IS THE EAST AFRICAN COMMUNITY READY FOR A MONETARY INTEGRATION?

By

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ABSTRACT

The East African Community which consists of five member states, Kenya, Tanzania, Uganda, Rwanda and Burundi, has set an agenda for creating a monetary integration in 2015. Accordingly, the objective of this paper is to assess whether the East African Community is ready for monetary integration within the time table table put forward or not. To analyse this issue, the paper looks into the macroeconomic convergence criteria set by the Monetary Affairs Committee of the East African Community. In addition to the economic convergence criteria, the paper analyses other existing economic and political situations within the East African Community.

A thorough situational analysis in the region divulges that partner states of the East African Community are not ready to create a single currency within an already set time table. To this effect, failure to meet the convergence criteria, donor dependence, overlapping membership and political problems continue delaying the plan to form a grand monetary integration project.

While this is the finding of the research, assertively following policies that promote economic growth that line up with those of a monetary integration agenda will enable member countries to attain the convergence criteria. While diversification of exports augment the revenue source of integrating states and there by solve donor dependence problem, addressing good governance challenges will also build the confidence of donor institutions. Furthermore, if member states address unresolved political problems apart from the aforementioned constraints, even though not through fast track, there is a probability to create a monetary union in the future.

Keywords: EAC Partner States, Convergence Criteria, Political Problem, Overlapping, Donor

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CONTENTS

ACRONYMS

ADB- African Development Bank

AU-African Union

CEN-SAD- Community of Sahel Saharan Region

CEPGL- Economic Community of Great Lakes

CFA-African Financial Community or Financial Community of Africa

COMECON- Council for Mutual Economic Assistance

COMESA- Common Market for Eastern and Southern Africa

CU-Customs Union

EAA-East African Airway

EAC-East African Community

EACB-East African Central Bank

EAHC-East African High Commission

EACJ-East African Court of Justice

EACSO-East African Common Service Organizations

EALA-East African Legislative Assembly

EAMU-East African Monetary Union

ECA-Economic Commission for Africa

ECCAS- Economic Community of Central African States

ECB-European Central Bank

ECOWAS-Economic Community of West and South Africa

EEC-European Economic Community

EMU-European Monetary Union

EU-European Union

FSRDP-Financial Sector Development and Rationalization Project

FTA-Free Trade Agreement

GDP- Growth Domestic Product

GTZ- German Agency for Technical Cooperation

IGAD-Intergovernmental Authority on Development

IMF-International Monetary Fund

NAFTA-North American Free Trade Area

NEPAD-New Partnership for Africa's Development

OCA- Optimum Currency Area

PTA- Preferential Trade Agreement

REC-Regional Economic Community

REI-Regional Economic Integration

SADC-South African Development Community

SNS- Single Sovereign National States

WB-World Bank

WWII-World War II

CHAPTER 1- INTRODUCTION

1. BACKGROUND

Attempts to establish economic cooperation in Eastern Africa have begun starting from colonial period. Since 1919, three states in the sub-region, then under the administration of Britain, vowed for the formation of a Customs Union amongst themselves. This objective was first to be realized via the East African High Commission and later by the East African Common Service organization. Economic disparity among the integrating states, Tanzania (then Tanganyika), Kenya and Uganda, put hurdles to the goals put in place.

These constraints did not stop the ambitious plans these countries had, however. As a result in 1967, the East African Community was established by the aforementioned countries with the goal of cooperation on a wide range of areas. Nevertheless, unequal distribution of benefits, irreconcilable goals as well as personal animosity among leaders of the region has led to its collapse in 1977 (Reith & Boltz, 2011: 1-2). In 1999, after different attempts to reestablish the community, the former signatory states have signed a Treaty on the Establishment of the East African Community which entered into force on 7th July, 2000. Later in 2007, the number of signatory states has been extended to five, precipitating in the formation of the East African Community consisting of five member countries; Kenya, Tanzania, Uganda, Burundi and Rwanda.

Unlike other Regional Communities in the continent such as Economic Community of West and South Africa (ECOWAS), Common Market for Eastern and Southern Africa (COMESA) and South African Development Community (SADC), the East African Community (EAC) aspires for a political integration as its final integration objective (Reith & Boltz, 2011: 1). And hence, after its reestablishment in 2000 with a new motivation to better management, participation of civil society and equitable distribution of economic benefits, members of the community relying on the whim of the treaty they have signed, have envisaged a step by step integration process that is supposed to precipitate in the formation of a political federation.

Accordingly, the Treaty for the Establishment of the East African Community has clearly outlined the steps that have to be followed in order to arrive at a Monetary Union and later Political Union. Formation of Customs Union is lined up as the first step to be followed by the establishment of a Common Market leading to a higher level of integration, a Monetary Union.

Accordingly, the Customs Union has been operational since 2005. It has begun operation prior to Rwanda and Burundi's signing of the treaty establishing the East African Community. However, inability to completely avoid trade and non-trade barriers has constrained its full realization since then (Reith &Boltz, 2011: 2). The Common Market Protocol was signed in 2009 and the Protocol for the establishment of the Monetary Union also got the whim of the head of states and government of the member countries in 2013.

This said however, the EAC faces serious constraints to bring to fruition it's most anticipated and ambitious monetary union objective. Similar to most integration attempts in Africa, the EAC is strong on paper while lacking the institutional as well as national support for its success (Reith & Boltz, 2011:1).

The positive benefits of deeper economic integration could not be fully reaped in the EAC due to cross-cutting problems that are common to the continent at large. The fact that most of intra-regional trade within the community is below satisfactory, the trade of only primary goods amongst member states, if at all, and problems associated with the presence of political, infrastructural and non-trade barriers have been identified as major hurdles to full-fledged economic prosperity (African Development Bank, 2011: 17). In a context where economic integration is suspect to unequal and biased benefits, member states are not willing to fully liberalize their restrictions let alone be willing to give up part of their sovereignty to an institution to decide matters on their behalf. Hence, in the current context where member states are uneasy about the idea of sharing their sovereignty and want to maintain the community as an inter-governmental association, it is unlikely that the plans put in place will be realized effectively in the short-run.

The main goal of the thesis thus is to focus on the upcoming monetary union of the East African Community. It will digest the net economic benefit and the costs associated with the formation of the monetary union. In looking for the costs and benefits of the formation of the East African Monetary Union, the focus of the paper will be on trying to identify whether the previous political, economic, social and other related problems that led to the breakdown of the earlier monetary union in the sub-region have been addressed appropriately. It will also synopsis or outline the political, economic and institutional conditions that have to be put in place for an effective monetary union.

The paper will recap that, even though there are economic benefits that come out of the possible establishment of a monetary union in the region, still the monetary union should be approached as a progressive and evolving project. The formation of a monetary union is not an easy task and as such it calls for caution in terms of the political will, economic situations of the member states concerned and the required institutional set-ups that must be put in place to facilitate the integration process in the Community.

1.2 STATEMENT OF THE PROBLEM

The process of integration in East African Community has faced major challenges since its reestablishment in 1999. As discussed above, the step by step approach adopted to implement the long-term vision of creating a monetary union has been short of being fully realized due to various reasons. The different level of economic development, donor dependence, overlapping membership and hence double commitment to other regional and sub-regional integration skims, have put constraints to the integration process. In addition to this, the withering political commitment to implement what has been agreed in the numerous treaties and protocols had added an extra burden on the possibility of deeper integration at least in the short-run.

The current move towards the establishment of the East African Monetary Union (EAMU) has likewise been fraught with uncertainty and ambiguity. This is mainly due to political and economic reasons that have the possibility of constraining the coming into effect of such monetary integration. As such, integrating countries are required to adopt similar economic and fiscal policies so as to be able to benefit from and effectively implement such a grand endeavor (Gupta & McHugh, 2012: 65). Moreover, member state's financial policies would have to be monitored and answerable to a single fiscal authority such as an East African Central Bank (Ibid: 59). But in the current context where member states are uneasy about deepening their integration, let alone adopt a single currency thereby giving a separate authority the say on fiscal matters, the possibility of realizing this becomes far-fetched. As such, a workable and comprehensive monetary union requires a long process of preparation in which member states will be able to harmonize their fiscal policies and adhere to the fiscal targets put in forth.

EAC member states have since 2007 been in the process of bringing this objective to fruition by setting up an East African Monetary Union (EAMU) convergence criteria with the goal of adopting a common currency by 2015 (Ibid: 67). This said however, the agreements reached do not deal with the fiscal arrangements that have to be in place once the common currency is adopted in 2015 (Ibid). In addition to this, the majority of the countries in the community are also members of other regional and sub-regional organizations creating conflicting obligations on them. Most of these countries are also members of Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC) which means that they would have to prioritize their objectives or risk being drained economically and hence politically.

This research reviews the current attempt to establish an East African Monetary Union. It argues that although the efforts towards such a grand economic objective is appreciable and is also economically beneficial to the member states concerned, political as well as economic constraints have the potential to hamper its effectiveness. As such, the paper analyzes the different challenges that have the possibility of hampering effective integration such as lack of adequate political commitment, donor dependence, failure to attain convergence criteria as well as overlapping membership.

1.3 OBJECTIVE OF THE STUDY

This paper tries to analyze the current attempt to forge an East African Monetary Union. In so doing, it will investigate whether or not this goal is feasible and what, if any, possible alternatives are there to bring this grand objective into reality thereby benefiting those participating states within the community.

1.3.1 Specific Objectives

The specific objectives of this study are aimed to;

- give an overview of what is meant by Economic Integration and the different stages associated within this process
- investigate the prospects and challenges of Monetary Integration in the East African Community
- elaborate why the economic integration skim that was started in the early 19^{th} century had failed
- identify why the grand objective of establishing the EAMU now is premature
- recommend possible ways as to how to make this deeper integration process lasting and challenge free

1.4 SCOPE OF THE STUDY

This paper will exclusively concentrate on the East African Community and the economic reality of the five participating states within it. It will look into the period where the early attempts were put in place to establish an East African Customs Union in the early 1919. However, the major focus of the research will concentrate on the time starting from when the EAC was reestablished in 1999 with the major focus on the period from 2009 to the present where the monetary union project has been in the making. Although the research's exclusive focus will be on the EAC with a special focus on its monetary union, it will briefly discuss and look into the European Union as the only existing model for monetary integration.

1.5 SIGNIFICANCE OF THE STUDY

This research will analyze the prospects and challenges of monetary integration in the EAC. It will assess possible constrains to full economic liberalization and would come up with possible solutions as to how to realize these objective. By so doing, the results of the research will be used as input to policy makers so as to come up with a more flexible approach towards bringing to realization the monetary union agenda. Moreover, it will raise awareness of the public concerning what has been done regarding the realization of monetary integration and what, if any, benefits this will have to the general public. This will specially be vital as it would give the grand project the public legitimacy and approval it ardently requires. Furthermore, the results of the study will be used as inputs for other researchers who wish to pursue research in similar areas.

1.6 RESEARCH DESIGN AND METHODOLOGY

This research will employ a qualitative approach to analyze the case under study. It will make use of secondary data by reviewing existing literature on EAC, approaches that have been used to deepen its integration as well as shortcomings to further and deeper economic union. It will look into books, published articles, conference proceedings, research papers as well as protocols and treaties adopted in the sub-regional organization. The research design will be a case study as the research exclusively focuses on and investigates the East African Community, the challenges and prospects to further integration with a special focus on the current attempt to establish a common monetary union.

CHAPTER 2-THEORETICAL OVERVIEW OF REGIONAL ECONOMIC INTEGRATIONS

This chapter deals with Regional Economic Integration (REI). The chapter bestows an overview on what is meant by Regional Economic Integration. It specifically looks into the stages or forms of Regional Economic Integration in detail. Going further, the chapter also divulges the prevailing difference between the notion of Regional Economic Cooperation and Integration. The attempt of introducing Regional Economic Integration is not similar for various countries located in different parts of the globe. Relying on this assumption, this part of the thesis will go into looking the ways for the formation of economic integration and cooperation schemes.

