula for assessing the Member States towards the budget of the COMESA Secretariat was: GDP 30%; Imports from non COMESA countries 30%; Intra COMESA exports 30%; GNP per capita 5% and population 5%. The applicable upper ceiling is 13% while the lower ceiling is 1%. Council last reviewed the formula in May, 2002 and decided that it continues to apply as it had stood the test of time.

Income

(i) Income arising from Member States' contributions was COM $6,198,209 (2003 : COM $5,867,000).

(ii) As at 31 December 2004, the arrears of contributions to the COMESA Budget stood at COM $7,547,331 (2003 = COM$ 10,631,562) (See note 4)

(iii) In line with the decision of the Second Summit of the COMESA Authority, the arrears at the end of 2004 financial year accrued interest at 1 per cent amounting to COM $71,196 (2003 : COM $ 105,260).

Expenditure

The out turn on 2004 budget was COM $5,034,886 or 80 % (2003 : COM $ 4,420,195 or 75 per cent of the budget).

Surplus for the year

The 2004 excess of income over expenditure of COM $1,079,378 (2003 : COM $ 1,454,882) has been transferred to the Accumulated Fund. This was after writing off: Depreciation of COM $204,684, exchange loss of COM $3,842 and adding grant amortisation of COM $99,459.

Bank balances and cash

As at 31 December, 2004 cash at bank was COM $9,214,294 (2003 : COM $ 2,893,499) (See note 5).

Accumulated fund

At 31 December, 2004 the Accumulated Fund stood at COM $16,516,951 (2003 : COM $15,437,573) (See note 6 & 7)

External auditors

PricewaterhouseCoopers served their second year as COMESA auditors in line with their appointment by the Council of Ministers.

E J O Mwencha, MBS
Secretary General

Secretary General's Responsibilities

The Secretary General is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Secretariat and of the surplus or deficit and cash flows for that period. In preparing those financial statements, the Secretary General selects suitable accounting policies and then applies them consistently, makes judgments and estimates that are reasonable and prudent and follows Generally Accepted Accounting Principals.

The Secretary General is responsible for ensuring that the Secretariat keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Secretariat. The Secretary General is also responsible for the prevention and detection of fraud and other irregularities.

Secretary General's and Director Budget and Finance's statement on the financial statements

We are of the opinion that:

(a) the income and expenditure account is drawn up so as to give a true and fair view of the surplus of the Secretariat for the year ended 31 December 2004;

(b) the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Secretariat at 31 December 2004; and

(c) there are reasonable grounds to believe that the Secretariat will be able to pay its liabilities as and when they fall due.

Signed on their behalf by:

Secretary General **Director – Budget and Finance**

Date:____________________ 2005

We have audited the financial statements of the COMESA Secretariat for the year ended 31 December 2004 as set out on pages 7 to 16.

Respective responsibilities of the Secretary General and auditors

As described on page 5, these financial statements are the responsibility of the Secretary General. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary General, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Secretariat as at 31 December, 2004 and of its surplus and its cash flows for the year then ended; have been properly prepared in accordance with the COMESA financial rules and regulations; and accounting records, other records and registers required have been properly kept.

PricewaterhouseCoopers (PwC)
CHARTERED ACCOUNTANTS

Common Market for Eastern and Southern Africa (COMESA) Secretariat Financial Statements for the year ended 31 December 2004

Income and Expenditure Statement

	2004 COM$	2003 COM$
Income		
Member states contributions	**6,198,209**	5,867,000
Miscellaneous income	**173,182**	191,636
	6,371,391	6,058,636
Less:		
Division expenditure		
Secretary General	**1,155,390**	1,098,902
Administration and finance	**1,506,286**	1,384,522
Trade, customs and monetary harmonisation	**444,708**	412,228
Investment programme and private sector development	**353,416**	285,678
Infrastructure development	**321,081**	278,720
Information networking	**258,236**	164,734
Consultancy	**433,784**	288,906
Meetings	**561,985**	506,505
	5,034,886	4,420,195
Surplus before provisions and charges	**1,336,505**	1,638,441
Depreciation	**(204,684)**	(274,341)
Bad debts recovery	**-**	531
Exchange losses	**(3,842)**	(4,772)
Write off charges	**(108,205)**	-
Legal settlement	**(39,855)**	-
Amortisation of grant	**99,459**	95,023
	(257,127)	(183,559)
Surplus for the year	**1,079,378**	**1,454,882**

Common Market for Eastern and Southern Africa (COMESA) Secretariat Financial Statements for the year ended 31 December 2004