2.1 GENERAL OVERVIEW OF REGIONAL ECONOMIC INTEGRATION (REI)

The European Economic Community of 1957 and the European Free Trade Area of 1960 have had immense contribution in terms inspiring various states to move towards the goal of introducing Regional Economic Integration. Particularly, the instituting of REC's became very fashionable in various parts of the globe following these economic schemes (Mengesha, 2009:1). However, this does not necessarily mean that REC is a novel idea in some parts of the world. For instance, Regional Economic Integration in Sub-Saharan Africa is a very hoary experience. In a similar vein, the Southern African Customs Union of 1910 and The East African Community of 1919 were the two renowned regional integration initiatives that were in place in early 20thc in Africa (Ibid). Nonetheless, the intended marriage among member countries in Africa for deeper economic integration was lingered without any positive effect; due to factors relating to economic and political situations (Ibid). There have been tremendous similar attempts of inaugurating REC's in some parts of the world.

2.2 REGIONAL ECONOMIC INTEGRATION DEFINED

The term Regional Economic Integration does not have a comprehensive and clear cut definition. Most of the literature in the area has approached it in various ways. Accordingly, most economic literature has defined it as the amalgamation of various economies for a common program; mostly in order to enhance economic development. In another way, it is a means of intermingling domestic economies of various nations so as to create supra-national block that enhances the common goals of the states in question. In this arrangement, integrating states either try to reduce or eliminate tariff and non-tariff based barriers (ECA, 2012:12).

The establishment of the European Economic Community (EEC) of the late 1950's under the Treaty of Rome has been one of the major factors that enabled REC's to score a very fast improvement (Ronson, 1998:1-2). Having taken into account the experience of EEC, the notion of Regional Economic Integration later on widely disseminated in 1960's to various parts of the world; ranging from Africa to Latin America (Ibid). But this does not mean that there were no attempts to creating Regional Economic Areas before 1960's. Instead there were some forms of Regional Economic Integrations in some parts of the world. The East African countries such as Kenya, Tanzania and Uganda under the British supervision tried to create Regional Economic Community in 1919.

However, this and other former cases of regional economic integrations were connected to the then idea of either colonialism or imperialism (Ibid). For instance the Soviet Imperialism was the main driving force behind the birth of the Council for Mutual Economic Assistance (COMECON) in 1949 (Ibid).

In a similar vein, even though some of existing Regional Economic Integration schemes were near the danger of failure for some time after 1960's, later after 1980's they showed a sign of resurrection throughout the world. This new wave of REC was connected to the continual amplifications of the European Community with its improved policy actions. Apart from the EEC's deepening policy action, the proliferation was also attributed to a trade policy change in countries such as the USA. The U.S. which was before a hostile country toward free trade area had later changed its policy and moved on; to uphold regional economic integrations so as to gain the maximum benefits from the Free Trade Area. What is more, efforts to re-create previous economic schemes in various parts of the world had also played immense role (Ibid). Thus, attempts of launching regional economic communities in Africa so as to enable them to become competent regional blocks have not been fresh proposal. However, it goes without saying that, after independence from the former colonial powers a number of different arrangements have been widely anticipated to span much of Africa in a cooperative frame work (Horváth and Grabowski, 1997:2).

Having said this, even though the concept of Regional Economic Integration does not have a unified and established definition, integrating states either try to reduce or eliminate barriers to trade among partner countries (ECA, 2012:12). Apart from the reduction and removal of the rate of tariff and non-tariff barriers, the process of creating a brand new supra-national institution that somehow takes the autonomy over all integrating states will be inaugurated. Yet, entrusting sovereignty to a newly established supra- national institution will be a very challenging reality for some integrating states. In the sense that most of the time the intention to hand sovereignty over looks feasible from a theoretical point of view; especially this is true for countries in Africa (Mengesha, 2009: 8).

Under another stream of literature pioneered by Balassa (1961:174), Regional Economic Integration is well-defined as the obliteration of discrimination within a certain economic zone. To put it differently, REI's will not be merely designed to lessen discrimination; instead it is an entire removal of discrimination among countries that will celebrate their marriage.

This initiative stands in clear antithesis to the notion of Economic Cooperation which will be anticipated to reduce discrimination among member countries. The underlying concept yet is that removal of discrimination is not an overnight job expected from integrating states. It is a gradual process that states in question should put a force of implementation. In this regard, the concept of Regional Economic Integration underscored by Balassa seems a ground breaking work; especially as reference point for most integrating nations. As a consequence, intending states will obliterate discriminations that are observable at the national level.

Anadi et al (2005: 134), has defined Regional Economic Integration as a means of boosting trade, labor and factors of production mobility within the newly born economic zones. Salvatore (1997:97) also approached the regional initiatives as economic scheme that is anticipated to get rid of differential treatments among the local and foreign factors of production, goods and services (Salvatore, 1997:97).

2.3 STAGES IN ECONOMIC INTEGRATION

It is apparent that in order to attain economic integration in a wider scale partner states should pass through various channels of integration. This means that economic integration often involves different stages of economic integrations. Among the numerous stages that economic integration encompasses Preferential Trade Areas comes in to first line. There will be other forms of economic integrations that appear following the establishment of a Free Trade Area. Even though there is a disparity on the stages of economic integrations, most of the literature in the area unveil five forms of Regional Economic Integrations (Kone, 2012:11 and Balassa, 1961:174-175).

2.3.1 The Preferential Trade Agreement (PTA)

Preferential Trade Agreement or Free Trade Area (FTA): Preferential Trade Arrangements are the first forms of Economic Integration. From historical point of view, PTA's were an outgrowth of the concept of trade preferences. Under this trade preference, countries have bestowed an opportunity of market access trade benefits to solely selected groups of countries; while at the same time other non-members were intentionally excluded by integrating states from enjoying the fruits of the free trade area (Sullivan et al, 2010:1). PTA is mostly designed so as to provide and formulate a lower rate of tariff for countries swimming in a pool of Free Trade Area. As a result, the idea is that, this formulation reserves the benefits of a free trade arrangement only to member states.

Panagariya (1998:2 & 2000:288), in a similar vein, has pointed out that for a free trade area to be operational goods produced in the territory of participating countries should be subject to lower trade constraints when compared to other goods of the same nature produced outside of free trade area. Thus, Panagariya has taken a differential treatment of goods based on their place of production as the main distinguishing feature of PTA.

Integrating countries will obtain differential treatment when in trade with non-members states or third states. In this type of arrangement, member countries would reach an agreement to disregard both tariff and non-tariff fences on their mutual exchanges. Nonetheless, when member countries decide to get rid of their tariff and non-tariff related constraints amongst themselves, this does not necessarily mean that they will have to implement similar policies in their relations with non-FTA countries. They will maintain the autonomy to adopt their own individual trade policies with respect to trade relations with third countries. The autonomy of choosing what kind of trade policy to follow with respect to countries outside of the economic community will thus remain at the discretion of each member countries (Kone, 2012: 11). While the member countries acquire a reduction in the rate of tariff, hitherto the usual level of tariff will continue to be imposed against third states (Argüello, 2000: 4-5).

In a nutshell, PTA is a situation where members of the Economic Community are awarded a lower level of tariff as compared to third countries trading with the same countries in the economic community.

In general a Free Trade Agreement is a Preferential Trade Agreement, in which partner countries do not enforce any trade barriers (zero tariffs) on the goods manufactured within the boundaries of the integrating states. Nonetheless, each member country keeps its own tariff barrier to trade with third countries. This is usually referred as Trade Integration (Kone, 2012: 11). A notorious example for this case is the North American Free Trade Agreement (NAFTA) which was adopted in 1993 by the United States of America, Canada and Mexico (Hosny, 2013:2). Going further, even though FTA is the easiest of all forms of economic integration to negotiate, the recurrent idea is that FTA involves the underlying concept of mutual moratorium or freeze on the increase in duties (Delux, 2010:4). The principle of mutual moratorium compels member of FTA not to unilaterally increase barriers on other members of the same economic community (Ibid). By doing so, it forces states to impose on member countries tariffs and non-tariff rates that have been mutually agreed under the terms of FTA. Nonetheless, the playing card is in the hands of each member country with regard to what kind of trade policy to follow with the rest of the world.

2.3.2 The Customs Union (CU)

Customs Union is the second stage of Economic Integration that is commonly mentioned in most of the literatures in the area. At this stage of economic integration, member countries reach an agreement to eliminate tariff and non-tariff barriers to trade (Argüello, 2000:5). Integrating countries not only remove all barriers to trade among themselves; they also put a common benchmark with regard to the tariff and non-tariff barriers to be applied on third countries (Ibid).

As opposed to a ree Trade Area, Customs Union is one of the stages of Economic Integration in which member countries will set a common external tariff and trade policy with regard to third countries (Kone, 2012:11). The difference of Customs Union from Free Trade Area lies on the ground that, PTA involves a gradual reduction in the tariff and non-tariff barriers; and at the same time duty free (reduction in customs duties) exchange will be awarded only to members of the Union; whereas in Customs Union, a free trade exists among the members and simultaneously members will set a common customs for third countries (Delux, 2010:5). Thus, member of the Customs Union will no longer own the autonomy to unilaterally decide a trade policy of their choice with respect to non-members.

For Anadi (2005:148), Customs Union is the mechanism of abolition of intra-trade walls; thereby enabling partner states to opt for the equalization of tariffs on imports from non-member countries. Thus, the underlying idea is that Custom Union not only strives to remove internal barriers among partner states, it also goes to the extent of equalizing the rates of tariffs on the goods and services that emerge outside of the union.

According to Blassa (1961:174) the scenario under Customs Union is the abolition of discrimination which has been prevalent under the Free Trade Agreement. Besides this, it further involves adoption of free flow of commodities among integrating states. While doing so, partner states should also establish equalization policy so as to treat non-member countries in a uniform way.

For Hosny (2013:2), Customs Union is an FTA where the participating states enforce a common external tariffs on goods imported from the third countries. For instance the Customs Union of the East African Community is aimed at liberalizing intra and inter-regional trade (Sangeeta et al, 2007:2). These tariffs can differ across goods; yet not across partner countries (Ibid).

2.3.3 The Common Market

The third form of economic integration is a formation of Common Markets. It is relatively a higher stage of economic integration when compared with the aforesaid stages of economic integrations. The recurrent idea under a Common Market arrangement is that member countries not only do away with trade restriction, however, they also tolerate full mobility of factors of production (capital and Labor). A defining feature of a Common Market is that there is a free movement of factors of production among the members of an economic area.

Partner states should at the same time smooth the way for a greater integration by formulating and coordinating various enable environments. This form of economic integration is a plus to the Customs Union, as it is one step greater than Custom Union (Argüello, 2000:5).

A similar idea has been reflected by Kone (2012:396), accordingly, since countries in a common market should share common not only policies but also external tariffs with non-member states.

This arrangement will enable smooth and free movement of goods, services and factors of production among economic zone. For instance, even though the implementation is still lagging behind because of existing bottle necks in the region, members of the East African Community have recently adopted a common market arrangement.

The European Monetary Union which has served as reference point for the EAC has also inaugurated a Common Market scheme for members of the EU. As a result, those countries which have already handled a playing card by becoming member to a common market will enact a common policy that governs the way factors of production will flow in their relation with the rest of the world.

When compared with the second form of economic integration, Common Market requires national policy synchronization; but this does not in any way mean members are duty bound to synchronize their domestic policies (Argüello, 2000:5). Thus, the main driving notion of a Common Market arrangement is that common market manifests the situation where there will not be any sort of restrictions both on trade and free flow of factors of production (Balassa 1961:174).

2.3.4 The Economic Union/Economic and Social Union

Economic Union which is also called by some authors as a Social and Economic Union is also a prevailing arrangement in economic integration (Kone 2012:396). As opposed to some authors who have tried to intertwine this form of economic integration with a monetary fusion, most conventional literature classify it as an independent stage of Regional Economic Integration. As a result, this stage of economic integration should be treated as an independent form of integration in its own right than lumping it with Monetary Union. To this effect, Balassa, (1961:175) also approaches the notion of Economic and Social Union as a separate sphere of regional economic integration.

However, it is difficult to demarcate a clear boundary between Monetary Union and Economic and Social union. For instance in the European Union, the economic union strived to create a Monetary Union, euro. This form of economic integration embraces the circumstance in which partner countries agree to encourage the free movement of goods and services and the free flow of factors of production (which is a characteristic feature of a common markets), implement their common trade policies and external tariffs with regard to third countries, synchronize social policies and work to bring macroeconomic requirements such as budgetary and monetary policy managements. Since the role citizens play in the process to bring into life economic integration is not underestimated, Economic and Social union also requires social policy harmonization. This stage of regional economic integration seems to encompass the entire distinguishing features of the aforementioned forms of regional economic integrations (Kone 2012:396-397).

Argüello (2000:5) approaches Economic Union slightly in a different way when compared with Balassa. He conceptualizes, Economic Union as comprehensive form of economic integration that incorporates distinguishing characteristics of Customs Union and Common Markets. Put differently, Economic Union manifests the overall harmonization of monetary, fiscal, as well as the creation of common foreign and welfare policies.

2.3.5 The Economic and Monetary Union

The last three decades have revealed the magnitude of interest of various countries for a monetary unification and currency integrations. To this effect, there has been a new wave of interest to form a monetary union throughout the world. With a new wave of interest to form a Monetary Union, the reference point for most states has been the notion of Mundell's Optimum Currency (OCA) of 1961 (Alkholifey & Alreshan, 2010:17). The OCA theory pinpoints the conditions for the formation of the Monetary Union. In order for countries to join in to the club of the monetary union they are expected to qualify certain criteria. Since the economic arrangements relating to economic integration project include both sides of the story, the down sides and the benefits, OCA also sketches the costs and benefits of crafting monetary union among various countries (Broz, 2005:2). Going further, the OCA can be regarded as a device by which one will be able to answer to the question on how to pick the optimum exchange rate regime (Ibid). This prominent paper by Mundell demonstrates that "if a world can be grouped into different areas within each of which there is factor of production movement and between which there is factor mobility, then each of these regions should have a distinct currency that varies relative to an entire other currencies" (Mundell, 1961).

As a consequence, if there is asymmetric shock due to various contributory factors and that shocks affect integrating states in question, factors of mobility will be an alternative scenario that will be applied to serve as an adjustment mechanism to the problem of the asymmetric shocks. In this scenario flexible exchange policy will not be a proper instrument that will properly address the shocks (AlKholifey & Alreshan, 2010: 17).

Accordingly, there are numerous currency unions in various geographic areas circulating a currency of various kinds. For instance if look at the experiences of some African countries, the Central Bank of the West African States circulates the CFA franc in countries such as Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. In a similar fashion, the Bank of the Central African States circulates somewhat different CFA franc in countries like

Cameroon, the Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon (Rose, 2006:1 & Vanssay, 1999: 8-12).

Having said this, the message is that monetary union is the highest phase of economic integration compared to other forms of economic integration discussed so far. And it is the stage at which partner countries aspire to create a common monetary and financial policy and at the same time adopt a common means of transaction, currency.

A currency union is an arrangement in which integrating states demonstrate their desire to adopt a single foreign exchange policy among themselves (IMF, 2004:2). It can also be said a stage of economic integration that supports existing agreements on the common markets and single monetary policy (Delux, 2010: 6). The recent most prominent example of a monetary union is the European Monetary Union (EMU). After the 1992 treaty on the European Union established the European Union, eleven member states of the EU came together so as to create a single monetary union for the EU in early January 1999 (Vanssay, 1999:2). In this regard there have been tremendous progressive steps (such as tightening their exchange rate to the value of the euro and handing discretionary monetary policy to the ECB) that have been taken by the integrating states in the EU (Ibid). Thus, monetary union basically implicates an exchange rate union.

2.4 COST AND BENEFIT OF MONETARY UNION

The evaluation of the benefits and costs of monetary union has been a central focus of most researches. Studies into the actual benefits and down sides of a single currency have not been an easy task. This is because ascertaining the impact of the anticipated monetary integration on the economy of integrating states demands a thorough and comprehensive analysis of various economic factors; so as to reveal both the down sides and the merits of the integration.

Furthermore, digesting and revealing the potential effects of monetary union on the political elements of participating states may not be an easy job for most policy makers (P. Ngo, 2012:70).

Whatever the case, there is always a consequence of setting out a Monetary Union. Most of the empirical tasks carried out on the pitfalls and benefits of the formation of a single currency emphasize whether participating countries will qualify for the criteria of OCA or not. Compliance with essential elements of the traditional approach of the OCA will be mandatory for integrating states that have shown interest to dance in the club of a Monetary Union (Tavlas, 2008:12). The general idea is that Monetary Union will be more feasible if integrating states confront similar conditions of trade shocks. A resemblance of the shocks disavows the desire for exchange rate adjustment and also certifies the operation of a shared monetary policy (Ibid: 13).

Thus, coming back to the advantage of adopting a single currency area, one of the key advantages that have been a subject of discussion in most economic literature is attributed to the obliteration of transaction costs; costs that stem from the prevalence of exchanging currency (Robson, 1987:140 and Tavlas, 1993). By large, these costs may differ relying on the size of the economy. One example that supports this assertion is a survey on the European Economic and Monetary Union (EMU). In the survey it has been displayed that with an adoption of the single currency, participating countries in the EU have been expected annually to save an amount close to $ 30 billion (Portone, 2004: 1). This is an explicit instance that demonstrates the merits (reduction of exchange rate) that have attached to the adoption of a single currency among integrating states. While reduction in the costs of the transaction is an immediate fruits of setting out a monetary union, in a similar vein, the reduction in the exchange rate also results in an increase in the amount of output integrating states expect to gain from the ongoing process. Apart from the benefit afore said, switching to a common currency emits the following added values to integrating states:

I. It disregards the need of firms to maintain staff to look after exchange rates within the area (Tavlas, 2008: 13).

II. Formation of more transparent pricing system, which makes international price comparison at ease (AlKholifey and Alreshan, 2010:18)

III. Monetary union arrangements are less vulnerable to speculative attacks (Ibid and Frankel, 1999).

IV. Credible monetary policy when compared to the one that prevails at the national level of most integrating states is also one of the benefits that has attributed to the creation of a single currency.

Thus, introducing a single currency by obliterating foreign exchange risks, improves the rate of trade and cross border lending that monetary integration aspires to achieve. It does so mainly by getting rid of volatile exchange rate that has been painstakingly hurdle to integrating states in question (Portone, 2004: 2). Thus, one of the aims of introducing a monetary union relates to an advantage of creating and increasing market access to integrating states; if this is the case, removal of differential exchange rate by introducing a single currency brings the aims orchestrated by policy makers in the area.

It is apparent that a creation of a single common currency will thwart competitive devaluation and speculations (Ibid). A certain country may try to opt to devalue its currency so that it can boost its export sector. This is a situation of competitive devaluation. In an attempt to react to this devaluation, another trading partner will follow the same journey and devalue its currency. This will mostly be done in order to enable the trading country cope up with a country that has already devalued its currency. Yet, this will result in a downward spiral with respect to the value of the currency. Apart from a downward spiral, upsurge in inflation will also be an outcome of this scenario.

By the same token, switching to a single currency gets rid of speculations among the member of a single currency. It is contended that before joining a single currency, most of the European countries were prone to speculation problems (Portone, 2004:2). Speculation is a process in which people will anticipate a fall in a value of a currency. If people anticipate the fall in the value of a currency, they will automatically try to vend all of their assets and divert the upcoming difficulties. It is a preemptive strike that will be taken by stakeholders. The preemptive strike action taken as a result of this speculation does not cease at some point; in a similar fashion others also intensify the process of selling their holdings to escape from the decline in value of the currency. Thus, once people start selling their holdings, other people also join the queue and vend all of their assets. Therefore, once the process starts it will reinforce itself again and again (Ibid). As a result, opting for a single currency obliterates this speculation among the broader public.

Nonetheless, being part of a single currency is not without costs. The usual and conventional down side of a monetary integration that has been a subject of tremendous literature is a loss of monetary sovereignty. Independent use of a monetary policy will no longer belong to national states. One of the reasons that make relinquishing a monetary policy to a supra-national organ a drawback is that states will not revert to it in a time of rainy season. This policy may become quite significant if member countries confront different shocks; yet, once a country gives up its independent monetary policy, there will not be room for a member country to reclaim the policy (Portone, 2004: 3).

For instance in the case of the European Union, almost all of the member states had to abandon their exclusive right of exercising an independent monetary policy so as to join the club of the euro and have also empowered the newly born supra-national organ, the European Central Bank (ECB) to take the responsibility of handling a monetary policy issue. In general, the chief downside of handing an independent monetary policy over to a brand new institution will be observable in times of crisis in which integrating states unable to respond to asymmetric shocks in identical way (Rose, 2006:1).

As a consequence, it is a very huge challenge for countries to be in a single monetary union during this time. Adopting a single currency also encompasses various other subsidiary costs: costs of training new staffs, changing computer software and adjusting tills and changing in the labels.

2.5 A GENERAL GLIMSE OF REGIONAL ECONOMIC INTEGRATION AND REGIONAL ECONOMIC COOPERATION

There is misunderstanding on the notion of regional economic integration and cooperation arrangements. At glance, both concepts resemble similar; nonetheless, slightly different economic initiatives. Objective, structure, membership and sector coverage are the dividing lines between economic integration and cooperation schemes (Radelet, 1999:6-7). All forms of economic integration such as FTA, Customs Union and Common Markets fall under the category of economic integration. In its coverage, cooperative initiatives encompass policies and strategies that have an interim nature; whereas integration projects mostly are a permanent arrangement (Ibid).

Cooperation mostly focuses on selected areas of policy harmonization such as formulation of a common tax both for foreign and domestic investors and a joint production of public goods and services; whereas an integration arrangement is more or else a comprehensive arrangement (Ibid). Regardless of their structure, these regional economic arrangements also differ in their objectives. Both in terms of its coverage and depth, economic integration follows markedly a different pattern in different parts of the world (GTZ, 2008:3-4). In a nutshell, there may not be a similar driving factor behind the establishment of an integration arrangement. For example, while economic integration in South- East Asia has mainly been motivated by the market, the process in Europe followed a different path and has been accompanied by appropriate institution building process. On the other hand, European integration model has been taken as an experience by most African countries (Ibid, 5).

Economic integration process often involves various stages of economic integration; FTA, customs union, that are subject to a progressive realization. Yet not all integration initiatives may necessarily follow these consecutive stages, nor is it economically or formally necessary to do so (Ibid). The most prominent example is the European Economic Community that skipped the first stage of the establishment of a Free Trade Area and started the process of economic integration right from a Customs Union. Similarly, in some regions of the Western and Central Africa common currency has preceded the establishment of a Customs Union (Ibid). Mostly historical backgrounds of integrating states and the country leading the game of integration are the two crucial factors that decide which way to follow.

For instance, governments are a chief player in the African economic integration project; while in the case of Asia, business led integration seems very fashionable. Yet, this kind of path may not mostly win political support (Ibid, 6). Furthermore, the dichotomy between cooperation and integration is also visible from economic, political and institutional point of view. From economic stand point, an already established cooperation may easily be reversed. This connotes the idea that most cooperation schemes are a temporary arrangement; whereas reversal may no longer be there in the case of integration and it shows enduring and stable characteristics (Kone, 2012: 389).

There is also disparity between the two notions from the spectrum of politics and institutional arrangements; from this view point, the commitment exerted in a cooperation arrangement is mostly to implement intergovernmental institutions; in antithesis to this, integration encompasses supra- national institutions (Ibid).

Regional Economic Cooperation from the very inception may or may not be rooted in distinctive organizations; yet its often contingent on the voluntary, unanimous and continuous decisions of its Single Sovereign National States (SNS) (Schmitter, 2007:4 & Kone, 2012: 389).

Free entrance and exit is also the defining element of cooperation; yet the allegiance of members to economic integration is not minimal (Schmitter, 2007:4). Furthermore, cooperation initiatives may also seem to be a precursor to economic integration projects. This preparatory phase endorses confidence among the potential member countries and may also serve as way to structure interdependence among the wider public before plunging into the much more perilous integration project. However, still the interplay between the two looks greatly contingent (Ibid, 8).