Balance Sheet

	Notes	2004 COM $	2004 COM $
Assets			
Non-current assets			
Property and equipment	1	**611,960**	729,621
Investment	2	**100,000**	100,000
		711,960	829,621
Current assets			
Loans and advances	3	**1,186,091**	2,216,933
Contributions receivable	4	**7,547,331**	10,631,562
Bank balance and cash	5	**9,214,294**	2,893,499
		17,947,716	15,741,994
Total assets		**18,659,676**	16,571,615
Equity and liabilities			
Capital and Reserves			
Accumulated fund	6	**16,456,951**	15,377,573
Capital reserves	7	**60,000**	60,000
		16,516,951	15,437,573
Non-current liabilities			
Capital grants	8	**164,634**	239,722
Current liabilities			
Creditors	9	**1,978,091**	894,320
Total equity and liabilities		**18,659,676**	16,571,615

These financial statements were approved for issue by the Secretariat on 2005 and were signed on its behalf by:

Secretary General

Director of Budget and Finance

Cash Flow Statement

	2004 COM $	2003 COM $
Cash flows from operating activities		
Surplus for the year	1,079,378	1,454,882
Interest received	(104,274)	(132,459)
Depreciation	204,684	274,341
Decrease(increase) in loans and advances	1,030,842	(197,720)
Decrease/(increase) in outstanding contributions	3,084,231	(1,360,339)
Increase in creditors	1,083,771	102,751
Amortisation of grant	(99,459)	(95,023)
Net cash from operating activities	6,279,173	46,433
Cash flows from investing activities		
Interest received	104,274	132,459
Purchase of fixed assets	(87,023)	(255,343)
Net cash from/(used in) investing activities	17,251	(122,884)
Cash flows from financing activities		
Capital grants received	24,371	108,519
Net cash from financing activities	24,371	108,519
Net increase in cash and cash equivalents	6,320,795	32,068
Cash and cash equivalents at 1 January	2,893,499	2,861,431
Cash and cash equivalents at 31 December	9,214,294	2,893,499

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) **Basis of preparing financial statements**

The financial statements are prepared under the historical cost convention and comply with the Generally Accepted Accounting Principals.

(b) **Revenue recognition**

Income comprises contributions from member states and other miscellaneous income. Contributions are recognised as income in the year the assessments are raised.

Contributions in arrears

Member states contributions in arrears at the end of the year are subject to 1% interest charge on the outstanding balance as per the Council decision of November 1997.

Interest income

Interest income is recognised in the year in which it is earned.

(c) **Expenses**

Expenses are recognised in the year in which these are incurred.

(d) **Currency**

The financial statements are expressed in units of the COMESA Dollar. As at 31 December 2004, the exchange rates were 1 COM$ = 4,700 Zambian Kwacha, 1 COM$ = 1 US$

(e) **Translation of foreign currencies**

Transactions in foreign currencies are converted at the rate of exchange ruling on the date of transaction. Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains and losses on conversion are taken to income and expenditure account in the period in which they arise.

(f) **Property and equipment**

Fixed assets are capitalised in the year of purchase or in the year of donation. The capitalised assets are depreciated on a straight-line basis, over the estimated useful life of the assets concerned. The principal annual rates used for this purpose, which are consistent with those of the previous year, are:-

Land and buildings	2.5%
Motor vehicles	20% or 33.33%
Office equipment	20%
Furniture and fittings	10%

Note: A higher rate of depreciation is applied to utility motor vehicles.

(g) **Grants**

Grants from multilateral and bilateral cooperating partners are included in the financial statements of the Secretariat to the extent that they are for direct support to the Secretariat. Separate financial statements are prepared for specific projects funded by cooperating partners. Capital grants are amortised over the estimated useful of life of the related asset.

Notes to the financial statements

1. Property and equipment

Cost	Buildings COM $	Motor vehicles COM $	Office equipment COM $	Furniture and fittings COM $	Total COM $
At 1 January 2004	182,152	159,700	1,044,234	319,559	1,705,645
Additions	-	25,300	45,627	16,096	87,023
At 31 December 2004	182,152	185,000	1,089,861	335,655	1,792,668
Depreciation					
At 1 January 2004	22,770	144,790	677,087	131,377	976,024
Charge for the year	4,553	14,290	152,274	33,567	204,684
At 31 December 2004	27,323	159,080	829,361	164,944	1,180,708
NBV at 31 December 2004	**154,829**	**25,920**	**260,500**	**170,711**	**611,960**
NBV at 31 December 2003	159,382	14,910	367,147	188,182	729,621