CHAPTER 3 –THE EAST AFRICAN COMMUNITY FROM PAST TO PRESENT

3.1 OVERVIEW OF THE EAST AFRICAN COMMUNITY (EAC)

This chapter looks into the East African Community from its inception during the 19th century until its breakdown in 1977; as well as it stabs to see the current situation. It will discuss in detail the objectives behind its very formation as the first of its kind in the sub-region and the continent at large. Moreover, it gives an overview of the factors that led to its break-down in 1977 despite its high prospect to promote deeper integration. In the last section current attempts that are being made by the participating states towards an East African Monetary Union will be briefly discussed.

3.1.1 Evolution of EAC

3.1.2 Initial Attempts Towards Integration

Attempt to economically integrate the East African region date back to the later 19thc. As a long term goal of bringing the region under common administration thereby easing the task of uncoordinated governance systems the then colonial power Britain had sought for regional integration (Mongomezulu, 2006:81). In 1919 the East African Currency Board was set up to issue money in the three territories namely, Kenya, Uganda and Tanganyika (Nyirabu, 2011: 5). A free trade area consisting of Uganda and Kenya was established (later joined by Tanganyika) in 1921 as the first official attempt towards economic integration. With the main objective of easing administrative costs of the three territories and foreseeing a prosperous economic advantage resulting from economic integration, the plan was set in motion (Mongomezulu, 2006: 82). The three territories grew into a Customs Union in 1927 (Nyirabu, 2011: 5).

These attempts to economic federation were not welcomed by the three territories, however. In Uganda and Tanganyika, the then leaders rejected the idea as a tool for European domination despite its economic potential while in Kenya, the proposal faced criticism from white settlers who believed the new power arrangement would dismantle already existing relation between settlers and East Africans (Mongomezulu, 2006: 83).

3.1.2 Attempts in the 1920's

Following this initial attempt, the next concrete plan came in 1924 with the establishment of a four member Commission tasked with the duty to investigate and look into the possibility of forging a true economic union in the region. The East African Commission, as was it called then, led by Hon. W. G. A. Ormsby-Gore, M.P in British parliament was set up to take measures as to how to accelerate the overall economic development of the region and to set in motion the requirements for deeper integration. Nonetheless, as discussed above, the report by the commission faced the same hostility and rejection that came from most East Africans at the time.

The Commission later reached at a compromise in which a bottom-up approach was favored whereby local governors of the three regions would spearhead the integration process. This was considered a better solution with the belief that an imposed federation was doomed to failure from the very start without securing public approval. As a result, local governors were to meet once a year, with each territory hosting and chairing the meetings in rotation and where they will discuss regional problems they may face (Ibid: 86). With the first conference held in 1926, the following major issues were considered priority and given significance among which the following can be mentioned, customs tariffs, railway rates, and scientific research activities.

3.1.3 Attempts in 1930's

Unable to leave matters to regional governors, the British administration once again sought to take matters into their own hands. They had selected Sir Hilton Young to head another commission with the task of deciding on the fundamentals of integration in East Africa basically focusing on what kind of integration was feasible, which countries should be eligible and how should the proposals made by the regional governors be put in effect. The Hilton Commission, similar with its predecessor sought a gradual process of deeper integration with the only additional suggestion that there should be a central authority of the three dependencies, Kenya, Uganda and Tanganyika, which will be responsible for supervising and coordinating matters affecting them (Ibid: 91-91).

In response to the recommendations made by the Hilton Commission, it was considered necessary to establish a High Commissioner who is tasked with the goal of legislating on a wide range of areas in East Africa including customs, railway, post, and telegraph among others. The change in government in Britain did not hamper the attempts towards integration as the new Labor Party formed a Joint Select Committee representing both houses of parliament. Its main task similar to earlier attempts was to investigate possible attempts towards forging closer integration in the region (Ibid: 93).

The committee not diverging its opinion from its predecessors opted for a slower integration and recommended that such integration should become possible through continuation of the meeting of the regional directors. As such, these meetings by the locals still concentrated on identifying areas for further cooperation in the region (Ibid: 94).

3.1.4 After World War II (WWII)

After the Second World War ended in 1945, new energy and enthusiasm was in the air towards forging economic integration in the region. Owing to German's enhanced interest to re-establish control over Tanganyika, the attempts towards forging closer cooperation so as to avoid this German desire was sought especially by white settlers. Kenyan white settlers believed that a return of Nazi Germany to the scene in the region would directly affect the new power arrangement put in place and hence would threaten their very existence (Ibid: 95).

The conference of Directors was now broadened to also include participation from new country's with similar objectives of economic cooperation namely Northern Rhodesia and Nyasaland. Similar with the very ideals that led to the establishment of the European Community, the goal in the region was to forge economic integration in the short-run until later when the spill-overs from such cooperation would lead to political unity. A Joint Economic Council was set up for this purpose as well as inter-territorial Boards with the task of dealing with manpower, war time production, industrial management and price control. And for this purpose different ad-hoc institutions were set up including East African Research and Development Board and East African Refugee Administration (Ibid: 97).

One short coming in all this was the fact that the ideas did not entertain the local support and input as they should have. The British administration did not consider this relevant as long as the major objective of bringing these territories under common administration was achieved. The matter of a possible East African integration was the main focus of most of the debates in Britain during the

WWII. Most of these debates concerned the establishment of a proper authority to facilitate the integration process, as the British did not want to allow the Directors committee to decide matters independently. As such, a proposal was made for the establishment of an executive authority, the East African High Commission (EAHC) that was to be assisted by inter-territorial Advisory Board and advice by a Central Legislative Assembly (Ibid:100).

EAHC was officially established on January 1, 1948 marking a hallmark to the experience in the region and the continent at large (Santayana, 2006:16). With its headquarter in Nairobi the Commission was the legislate and administer the three territories in a manner that was unprecedented before. It had such authority in a number of areas such as customs, taxes, research, posts, telegraph, telecommunication, railway and defense among others (Ibid). All these authority gave the Commission a picture of a Federation although not completely as important political and administrative power still remained within the ambit of the member states. The absence of a common police force also put a hurdle on enforcement of most of its decisions (Mongomezulu, 2006:101).

Even given these shortcomings, the EAHC was still able to secure some significant successes. It led to the coordination of rail systems as well as helped in the establishment of the East African Airway cooperation. Furthermore, post and telecommunications were made independent with additional input in strengthening the research and development sector in different areas such as veterinary, agricultural as well as medical research. Moreover, it established the East African Currency Board and the Court of Appeal for East Africa (Ibid: 102).

In 1950's the idea of regional integration was for the first time approved by the region's leaders. Until this point, this objective was seen as an attempt to enhance British domination in the area (Santayana, 2006: 17), But owing to the prospect of independence of Uganda, Tanganyika and Zanzibar, there was the conviction that the process could for once be undertaken as a pure African effort and hence independently (Mongomezulu, 2006:105). The fact that the EAHC was still dominated by white settlers and by extension the British administration became the main hurdle to bring forth, a true African integration vision into reality (Santayana, 2006:17). This had pushed the leaders in the region to seek personal cooperation and support to one another towards independence and freedom (Ibid: 106-107). Leaders such as Nyerere of Tanganyika (later in 1964 joined by Zanzibar to establish Tanzania), Kenyatta of Kenya and Obote of Uganda came closer and began to pursue the aspiration for independence after the road was paved by Ghana in 1960.

As such, the EAHC was Africanized and replaced by a more representative organ in 1961; the East African Common Service Organization (EACSO) (Santayana, 2006: 17). This was done after initial discussions were held in London with the British administration. The discussions conformed that the proposal was indeed needed and hence consented for its implementation. Nyerere, then Prime Minister, made this public in a speech he gave to the Tanganyikan National Assembly. In the speech he pointed to the importance of the region to cooperate economically and for Tanganyika to join the ranks as soon as its independence was achieved (Mongomezulu, 2006: 105). EACSO was successful than the Commission in many respects. Not only was it a product of Africans and hence independent but also had an executive responsible for the governments of the tree countries only and its constitution was not static allowing it to be amenable to changes in context and situation in the region (Santayana, 2006: 17-18). The EACSO had three organs; the

East African Authority, the Central Legislative Assembly, and the Triumvirates (Adar, 2010: 5-6).

The East African Authority was made up of the President of then Tanganyika after its independence and governors of Uganda and Kenya (Ibid). It was responsible for assenting the bills passed by the Central Legislative Assembly. Having 9 representatives from each participating state, with fifteen members of the Ministerial committee and the Secretary General, the Central Legislative assembly was the legislative organ. The Triumvirates comprised of the secretariat and five Mistrial Committees marking a great departure from the earlier EAHC (Ibid). Moreover, the EACSO had a court of appeal to which colonial matters would be brought signifying to a great extent the change in overall structure (Ibid).

From this, it can be argued that regional integration in East Africa right before and during independence was driven mainly by the close personal relationship that existed among the leaders leading to common objectives and long term visions (Mngomezulu, 2006: 104). The level of brotherly-hood that existed between leaders of the region was very evident especially in the early 90's. The preparations for Tanganyika's independence from British rule at the time was perceived with caution by other leaders of the region since an independent Tanganyika would no longer have the same economic and political structure as the rest and would hence affect the integration setup (Ibid:116). It was at this point that the relationship between these countries was tasted as Tanganyika delayed its independence so that it can be in line with the putting in place of an amended timetable for the independence of the other states (Nyirabu, 2010: 6). In the meantime, it vowed for the continuation of its participation in the EACSO even after independence (Ibid).

In a meeting that was held in London in 1961 by the Secretary of State for the Colonies it was agreed that Tanganyika's independence would in no way undermine the integration process that was in the works. As such the common service provision was to be continued even after the country's independence in 1961 (Mngomezulu, 2006: 117).

As the search for an actual integration was in foresight, the leaders of the three countries asked for the formation of an inquiry commission with the main task of investigating possibilities for establishing common market. This Commission was tasked in addition to coordinating and looking into ways as to how to unify fiscal arrangements, to identify areas of advantage and disadvantage resulting from a possibly economic integration to the individual counties (Ibid:108). The Raisman Commission, as was it called, reiterated former recommendations in that it had confirmed the importance of cooperation and hence further economic integration in a number of areas.

On June, 5, 1963 a momentous achievement was made as the head of states of the three countries, after the independence of Kenya, vowed, in a Declaration of Federation by the Governments of EastAfrica for the formation of a political federation as the ultimate and final agenda of integration (Nyirabu, 2010: 7). The East African integration project was seen as a contribution by the region to the larger goal of pan-Africanism and integrating the African Continent. The leaders of the three participating counties were united among other things by the wave of decolonization and independence that swapped the continent at the period and hence due to similar historical experiences (Adar, 2000: 7). With full support for the federation aspiration from Britain, the next item on the agenda was the formulation of an East African Constitution that was in many aspects going to be different from the constitution that preceded it (Mngomezulu, 2006: 125-127). A six member Ministerial Working Party was set up for the purpose of drafting a treaty. However, there emerged major differences among members of community especially Uganda and Tanganyika (Nyirabu, 2010: 8). Both countries argued that the federation project lacked clarity and also needed guarantee that the economic advantages of such integration were equitably divided (Ibid). An Emergency Committee was set up for looking into these differences even further.

The recommendations of the Emergency committee were ratified by the head of states of all the three states in Kampala in 1964. The proposals were aimed at correcting the trade imbalances and deficits that existed between these countries (Nyirabu, 2010: 9). Accordingly, exports from Kenya to the other countries were to be decreased with the introduction of a quota while Uganda's and Tanganyika's production capabilities were to be increased with the establishment of new industries (Ibid). This arrangement was not successfully implemented by these countries however, as was hoped. As such, the euphoria for the anticipated federal integration was waning especially from the side of Tanzania who was now looking for other alternatives for East Africa (Ibid).

A Danish professor of economics, Professor Kjeld Philip, upon advice from the world Bank was invited by the head of states of the three countries with the task of reviewing the economic integration process with special focus on the operations of the common market, EACSO and how this cooperation can be strengthened given the circulation of different currencies among the member states (Nyirabu, 2010: 10). The report by the Philip commission came out in1967. The treaty was submitted to the heads of state and then signed on 6th June, 1967 in Uganda Kampala (ibid: 130). The Treaty of East African Cooperation marked a watershed to the establishment of the East African Community and the subsiding Common Market.

On 1 December, 1967, the final touches were put in place with the official inauguration of the East African Community; a change both in nomenclature and vision from the former EACSO (Nyirabu, 2010: 10). The major emphasis of the commission's recommendations concerned on enhancing equitable gains from trade among the three countries as well as on the need to forging a political authority to make decisions in a context of varying political and economic structures (Ibid: 11). The community was to be composed of the following organs, East African Authority (the supreme organ), the East African Legislative Assembly, the East African Ministers, the 5 Councils (the Common Market, Council, the Communications Council, the Economic Consultative and Planning, Council, the Finance Council, and the Research and Social Council), the Tribunals, the, East African Community Services, Commission, the East African Industrial Council, and the, East African Development Bank (Adar, 2000: 7).

The 5 councils with membership comprising of all the national Ministers of the three countries were responsible for promoting the cooperation and identifying any dis-integrative capacity (Ibid). The Legislative Assemble (EALA) was responsible for drafting laws which will be enacted and put into effect by the Authority (Ibid). Furthermore, the Authority has the capacity to enact measure which will become acts of the community and hence would constitute an 'East African Law'. Court of Appeal for East Africa and the Common Market Tribunal also were responsible for any dispute or conflict of interest within the community driving their jurisprudence from the former EACSO, EAHC and international law (Ibid: 9). On the other hand the East African Development Bank was responsible for socio-economic coordination and for the provision of support to the less developed countries within the community (Ibid).

As enshrined in the EAC treaty, a number of attempts were made to improve the overall working of the community. Tariffs were to be harmonized, customs duties were to be eliminated for trade within the community, import of goods from non-.members was restricted as long as such goods can be produced within the area and most importantly in order to cure historic imbalances a balanced development was promoted in the less advanced countries namely Uganda and Tanzania via the support provided by the East African Development Bank (Ibid: 9).

3.2 DISINTEGRATION OF THE EAST AFRICAN COMMUNITY (EAC)

The collapse of EAC in 1977 was a major blow not only to the region concerned but also to the continent which has not seen in its recent history this level of economic integration (Kiraso, 2006: 2). There is no one reason that can be attributed for the collapse of EAC in 1977. A number of factors, both political and economic have hampered the integration process from its very inception although it took years for these shortcomings to become reality. This said however, the lack of equitable distribution of economic benefits, sub-nationalism/national interest, problems within the very structure of the EAC and the shortcomings within the unattainable nature of the objective of the community can be some major reasons that necessitated the disintegration. As are also stated in the preamble of the 1991 EAC treaty, the factors that led to the collapse of the former community among other include, lack of political will, absence of strong participation from the private sector, disproportionate distribution of benefits and weak remedies devised to address these short comings (EAC Treaty, 1999).

Horvath and Grabowski (1997: 2) argue that a number of factors have constrained attempts at economic integration in Africa. Among these they mentioned few such as fear of political domination by some countries as well as economic inequality and domination which also applies specifically to EAC.

In line with this, some authors consider the presence of sub-nationalism as a major challenge that hampered the integration process leading later to its disintegration (Mngomezulu, 2006: 129). Giving example from the history to the region, the Ugandan case can be a good case in point. The country had different kingdoms as inherited from the then British colonial administration among which one was the kingdom of Buganda. This kingdom led by King Mutesa II, was believed to be a separate autonomous territory with its own specific identity (Ibid: 129-130). For this reason, the locals saw the grand federation project as a challenge to their survival and vowed to be considered as constituting a separate section which is not part of Uganda. This led to severe confrontation between then Ugandan leaders and Buganda authorities affecting negatively the integration process from its very inception (Ibid: 131). There was the believe that any attempt that is aimed at politically uniting the region would be to the disadvantage of these Kingdoms which gave validity to their rejection.

Tanganyika has its fair share of nationalist doubts about the integration process as well. Contending that further cooperation would implicate the imposition of Ugandan and Kenyan leadership onto Tanganyika, the country had put forth its fears .In Kenya as well, there were complaints that the integration process would not benefit Kenyans and hence the focus should be on incorporating native people into the decision making process that directly affects them (Ibid: 132).

Even after independence these feelings of nationalism got stronger now focusing on reserving sovereignty and getting/promoting the utmost benefit from the proposed integration schemes as possible .This meant that leaders of the region were acting in terms of their national interests and not in terms of the greater regional interest and hence for this reason wanted to get the utmost out of economic integration. Moreover, there were also debates concerning which project should come first; economic unity or political federation bringing into question the determination of the leaders and support of the public. Some considered economic integration as the initial stage that will pave the way for political integration while others disputed the relationship between the two projects from the outset (Ibid: 136-140).

The problem of forging consensus among the public started waning as opposition leaders, native kingdoms and other opponents wanted a say in the integration process or else threatened to stall the process (Kiraso, 2006; 2 & Ibid: 142-143). In line with this, Kiraso also states that the low level of public involvement as well as non-participation of the private sector and civil society have fastened the road to disintegration.

Economic imbalances were another factor that led to the collapse of EAC (Kiraso, 2006: 3). This was due to the fear that Kenya which was the economic and communications hub of the region would have the lion's share from integration. This was perceived negatively by the other states whose size and economic status could not have given them the same luxury of economic advantages leading to their reluctance to fully conform to the integration process. Tanzania and

Uganda believed that Kenya was charging higher prices for its goods that what they would have paid if they imported from foreign countries. In addition, the economic arrangement between them was such that each country would trade freely without the imposition of customs duties when trading within the block while they could have earned better had they imported from abroad (Mngomezulu, 2006: 146-148).

The Kampala agreement of 1963, tried to solve this problem of inequality in a number of ways. The arrangement was aimed at enhancing the position of Uganda and Tanzania so that their economic advantages from economic integration would be realized. Accordingly, new industries were established in these countries, a quota regime was put in place that reduced export from Kenya (surplus producing country) as well as an increments in the export of goods from these countries in deficit and imposition of tariffs on goods to be imported from Kenya (Ibid: 150). These measures however, felt short of addressing the problem effectively.

As a continuation of this nationalist outlook towards regional integration, in June, 1965, the three countries announced the dissolution of the East African Currency Board which was set up with the aim of facilitating the currency union Instead, the countries vowed for the creation of independent central banks to administer their own economies (Ibid: 153).

The close personal relationship that was a driving force for the creation of EAC in 1967 now faced serious challenges due to changes in leadership in countries of the region (Adar, 2010: 10). Personal relationships were put to the test as Uganda's earlier leader Milton Obote was replaced in a coup by Idi Amin who did not feel obliged to put into effect the treaties and obligations put before him (Ibid: 162). This was received negatively by the countries of the region not only due to the undemocratic nature of the change in power but also because it risked to destabilizing the process stalling further the economic integration. The Tanzania's later granting of asylum to Obote further deteriorated the personal relations between Nyerere and Idi Amin to a point where Tanzania was now sending its troops along Ugandan border to reinstate Nyerere to power (Ibid: 163). Kenyatta as well received the situation negatively which meant that he did not see Idi Amin as a true representative of Uganda and for this reason made several statements in this regard.

A symbolic moment that marked the official collapse of the EAC came in the 1970's with the collapse of the East African Airways (EAA) (Ibid: 165). According to statements, the airway which is headquartered in Kenya saw an increase in price due to demand by western countries for their respective airplane exports. As a result of this, Kenya was allegedly increasing service price for hosting the airlines and for this reason was in support of the collapse of EAA since it would be to her advantage. This was received negatively by the participating states leading to a reciprocal response in which Tanzania imposed restrictions on big cargo passing through its borders to Kenya and restricted Kenyan tourists to following its new laws and regulations about movement (Ibid: 167). This was responded with Kenya recalling its employees working in Tanzania. In 1977, the EAC's final burial was admitted by the participating states although its seeds were already sown years earlier.

Other authors argue that the EAC from its very inception was a community of states and not of East African people. This means according to them, that decision making was done in a centralized top down manner where the public was not participating in any matter that directly affected their lives (Nyirabu, 2010: 12). Other authors contend that the very structure of the EAC as was established in 1967 contributed immensely to its later disintegration. They argue that the centralized decision making process within the different organs (such as the East African Authority) had weakened its potential (Adar, 2010: 8).

3.3 THE RENEWED EAST AFRICAN COMMUNITY

The earlier seed for the reestablishment of EAC was sown with the Mediation Agreement of 1984 in which the heads of state agreed to explore further steps to put into gear the now stalled integration process (Santanaya, 2009: 93). Following this, in 1991 Presidents of the three countries met in Nairobi with the view to set up a committee of Foreign Ministers so as to forge a cooperative frame work to reestablish the stalled integration process (Adar, 2010: 11). This meeting culminated in the establishment of a Permanent Tripartite Commission for East African Cooperation with a permanent secretariat. With the view to promoting socio-economic and political cooperation in the region, the Commission established an East African Cooperative Development Strategy covering the years 1997-2000 (Ibid: 11). As a major objective the development strategy among other things was aimed at drafting a treaty reestablishing the EAC which was then signed in November 1999 in Arusha and came into force in July, 2000 (Santanaya, 2009: 93). What was new to the new treaty was the fact that unlike the lack of clear time table concerning the stages of integration; it had set out a clear time line (Ibid).

The treaty sought to forge a wide integration process in political, economic and social aspects. Among others it aimed at promoting sustainable development, ensure the equitable distribution of economic opportunities, safeguard multi-sectoral integration, ensure gender mainstreaming and to promote democracy within the region (EAC Treaty, 1999). Under article five of the treaty, the community was to be coordinated through different stages starting from customs union (launched since 2005), common market (set to be operational by 2010), Monetary Union (to be launched in 2012) and a political federation (EAC Treaty, Art. 5).

Under the new treaty, the EAC has the following organs each responsible to furthering the integration process within its mandate; the Summit, the Council, the coordination committee, East African Court of Justice, East African Legislative Assembly, Sectoral committees, as well as the secretariat (EAC Treaty, 1999, art. 9). The summit represented by the heads of state and government has the duty to ensure compliance of member states with the treaty, the Council with statutory responsibility has the duty to oversee the implementation of the agreed objectives, the coordinating committees composed of permanent secretaries of the respective states are responsible for drafting reports and implementing recommendations of the Council , the Legislative Assembly as a law-making organ has the duty to issue bills and approve budgets, while the East African Court of Justice (EACJ) has the duty to ensure the appropriate interpretation and application of the treaty (EAC Treaty 1999, Art. 9-48).

Rwanda and Burundi joined the EAC in 2007 and became fully integrated in the EAC Customs Union in 2009 (Kahanna, 2013: 8).With the view to deepen economic integration first as the initial attempt at forging a federation since early 2000 failed, member states vowed to strengthen the customs union by the adoption of a Common Market Protocol in 2009 in Arusha, Tanzania (Nyirabu, 2011: 21). In July 2010 a new Common Market Protocol was signed (which is expected to come into effect on 31st December 2015) that aimed at allowing the free movement of people, goods and services among the participating countries (Ibid).

The newly established EAC attempted to address the core constraints that led to the disintegration of its predecessor. In this regard, the uncoordinated nature of the economic policies of the three participating states became liberalized as a result of the IMF backed Structural Adjustment Programs (Santanaya, 2009: 94). Moreover, the unequal distribution of economic benefits that has remained a major factor for further integration was corrected via the introduction a duty free export of goods from Uganda and Tanzania into Kenya. However, for goods originating from Kenya two categories are employed, category A goods are to be exported duty free while category B are subject to gradual tariff reduction (Ibid).