2. Investment at Cost

	2004 COM $	2003 COM $
100,000 Class 'C' shares in African Trade Insurance	**1,00,000**	1,00,000

3. Bank Balances and Cash

	2004 COM $	2003 COM $
Reserve account		
Reserve Bank of Zimbabwe	**32,408**	31,977
Current accounts		
Citibank US$ account	**3,671,964**	1,989,100
Citibank ZMK	**3,380**	8,048
Standard Bank US$ account	**4,327,919**	19,294
Standard Bank ZMK account	**11,599**	1,134
	8,014,862	2,017,576
Other accounts		
State Bank of Mauritius	**47,548**	47,548
Petty Cash	**108**	-
Standard Bank-staff gratuity account	**28,517**	73,028
Zurich Provident Fund	**1,090,851**	723,370
	1,167,024	843,946
	9,214,294	2,893,499

4. Accumulated Fund

	2004 COM $	2003 COM $
At 1 January	**15,377,573**	13,922,691
Surplus for the year	**1,079,378**	1,454,882
At 31 December	**16,456,951**	15,377,573

5. **Capital reserve**

This represents a discount received on the purchase of 100,000 'Class C' shares in African Trade Insurance Agency in 2002.

6. **Capital Grants**

	2004 COM $	2003 COM $
At 1 January 2004	239,722	226,226
Received during the year	24,371	108,519
Amortisation for the year	(99,459)	(95,023)
At 31 December 2004	164,634	239,722

7. **Creditors**

UNAIDS	-	396
Audit fees payable	6,900	8,050
Short-term Projects	35,385	-
ACBF	-	28,517
COMESA Funds	538,685	-
Provision for publications	1,994	16,732
	582,964	53,695
Prior year obligations		
Staff obligations	1,147,467	791,834
Communications expenses	34,067	21,417
Meeting expenses	20,477	18,809
Other expenses	148,209	6,674
Maintenance equipment	8,278	-
Terminal benefits	-	1,891
Consultancy fees	36,629	-
	1,395,127	840,625
	1,978,091	894,320

10. **Contingent liabilities**

There were no contingent liabilities at 31 December 2004 (2003- nil).

11. **Capital Commitments**

There were no capital commitments at 31 December 2004 (2003- nil)

7.3 ACRONYMS

AFDB - African Development Bank

ACP - African Caribbean Pacific countries

ACBF - Africa Capacity Building Foundation

ACE - Africa Commerce Exchange

AEC - African Economic Community (AU)

AFP - African Partnership Forum

AGOA - (U.S.) African Growth and Opportunity Act

ALINC - AGOA Linkages in COMESA

AMPRIP - Gesellschaft für Zusammenarbeit

APRM - African Peer Review Mechanism

ATI - African Trade Insurance Agency

AU - African Union

BOM - Banco de Mexico

BXW - Banana Xanthomonas Wilt

CAADP - Comprehensive African Agricultural Development Programme (NEPAD)

CCIA - COMESA Common Investment Area

CET - Common External Tariff

CGCB - Committee of Governors of Central Banks

CIDA - Canadian International Development Agency

CMVD - Cassava Mosaic Virus Disease

COMESA - Common Market for Eastern and Southern Africa

COMTEL - COMESA telecommunication network project

CU - Customs Union

DFI - Department for International Development (UK)

EAC - East African Community

EC - European Commission

EDPRS - Economic Development and Povery Reduction Strategy (Rwanda)

EBA - Everything But Arms

EPAs - Economic Partnerships Agreements (with the EU)

ESA - Eastern and Southern African countries

EU - European Union

FTA - Free Trade Area

GATS - General Agreement on Trade in Services (WTO)

GDP - Gross Domestic Product

HIPC - Highly Indebted Poor Country

HPIA - Highly Pathogenic Avian Influenza

ICT - Information and Communications Technology

IFA - Investment Framework Agreement

IGAD - Intergovernmental Authority on Development

IMF - International Monetary Fund

IOC - Indian Ocean Commission

IRCC - Inter - Regional Co - ordinating Committee

ISO - International Standards Organization

JAP - Joint Action Plan (NEPAD)

LDCs - Least Developed Countries

LLPI - Leather and Leather Products Institute

MDGs - Millennium Development Goals

MDRI - Multilateral Debt Relief Initiative

MERCOSUR - Mercado Común del Sur

NEPAD - New Partnership for Africa's Development

NTBs - Non Tariff Barriers

ODA - Official Development Assistance

OECD - Organization for Economic Co - operation and Development

OPEC - Organization of Petroleum Exporting Countries

PPRP - Public Procurement Reform Project

PTA - Preferential Trade Area

PTA Bank - The Eastern and Southern Africa Trade and Development Bank

RATES – Regional Agricultural Trade Expansion Support Programme (USAID)

REDSO – Regional Economic Development Support Office (USAID)

RECs - Regional Economic Communities

REPSS - Regional Payment and Settlement System

RIA - Regional Investment Agency

RIP - Regional Indicative Programme

RISP - Regional Integration Support Programme (EU)

SACU - Southern African Customs Union

SADC - Southern African Development Community

SOAg - Strategic Objective Agreement (USAID)

SPLA - Sudan Peoples' Liberation Army

STAP - Short term Action Plan (NEPAD)

SWIFT - Society for Worldwide Interbank Financial Telecommunicatio

TIFA - Trade and Investment Framework Agreement (U.S.)