Problem still persists however when it comes to the independence of these institutions from promoting the specific national interests of the member countries. This is especially evident in the Council where decisions are made on a consensus basis. If any of the decisions reached thereafter are not to the interest of any member state, the decisions will be vetoed however wide ranging the objectives sought might be (Boltz & Reith, 2011: 6). Other organs within the community such as the Legislative Assembly and the EACJ have limited jurisdiction and are usually under-represented as judges in the latter case are selected without prior deliberation by the Council (Ibid). This arrangement gives some organs within community absolute power while other institutions are deprived to exercise their jurisdiction appropriately due to the aforementioned reasons (Ibid: 7).

Although since the introduction of the Customs Union in 2005 intra-regional trade within the EAC has reached 3.8 billion dollars in 2010 from 1.6 billion in 2006, the commodities exchanged are primary goods with the exception of Kenya which exports more sophisticated commodities such as petroleum and construction inputs (Khanna, 2013: 7). Moreover, with Kenya being the biggest and most advanced economy in the region, the question of inequitable benefit distribution has not been addressed effectively as the country contributes to 41% of the EAC GDP out of an estimated nominal GDP of 84.7 dollars while Burundi the poorest member contributes less than third of the GDP (Ibid).

This said however, the community is still striving and committed to deeper integration. In this regard and as a major departure from previous times, attempts have been made to attract foreign investment in the private sector (Ibid). This is mainly due to the economic liberalization process that was undertaken as a necessary step to promote economic integration.

The next step on the agenda in the EAC is a Monetary Union. This grand goal that is aimed at, easing transaction costs and facilitating trade among the three countries through the adoption of the 'shilling', as a common currency had been in the making for long. The adoption of a common currency is both an economic and a political decision as such a move would necessitate the shift in the decision making power of national banks to that of East African Central Bank (Ibid, 10). This will especially be a problem in a continent and specifically a region where member states are unwilling to surrender their sovereignty to an independent body (Nyirabu, 2011: 23). Moreover, the susceptibility of the region to political and economic instability would put hurdles benefits of adopting a common currency.

3.4 CURRENT ATTEMPTS TOWARDS A MONETARY UNION

There has recently emerged great momentum for the establishment of a common currency in the EAC. In this regard, tentative attempts have been undertaken in order to facilitate the process. A High-level task force has been set up with the objective of preparing the protocol for the EAC Monetary Union (Jupta & Mchugh, 2012: 59). The task force is also tasked with preparing the ground works for the funding as well as overall operation of an East African Central Bank. Monetary affairs committees have been put in place which complements the works of Ministerial committees with the task of harmonizing monetary policies within the participating states (Ibid). The committee on Fiscal Affairs likewise is tasked with the harmonization of fiscal policies in the region while harmonization of statistics is done via the committee on statistics (Bukuku, 2012: 5). In this regard, commendable steps have been taken by the Community towards the harmonization of excise taxes and value added taxes.

The Monetary Affairs committee among other things has been successful in the harmonization of important areas such as monetary and exchange rate policy, banking supervision, banking and currency and financial markets. Likewise, the committee on fiscal Affairs has achieved significantly in the harmonization of excise tax, value-added tax and budget coordination Market integration which is a backbone of monetary union is being done via the creation of a single financial market through Financial Sector Development and Rationalization Project (FSDRP) in collaboration with the World Bank (Ibid).

Moreover, a more technical attempt towards monetary union has been put in place with the adoption of the Treaty Establishing the East African Monetary Union in 2013. In the treaty, a clear set of convergence criteria benchmarks are put in place for participating states. As stated under article 6(2) of the treaty, member state must maintain a 8% of core inflation, a 3%GDP ceiling on fiscal deficit including grants and a 50% GDP ceiling on gross public debt. Member states are expected to develop medium term convergence criteria in order to facilitate the agreed macro-economic convergence criteria.

In 2007 the EAC Council adopted macroeconomic convergence criteria with a clear time table to establish a monetary union by 2015 (EAC, 2009). A three stage integrative process was put in place; the initial phase that lasted from 2007-2010, an intermediate period lasting from 2011-2015 and the final stage in which the Monetary Union will be operational (Jupta&Mchugh, 2012: 68). During the first phase, participating states harmonize their monetary policies in the aforementioned areas. In the intermediate phase, tighter fiscal targets are identified with a reduced 5% fiscal debt level without grants (Ibid). In the last phase, the new currency will be circulating within the region easing previous constrains to proper economic integration. This plan is still questionable due to its ambitious nature and as it fails to have the structural as well as the institutional frameworks for the years after the adoption of the common currency (Ibid).

There are still major challenges confronting the upcoming EAMU and which need to be corrected for the long run success of the grand objective. Among others, the closer coordination of fiscal policies, the full implementation of the customs union and common market requirements, better surveillance and enforcement mechanisms to evoke fiscal discipline as well as the need for better regional institutions are but a few changes that need to be put in place (Bukuku, 2012: 15-16). This said however, if the Monetary Union is going to succeed, it will be a great achievement to the respective Eastern African Region while also creating a great precedent to other Regional Economic Communities in the Continent.

CHAPTER 4- IS THE EAST AFRICAN COMMUNITY (EAC) READY FOR A MONETARY INTEGRATION?

This chapter looks into the readiness of the East African Community for the formation of a Monetary Union. It will thoroughly survey existing literature in order to reveal whether the East African Community is fully ready for the creation of a single currency. In order to arrive at a certain degree of conviction, this paper hashes out economic, political, social and other surrounding challenges that have continued imposing constraint on the partner countries of the East African Community.

Going further, the chapter digests data and evidence that support the prevailing challenges that result in the postponement of the realization of the prospective East African Monetary Union (EAMU). Even though heads of state of the partner states of the EAC have recently (November, 2013) signed a protocol for bringing into existence a single currency, this research paper eventually divulges the unrealistic nature of the proposed single currency within the time frame set by the heads of state.

Having said all this, this paper demonstrates the embryonic nature of the anticipated East African Monetary Union (EAMU). In this regard, this research paper contends that monetary integration when embarked on prematurely may cause high risks to intending member countries. Even though the future of the EAC seems promising due to the benefits accruing the formation of the union, existing challenges to the adoption of a single currency may put strain on the complicated project of a Monetary Union.

4.1 FACTORS THAT POSTPONE THE CREATION OF MONETARY INTEGRATION IN THE EAST AFRICAN COMMUNITY (EAC)

The ambition to create the EAC monetary integration is one of the hottest issues put on the agenda of the heads of state of the EAC. This ambition has been reflected on tremendous conferences that have been undertaken among various stakeholders in the region.

A renewed plan is to create the single currency in 2015 with a ten year road-map. In order to implement this agenda, the 6th extra-ordinary meeting of the Summit of the EAC Heads of State in 2012 has clearly expressed for a speedy creation of the monetary integration (Buigut, 2011:255). Yet the attempt to move expeditiously towards a monetary union in 2012 is a closed chapter.

Still the message one is able to grasp from this summit is that the EAC partner states have chosen a fast- track approach so as to introduce the EAMU. As part of their journey and in order to triumph over the complex project of constructing a monetary integration, the partner states have already undergone through the necessary steps of inaugurating Customs Union and Common Market, though their full implementation is still subject to various criticism. Since the realization and persistence of the monetary union counts on fulfilling numerous economic and other related factors, the establishment of Customs Union and Common Market serve as leeway for the complex project of a single currency.

Advocating this progress, some authors argue that the decision to reconstruct the East African Community so as to coordinate the process of monetary union is being taken at the right time (Kamala, 2006:3). Nonetheless, it can be argued the other way; even though the reconstruction of the EAC in order to facilitate the establishment of EAMU has been initiated at the right time, the fast-track approach opted for the formation of the Monetary Union in the near future, fails short of bringing this dream into reality.

This conveys a message that a time table for instituting the EAMU should reconcile with current economic, political and social realities of the community. To put this differently, as the adherent countries aspire to achieve their whim of establishing a single monetary scheme, there appear to be some snags that might reschedule the fast- tracked plan for establishing the Monetary Union. Unless member countries in question cautiously analyze existing obstacles and also acquire lessons from the experience of the Euro-zone, the anticipated EAMU risks solely being a day dream.

To this effect, this paper explains surviving hurdles that might postpone the anticipated speedy creation of single currency envisioned by the partner states. These deterrent factors are analyzed in the following pages.

4.1.1 Failure to Attain Convergence Criteria.

Leaning on the experience of the European Union’s Maastricht convergence criteria, partners states of the EAC have also set out relatively similar economic convergence criteria as a precursor to the anticipated monetary integration project. The underlying assumption behind the establishments of the economic convergence criteria in the EAC is to fetch the possible benefits out of the integration process; while at the same time striving to push away related costs of integration. In a nutshell, while the European economic convergence criteria has served as a benchmark for the convergence criteria that has divulged recently in the EAC, the recurrent idea behind the emulation of the European model is to minimize associated costs of monetary integration; thereby member countries benefit out of the anticipated grand project (Newfarmer and Soderbom, 2012:2 & Kuteesa, 2012:149).

Drawing this lesson, the Monetary Affairs Committee (MAC) of the East African Community which is established with a mandate to heighten monetary and financial collaboration in accordance with the assented macroeconomic policies, synchronization programmes, and convergence agenda of the East African Community, has recently revealed the convergence criteria of the EAC in 2009 in Kigali, Rwanda (MAC, 2009). The following table unveils the convergence criteria that has developed by the Committee.

Table 1- Macroeconomic Convergence Criteria in the EAC

Primary Indicators	**Phase I (2007-2010)**	**Phase II (2010-2014)**	**Phase III (2015**
External Reserve	≥ 4 months of import	≥ 6 months of import	
Annual Inflation	≤ 5%	< 5%	
Budget Deficit:			
- Including grant	< 3%	< 2%	
- Excluding grant	< 6%	≤ 5%	
Secondary Indicators			
Debt	Reduce to sustainable level	Sustained pursuit of debt sustainability	
Real GDP growth	≥ 7%	≥ 7%	
Interest Rate	Market based (Achieve & Maintain)	Maintenance of Market Based Ineterest Rate	
Real Exchange Rates	Stable	-	
National Savings	≥ 20%	≥ 20%	
Current Account (Excluding grants) make consistent with debt	Sustainability	Maintenance of sustenaible level of current Account Deficit (Excluding grants) as % of GDP	**Inaugurating and circulating the EAMU**
Banking Regulation & Supervision	Implementation of 25 core principle of bank based on agreed Action Plan for Harmonization of Bank Supervision		
Payment and settlement system	Adhere to core principals for systematically important systems		

Source: Adapted from ECA (2012), International Journal of Economic and Business (Kuteesa, 2012, Vol.4 No. 10; 2012) & MAC (2009). – Implies criteria is considered for that stage.

To this effect, when the EAC framework is compared with the economic convergence criteria in other economic zones, the framework unveiled by the MAC resembles a wider and flexible set of thresholds on certain areas. Apart from the wideness and flexibility of selected areas, the economic convergence criteria that have been anticipated by the Monetary Affairs Committee of the EAC relatively resemble the one unveiled in the EU (Kuteesa, 2012:150). While these criteria are categorized in to two, primary and indicative, spheres; the monetary integration project is deemed to be realized through three successive stages of integration (Mafusire A. & Brixioava Z., 2012:7). Under the initial stage (2007-2010) of the economic convergence criteria, partner states of the EAC were envisioned to achieve relatively easier criteria. While this is the case, the second stage of economic convergence criteria (2011-2014) has put much stricter requirements on partner states of the EAC so that they meet the criteria within an already set time frame. The actual establishment of the monetary union is anticipated in the third stage (in 2015) of the economic convergence criteria.

In this regard, almost all of the partner states have undergone through the first stage with inconsistent implementation on selected areas while confronting failure on most parts of the criteria (Mafusire A. & Brixioava Z., 2012:7). For instance under the first stage of economic convergence criteria, three of the five EAC member countries; Tanzania, Burundi, Rwanda, failed to meet less than 6% budget deficit excluding grant requirement in late 2010. In connection with this, even if the two remaining member countries were in the beginning better on this point; later after 2009 they were also forced to sip the same fate like other members of EAC; mainly because of the then economic crisis (Kuteesa, 2012:6).

The other bottle neck that partner states of the EAC were not able to attain under the first stage was the minimum reserve requirement. Partner states were expected to achieve a reserve requirement that was supposed to enable them to cover four month import. Yet, only Uganda was qualified for the minimum reserve requirement, while the rest members of the EAC lagged behind in meeting the criteria. Thus, this scenario apart from sending a message about the infeasibility of the speedy creation of the EAMU, also demonstrates that there is inconsistency in implementing the criteria among all integrating states.

Having said this, the EAC's Committee on Communications, Trade and Investment during its consultative workshop from 9^{th} – 11^{th} of September 2013 at Kampala, Uganda, highlighted the probability of member states failure to meet the economic convergence criteria (EAC, 2013:11). This is a clear indication that failure to meet the criteria is not only a feature of the first stage of integration; rather it also implies that partner states are still not in a position to meet the criteria set out under the second stage of integration. Since the report is a recent work (September 2013, implies the second stage of integration), it reveals the ongoing challenges facing the member states under the second stage of monetary integration. As a fore said, partner states have been struggling to attain the convergence criteria; however, despite all these efforts still member states of the EAC are lagging behind.

Even though all the member states have undergone the first stage with unsuccessful attempt, tighter criteria that states should comply with is also there under the second stage of economic convergence criteria. To this effect, one of the challenges that have persisted from the initial stage toward the second stage is the issue of budget deficit. Budget deficit will be a continuing challenge that pressurizes member states; since almost all of the EAC member states are donor dependent (Kuteesa, 2012:6). This problem does not emerge solely because member states are donor dependent; rather the underlying assumption is that donor fund is mostly unpredictable and may be curtailed due to good governance problems (for example corruption in Kenya and Rwanda) in some member countries. What makes the situation worse is that member states are not economically capable by this time to generate adequate internal revenue (Ibid). To this effect, persistence of budget deficit above the rate set out under the second stage of the integration criteria is still one of unsolved problems that put hurdle on member states' plan to conclude the marriage in a very swift manner.

To give weight to this assertion, the Monetary Affairs Committee of the EAC (2009:15) has indicated that budget deficits are not likely to be attained in the medium term. Thus, the undeniable fact forces member states of the EAC to necessarily rely on development partners; yet the problem is escalated by the fact that most states still have good governance problems, which may result in diverting the attention of donor organizations (IMF, 2013:1).

Under their first stage of economic convergence criteria in antithesis to budget deficit excluding grants, partner states were better with regard to budget deficit including grant; while the leading coordinator of the EAMU, Kenya, was the only country with a better position on budget deficit excluding grants (Debrun et al, 2010:22). Yet reconciled implementation of important economic convergence criteria is still not there under both stages.

As a consequence, the overall idea is that even though one of the economic plausible justifications behind the establishment of the EAMU is to strengthen global competitiveness and to enhance trade, currently existing economic bottle necks do not enable the speedy creation of the anticipated monetary union. Thus, members of the EAC should have to mitigate surviving bottle necks before moving towards the third stage, actual creation of single currency. Thus, this assertion sends a message to member states of the EAC that there are huge assignments that must be carried out before marching towards the Monetary Union.

In addition to this, the other surviving bottle neck that might trap the journey of the EAC partner states towards the third stage (introduction of a single currency) relates to the minimum reserve requirement. Partner states of the EAC under stage two of the convergence criteria are expected to qualify for a reserve target that enables them to cover six months of import. Compared to the requirement set out under the initial stage, the amount of reserve requirement expected from members has increased so as to cover a six month import. Even with a lesser amount set out under the first stage, solely Uganda was qualified for a 4 month reserve requirement (Kuteesa, 2012: 13).

Under the second stage, though the rationale behind the increase in the amount of reserve requirement is economically understandable, this may force states to cut their fiscal spending so as to increase the rate of their saving. An increase in the rate of saving by debilitating spending means that states are expected to tighten their fiscal policy against economic growth (Ibid). Let alone the increased amount of reserve requirement, partner states were not even able to fulfill a four month requirement under the first stage of convergence criteria. This escalates already existing challenges by adding fuel to the flame and burdens member states thereby facilitating the chance of failure to attain the convergence criteria within the already set time frame. Thus, a lesser amount to a six month requirement and a higher amount to a four month reserve target seem feasible as suggested already in some economic literature (Ibid).

Inflation in the region is also another unsolved bottle neck. It is apparent that all members of the EAC are encapsulated under the International Monetary Fund's program that upholds them to converge their rate of inflation. However, even though partner states swim in IMF's program, inflation has continued to pose a challenge on member countries (Mason, R. and Rusuhuzwa, 2013:3578). Let alone in bad times, even in good times only Rwanda and Kenya were able to attain less than 5% rate of inflation in late 2010 (Ibid). This is an explicit indication that the economic capacity of the region has been faced with numerous hurdles thereby shifting the gear away from the anticipated monetary integration in an expeditious manner.

Consequently, the lesson that should be learned is that a complex project of instituting a single currency with all these bottle necks will not economically be feasible for the EAC member states. To counter argue this assertion, certain academic literature suggest that monetary fusion itself enhances integration and convergence (Frankel and Rose, 1998). This may be true in some restricted scenarios. Yet, this does not hold true in the case of the EAC Monetary Union. This is because even though the partner states of the EAC experience symmetric shocks on selected areas, they still experience dissimilar shocks in other areas; because of lack of an increased policy coordination (Ahmed Sheikh et al, 2013:103-105).

Consequently, what we can grasp from here is that though various experts have utilized different approaches to test the shocks in the region, still most of the studies unveil the fact that the member states of the EAC are still prone to different asymmetric shocks in certain selected economic areas, such as fiscal policy disparity. This shows that if member states of the EAC rush to create EAMU with all of these hurdles, they will face inescapable pain as a consequence of their marriage. And the seriousness of the pain that will be entertained will vary depending on the country context (ECB, 2010:18).

4.1.2 Overlapping and Multiple Membership as one of the Hurdles

The second most important factor that postpone the journey of the members of the EAC towards the monetary integration project relates to partner states simultaneous membership to various regional integration initiatives. The EAC founding treaty does not encompass a legal provision that inhibits countries from becoming a member of multiple regional initiatives (Jakobeit et al, 2005: 17-18). In a nutshell, integrating nations may spontaneously join various initiatives while at the same time working on the process of monetary integration being members of the EAC (EAC,

TABLE 2: OVERLAPPING MEMBERSHIP OF THE EAC PARTNER STATES

Regional Initiatives	Membership	Membership	Membership	Membership	Membership
	Kenya	Tanzania	Uganda	Rwanda	Burundi
EAC	Yes	Yes	Yes	Yes	Yes
COMESA	Yes	No	Yes	Yes	Yes
SADC	No	Yes	No	No	No
IGAD	Yes	No	Yes	No	No
NEPAD	No	Yes	Yes	Yes	No
AU	Yes	Yes	Yes	Yes	Yes
Community of Sahel Saharan States (CEN-SAD)	Yes	No	No	No	No
Economic Community of the Great Lakes Countries (CEPGL)	No	No	No	Yes	Yes
Economic Community of Central African States (ECCAS)	No	No	No	No	Yes

Source: *Adapted from Jakobeit C. et al. Overlapping Membership in COMESA, EAC &SADC, 2005.*

Yes Implies Membership

Art 47(a)). As a result of this autonomy of partner states to align with regional economic initiatives of their choice, members of the EAC have already stepped in to various regional economic and other initiatives. The situation is indicated in the following table.

It is apparent that the EAC has set out an agenda of monetary integration through a fast-track approach. Yet the scenario of fast-track approach adopted by member countries may not seem workable when we scrutinize the fact that they have already paced in to tremendous initiatives (Alves, P, 2007:14-15).

One may argue that staying simultaneously in various regional economic communities may also bring trivial positive outcomes for countries wishing to join. However, this may not always be true. As a result, one of the problems of stepping into multiple regional initiatives as it is well mentioned in the pioneer study of Alves (2007:14-15) is that it might cause "spaghetti bowl" that has forces of encumbering the foreseen monetary integration by generating intricate predicaments of political commitments and resource constraints.

One point worth under scoring is that, once countries become a member of manifold initiatives they will automatically be obliged to engage in compelling commitments in order to implement duties and responsibilities that they have received under respective legal instruments. In a similar vein, this might demand member states to divert resources from one regional integration project towards the other. This also puts burden on partner states to allocate resources to all of the regional schemes that they are member in. This will be an aggravating circumstance to already existing financial woes of the community.

In an open lecture at the University of Hull Business School, Deputy Minister for the EAC cooperation Mr. Kamala (2006:15), has mentioned that one of the challenges that the member states of the EAC face in order to realize the grand integration project is financial woe. This financial limitation has been manifested through the annual contribution of member countries to the EAC. It has been evidenced that the annual contributions of member states to the EAC budget is not satisfactory and are usually not on time on their delivery (Ibid).

As a consequence, with already existing financial anguishes overlapping membership may not be a valuable addition to the agenda of integration project foreseen by members of the EAC. Thus, the idea is that the continent of Africa in general and the East Africa Community in particular with its weak institutional capacities and financial afflictions will not carry out the monetary integration agenda through a fast-track approach adopted by member states (Alves et al, 2007:8 & Ndomo, 2009:10). This problem of financial hardship will trap the proposed fast-track approach and postpone the trip towards the goal of monetary integration, East African Shilling, and force members of the community to reconsider their impulse of adopting a single currency in the short-run.

The other problem of overlapping membership relates to the policies and strategies of each regional initiative (Ndomo, 2009:12). Over lapping membership, apart from making the prospective monetary integration process too costly and unsuccessful, membership in several regional economic communities according to some economic experts will also have the spillover effect of creating cumbersome duties and conflicting objectives thereby affecting the implementation of the complex project. One typical example is the case of South African Development Community (SADC) that has much broader agendas than other regional economic communities in the continent.

As a result of this broader policy scheme, countries such as Tanzania which is a member of SADC may encounter conflicting policy obligation to that of the EAC. This sends a signal that it will be very difficult for Tanzania to carry out its policy obligation under the EAC while carrying out its responsibilities under the SADC. If it engages in both projects of the economic communities, this may result in the rescheduling of duties and responsibilities the country has to owe to the EAC.

Thus, the broader policy agenda of SADC may put greater burden thereby delaying the integration process at the EAC level (Ibid).

Moreover, the leading motorist of the EAC integration project, Kenya, is also recently partying by joining four (Intergovernmental Authority on Development (IGAD), Common Markets for Eastern and Southern Africa (COMESA), Community of Sahel Saharan State (CEN-SAD)) African Regional Initiatives. This even makes Kenya the only African country that is a member of four separate Regional Economic Communities. Furthermore, since it is evident that there will not be similar rules of rendezvous among the prevailing different Regional Economic Communities there are numerous sorts of costs that member states participating in multiple regional clubs will incur. In addition to this, simultaneous membership to separate economic schemes will not be advisable in light of the principle of efficiency that market fusion aspires to orchestrate (Khana, 2013:21).

One final point worth mentioning is that, a study report held by the United Nations Economic Commission for Africa (UNECA) (ECA, 2012:30) in Addis Ababa, Ethiopia, has also stressed the financial burden problems of member countries and the difficulty of attending mandatory meetings as one of the problems arising out of dancing in multiple economic communities. This problem of multiple and over lapping membership will be one of the hindrances that may result in the postponement of the establishment of the East African Shilling as single currency for the East African Community member states. Thus, the time table set to construct the monetary integration seems too ambitious.

4.1.3 Donors Dependence as a way to realize the Grand Project

The protocol for the establishment of the EAC apart from accentuating the broad objective of the formation of a single currency, also determines the major duties and responsibilities of stake holders. It is clear that all the REC's set up objectives and plans which can only be put in place if the required contributions are forthcoming from member countries.

Yet as many studies have shown, this has not been the case. Most of these governments do not even allocate enough money to fulfill requirements let alone meet the quotas put in place (ECA, 2012:31). As experience has shown, insufficient funding has been one of the principal hurdles to the integration process in the continent of Africa (Kamala, 2006: 15 and Odhiambo, 2005:150).