UK - United Kingdom

UN - United Nations

UNECA - United Nations Economic Commission for Africa

USAID - United States Agency for International Development

WTO - World Trade Organization

ZEP - Re - COMESA Re - insurance Company

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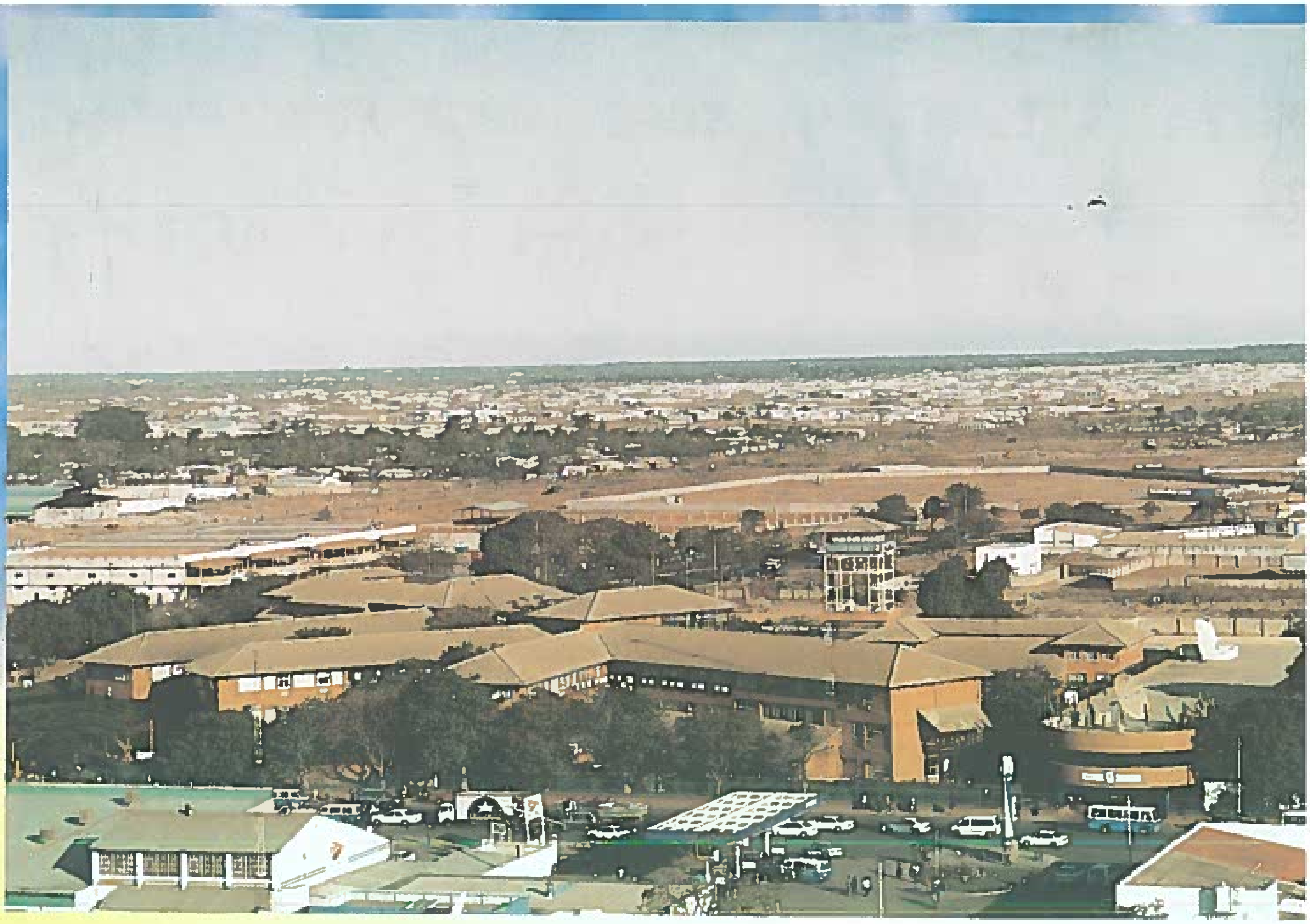
COMESA SECRETARIAT MISSION STATEMENT:

"To deliver excellent technical services to COMESA for the advancement of sustainable growth and development through regional integration"COMESA



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