In line with this argument, the EAC's Committee on Communications, Trade and Investment during its consultative workshop from 9th – 11th of September 2013 at Kampala, Uganda, has indicated the upcoming challenges that will hamper the realization of the single currency among the EAC member countries. According to this Consultative Workshop on East African Monetary Union (EAMU), financial restraints in launching and funding vital institutions are underlined as one of the challenges due to dependence on foreign donors (EAC, 2013:11).

In a similar vein, there is huge disparity between the member countries financial capacity and the duties and responsibilities they are entrusted under the establishing treaty. The ongoing trend is that responsibilities of integrating states are by far bigger than the available means to discharge these responsibilities. The EAC has set up institutions that are mandated to coordinate the process towards monetary fusion. Yet the number of duties and responsibilities of the member states' are greater when compared to the available institutions in the region. The disparity between available means and responsibilities is attributed to the weak position of member states in terms of funding the project (Kessides, 2012:20).

With inadequate means of financing the process, it will be difficult for member states to determine the duration of the realization of the project. A country specific external debt analysis reveals that the members of the EAC have encountered huge debt serving problem in recent years and they mostly count on external support in order to finance their domestic budget.

One typical example is Burundi. A thorough analysis of the country's profile demonstrates that Burundi is one of the indebted countries in the continent. The country has attained the zenith of the IMF Debt Relief Program and was awarded a debt relief in 2013 under the Multilateral Debt Relief Initiative (AFRODAD, 2013:3).

Even though the country has shown little sign of improvement due to the recent debt relief, the country still remains at a high risk of debt distress (Ibid). Apart from the Debt relief the country was recently awarded, it is evident that 53% of the country's fiscal budget in 2011 was financed through the support of donors (Ibid: 5). The issue which is not that much surprising is that, the country still relies on donors fund in order to support its ongoing huge development requirements. In a similar way, Kenya, a country which has taken the leading role in the process of integration, has also heavily relied on external aid in order to finance its ongoing economic activities (ADB, 2008-2012, 13).

This paper neatly affirms that though the importance of aid to the members of the EAC is beyond question, there are still fears that the aid trend may not persist in the near future. One of the main problems that may result in the reduction of the rates of the aid flow to the participating countries relates to the lack of good governance. Development partners have been reluctant to provide aid to countries with good governance problem (Ibid: 13). Due to this problem, the magnitude of aid flow remains unpredictable and seasonal (Ibid).

Succeeding the Paris Declaration in 2005, Kenya was successful with respect to aid coordination and harmonization. Nonetheless, a pioneer study conducted by Transparency International on Corruption Perception Index classifies Kenya as one of the most corrupted nations in the world (2013:5). In this survey conducted on 177 countries with regard to the rate of corruption in the public sector, Kenya was ranked 136 (Ibid). As a matter of this fact, good governance problem that exists within the members of the EAC will also impact the attempt of forming the monetary integration. This is because the EAC has envisioned donor support as one of the means to realize the grand project.

As a consequence, donors support can be 'curtailed due to governance slippage and slow implementation of Public Finance Management Reforms (PFM)' (IMF, 2013:1).

Thus, on one hand, with sluggish implementation problems, lack of good governance and heavy reliance on donor fund on the other hand, the EAC will not have complete control by the time of the creation of the EAMU. Instead, the fate of bringing into existence the anticipated single currency will be at the hands of development partners, even if their aid flow is unpredictable.

Furthermore, since the members of the EAC do not have adequate means for designing and implementing the policy objectives they have formulated in advance, this challenge compels them to prioritize donors' policies at the expense of home grown policies. This will shift the gear and results in subjugation of the policies of the community there by delaying the project (Action Aid, 2011:17).

With reliance on donors support the attempt of bringing the embryonic plan into a born baby, the East African Shilling, within the time frame set will be overly ambitious. As a result, this will pressurize partner states to rethink their agenda of introducing the EAMU through a speedy process.

Thus, the overall assertion that has conveyed in this paper is that with the presence of all of aforementioned hurdles, the partner states of EAC are not ready to right away create a monetary integration.

4.1.4 Political Factors Continue Constraining the Project

This section also neatly contends that a number of preconditions have to be achieved in order to attain a full-fledged EAC single currency. It is worth underscoring that, unless these conditions are met, both the realization and the continuation of the prospective Monetary Union will be quite skeptical. The fourth obstacle that puts pressure on the journey towards the East African Shilling relates to the political problem in the region.

The EAC seem to be confident on the condition that the partner countries are willing to surrender their sovereignty to the supra- national organ that will be established at the community level in order to handle the issue of a single currency. Reluctance to hand sovereignty over to the supra-national organ might be the principal impediment in the formation of the Monetary Union (M. Guillaume and Stasavage, 2000:1391-1392).

In this sense, and aside from the economic hurdles, political factors have contributed immensely to the delay in the EAC integration process. The presence of political instability, continuing changes in government and hence policy, and the hurdles associated with civil war, have all weakened the political will among the partner states to deepen their integration.

The prevailing political cycle-the frequent change of governments with a virtual difference in ideology among the partner states- is one major obstacle to the attainment of further integration (Ibid). The tendency to erode economic and political progress achieved by previous governments has significantly hampered further progress. The need to start from scratch when it comes to changes in government usually ends up in dismantling steps achieved in the integration process.

This prevailing political situation has significantly affected the political will of the contending member states. Their willingness to surrender part of their sovereignty to a supra-national organ-a plan sought with the upcoming Monetary Union- has remained inconsistent. Promises have not been backed with willingness (Ibid). As such, there is a tendency to put policies on paper but the unwillingness to follow through.

The political factors that led to the collapse of EAC in the 1970's are still threats to its continuation. This is apparent in the absence of a culture of continuity when it comes to political ideology. The member countries have tried to address these problems when signing the treaty for the setting up of the new EAC (Ibid). They have endeavored to address the previous political and economic factors that led to the breakdown of the earlier regional economic arrangement (Khorana et al, 2007:6). But with the aforementioned culture of dismantling political progress during times of transition, these steps are in danger of being reverted. The political and economic factors that were behind the collapse of the community in previous years do not seem to have shown major signs of being addressed.

In line with this point, the objective of EAC to facilitate the integration process has been hindered due to the aforementioned political factors. Especially the lack of political will of the member states will be limiting the progress towards this end. The initiative put in place by member states to fast track the integration process has faced shortcomings. The highest level organ of the Community has not backed these policies in its day to day administrative work (Jakobeit et al, 2005: 19).

Moreover and most importantly, the issue of security and stability is of major concern to the sub-region. In a sub-region ridden with civil wars and conflict, the possibility of building a sustainable economic community or better yet a Monetary Union in an already set time table is unthinkable. With member countries having a history of instability in the community like Uganda, Burundi (which acceded recently), and Kenya's fight against terrorism, the likelihood of these situations to put limits on the integration process is unquestionable (Alves et al, 2007:14-15). The rapid pace with which the member countries have tried to bring to fruition the far-fetched integration prematurely may explain the urgency to stabilize the politics of the region and the need to put in place workable and strong institutions. This grand objective has the potential to bring the region's governments together sharing similar integrated administration if implemented effectively (Ibid).

In a similar vein, studies have shown that one major predictor of civil war is past civil war due to tendencies of resurgence (Tetra, 2012: 5-6). According to a study conducted by the World Bank, in most countries ridden with past civil wars, there is the high possibility that they may backslide into civil war mainly due to unresolved issues. Civil wars have by their nature the possibility of altering the social fabric of society, modifying social-political relations, creating animosity and mistrust, and putting in place alternative governments, making it all the more likely to backslide into conflict (Ibid). Moreover, the East African sub-region, due to the above reasons, has been a site for international actors, mediators, and peacekeepers with the goal of forging political stability in post-conflict situations. But most of these transitional arrangements are unstable and likely to reversals as they are done with opposite parties with past history of mistrust and animosity (Berdal, 2009:77-94 & 151-154).

Likewise, civil wars have the danger of delaying planned economic progress due mainly to the diversion of resources from the production to the destruction process (Collier & Elliott, 2003: 12-13). Groups in civil war may not care about maintaining and effectively putting in place economic policies adopted by their governments which seem of no use to them. Their political motives coupled with the halt in the production sector, weaken economic progress and development (Ibid: 15).

These groups involved in such kinds of civil war are less likely to adhere to economic policies of their country as they are mobilized mainly for different political as well as economic benefits (Stewart, 2000: 246-247). The 'human motivation' behind group mobilization in civil wars makes it a complicated undertaking to deal with. These groups are usually brought together with the aim of gaining power as well as economic spoils. What complicates this mobilization process is the fact that it is usually done based on identity markers (language, ethnicity, religion etc.) giving the mobilization process stronger and deeper meaning. That is why in the sub-region as well as in the continent, most of the civil wars are intricate and difficult to cure from the source (Stewart, 2000: 246-247 & Alexander, 2000: 5). Thus, this problem may force members to reschedule their agenda of forming a single currency in the short-run.

CHAPTER 5-CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

The plan to establish a monetary integration in the East African Region is not a fresh proposal. The EAC partner states had created a monetary integration in the early 20^{th}c. Yet this monetary fusion did not last long because of the then existing political, economic and interpersonal difference constraints among the member countries.

After the previous integration plan had collapsed, Kenya, Tanzania and Uganda, have committed to resurrect the EAC in 1999. Later on, Rwanda and Burundi joined the club. Establishing Customs Union, Common Market, Monetary Union and Political Integration respectively have been the major concerns of the partner states. Even though the Customs Union has been operational commencing from 2005, inability to completely obliterate trade and non-trade barriers has constrained its full realization.

This said however, the EAC faces serious constraints to bring to fruition it's most anticipated and ambitious monetary union objective. The EAC is strong on paper while lacking the institutional as well as national support for its success.

The positive benefits of deeper economic integration could not be fully reaped in the EAC due to cross-cutting problems that are common to the continent at large. Lack of capacity to attain the EAC macroeconomic convergence criteria, donor dependence, overlapping and multiple membership and unaddressed political problems continue constraining the creation of the EAMU in the short run.

As a consequence, since the introduction of a workable and comprehensive EAMU requires long process of preparation, it is a premature engagement for the EAC partner states to introduce the EAMU in the short run.

5.2 RECOMMENDATIONS

- ✓ So as to address the underlying problem related to the failure to attain macroeconomic convergence criteria, the integrating states of the East African Community should assertively follow and put in to practice policies that encourage, enhance and promote economic growth that line up with those of a monetary integration agenda. In relation to this, partner states must identify, highlight and design significant and country specific economic drivers. Moreover, they should act up on the identified areas so as to assure sustainable economic growth in each member states of the East African Community so that member countries will qualify for the eligibility test of the macroeconomic convergence criteria.
- ✓ Upsurging export diversification which in turn will result in a boost in revenues- there by enabling the integrating states of the East African Community to generate internal revenue- that enables them to finance the grand project of monetary integration must be evolved and enhanced.
- ✓ In order to tackle the problem of good governance that may divert the attention of developing or funding partners, the members of the East African Community should engage in developing national integrity framework that will build the confidence of international, national, and other funding/donor institutions. Since good governance problems such as corruption are very technical issues, regulatory and sanctions alone do

not make the whole system of the countries workable and problem free. Thus, it is important to create through media, higher education, private sector, watchdog institutions and civil society organizations a value based society that does not tolerate lack of good governance. It is also essential to encourage and build a society that takes collective actions against good governance challenges.

- ✓ Since overlapping membership and hence double commitment to other regional and sub-regional integration skims have put hurdles to the integration process, integrating states either should engage in exerting effort so as to prioritize their objective of integration agenda at the EAC level or they must design mechanism of policies harmonization.
- ✓ The rapid pace with which the member countries have tried to bring to fruition the far-fetched integration prematurely may explain the urgency to stabilize the politics of the region and the need to put in place workable and strong institutions. As a result, integrating states of the East African Community must work to redress some pockets of unresolved potential political turmoil that may hamper and divert resources from production sector to destruction. Developing genuine political culture that accommodates or brings together the interest of all stakeholders should be put in place within each member of the EAC.

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