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The Quest for Monetary Integration in East Africa; Lessons for the East African Community Bloc

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DECLARATION

I declare that this is my original work and reflects my effort and ability. It has not been presented to any institution for any award.

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DEDICATION

This dissertation is dedicated to all Kenyans especially the economic policy makers with an earnest desire to see this country attain its full economic potential.

ABSTRACT

Following the revival of the East African Community, the member states have, in addition to other objectives, decided to form a monetary union in the manner similar to the Euro monetary zone.

Using both primary and secondary data, this study assesses the East African Community individual member states' legal, economic and political environment, with a view of establishing whether there is any homogeneity as a precursor to the formation of the monetary union.

The study concludes that there is limited harmony amongst the member states of the community in terms of macro economic symmetry and convergence, policy harmonization and governance structures.

The study recommends that the process of creating a monetary unit in the area should not be rushed but be carried out gradually as the disparities aforementioned are ironed out even over time.

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ABBREVIATIONS

ASEAN: Association of South East Asian Nations

COMESA: Common Market for East and Southern African States

EAC: East African Community

EACB: East African Currency Board

EAMU: East African Monetary Union

ECOWAS: Economic Community of Western African States

GCC: Gulf Cooperation Council

OCA: Optimal Currency Area

SADC: Southern African Development Community

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CHAPTER ONE

INTRODUCTION

1.0 Problem Context

Over the years, international trade has come to take centre stage in many countries. Many factors have led to the development of trade between and among nations. These include; advancement in technology, asymmetries in resource endowment, need to reach full employment of production capacity, market diversification, specialization and globalization amongst other reasons. This has left every nation dependent on one another. In response, countries have devoted and employed human and capital resources to improve their terms of trade with their overseas partners. In addition, inter state treaties have been made that create free trade areas, customs union, common market agreements and financial and monetary unions.

This study analyzes how the current and future state of the East African Community Political, Economic and Legal framework will determine the extent to which a monetary union may be realized in the foreseeable future. The study also explores practical steps that the East Africa Community member states can take to fast track on the attainment of a regional currency.

1.1 Background of the study

On 30th November 1999, the then heads of states of Kenya, Uganda and Tanzania signed the East Africa Co-operation treaty in Arusha, Tanzania[1]. The main objective of the agreement was to develop policies and programmes aimed at fostering co-operation in political, economic, socio cultural, research and development, defence, security and legal

[1]http://www.eac.int/

and judicial affairs amongst the member states[2]. To many, this was perceived as the most progressive step towards reviving the original East African economic union, which had collapsed in the 1970s[3]. Many factors such as lack of political will by member states to co-operate, lack of full participation by the private sector and civil society in running the affairs of the community plus unequal absolute and relative economic gains by the member states led to the dissolution of the initial agreement.

With over ten years since coming into effect, the new East African Community (EAC) Treaty has triggered a tremendous growth in both economic and socio cultural spheres amongst the member states. According to Article 5(2) of the Treaty, the Agreement is founded on four pillars, namely a Customs Union, a Common Market, a Monetary Union and eventually a Political Federation by 2015.

Currently the Community has five member states (The Republic of Rwanda and Republic of Burundi joined the Community on 1st July, 2007)[4]. So far the Member States have signed and effected the Customs Union Protocol and the EAC Common Market Protocol. The Customs Union came into effect first on 1st January, 2005 while the Common Market on 1st July, 2010.

The third and next phase of the EAC integration is the creation of a single regional currency. At their summit in 2007, the heads of states of the EAC partners resolved to expedite on the attainment of a regional currency by the year 2012. Three years later, in 2010, the EAC council of ministers adopted an elaborate model of East African Monetary

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[2] Treaty for the establishment of the East African Community (as amended on 14th December, 2006 and 20th August, 2007) Article 5(1)
http://www.eac.int/

[3] Barrack, O., '*East African Community: Treaty signals rebirth of Union*', All Business (a D & B company), (2000)
http://www.allbusiness.com/government/1027256-1.html

[4] http://www.eac.int/news/index.php?option=com_content&view=article&id=53:chronicle&catid=46:blog

Union (EAMU) Protocol to be negotiated by the member states[5]. In response to this, on 17th January, 2011 a high level task force (HLTF) constituting experts from the EAC member states held a four day meeting in Arusha to set stage for negotiations of the protocol that would establish EAMU[6]. The task force heads of the delegation from the different member states committed themselves to arrive at a consensus.

1.2 Statement of the Research Problem

There is no doubt that the benefits that accrue from monetary integration are endless. It reduces trading transaction costs and exchange rate risks amongst the members thereby increasing market integration; it increases international trade bargaining power against external players. In addition, a single monetary policy combined with well-consolidated fiscal policy fosters macro economic stability; it enhances policy and institutional framework among member states; acts as a catalyst for financial market integration amongst other direct and indirect benefits.

As a result, most regional trading economic blocks either have created monetary unions or are in the process of initiating one to capitalize on such benefits. Currently, the most vibrant monetary union is the European Monetary Union, which introduced a single paper money and coin currency among eleven member states in 2002[7]. In West Africa, there have been Francophone and Anglophone monetary zones. More recently, there have been initiatives to introduce a single monetary union in the entire region. Other potential regions for monetary integration include the Common Market for East and South African

[5] http://www.eac.int/about-eac/eacnews/537-eamu-to-spur-growth-mwapachu.html
[6] http://www.eac.int/about-eac/eacnews/537-eamu-to-spur-growth-mwapachu.html
[7] http://www.xe.com/currency/eur-euro

(COMESA) and the Association of Southeast Asian Nations (ASEAN) and Gulf Cooperation Council (GCC) regions.

Monetary integration, however, is a daunting task to establish and manage. It may take several years, even decades, to be achieved. Many factors, that may support or impede the process, come into play. Consequently, after their establishment, monetary unions also face challenges and opportunities. There need to be a clear harmony or a convergence of the various environmental indicators operating in the region.

Many scholars have written about the potential success or failure of a proposed monetary union based on the current macro economic harmony within that particular regional bloc. Though very critical, however, future prediction of the likely economic and non economic environment is one area that has not been adequately studied.

It is against this background that this study explores not only the currently prevailing economic conditions, but additionally, the likely future trends in the political, economic and legal structures of the member states of the EAC, and how they will impede or promote convergence and ultimate creation and operation of the proposed East African Monetary Union.

1.3 Objectives

The main objective of this study is to draw lessons that EAC could utilize as it embarks on creating a monetary union by assessing the various factors that favor or impede monetary integration. The study is thus guided by the following specific objectives:

1. To find out whether creation of monetary unions in developing and least developing countries is feasible.

2.If viable, to find out the major factors that may accelerate the East Africa Monetary Integration road map.

1.4 Literature Review

Many papers and articles have been written about the feasibility of monetary integration under different economic blocs. This study reviews past literature on the major factors that need to be considered under the proposed EAMU creation as well as those associated with the formation and effective management of monetary unions in Africa and the rest of the world.

1.41 Literature Review on the proposed East African Monetary Union

According to Kibua and Tostensen (2005)[8], the attainability of a full and effective monetary union should be based on existence of common fiscal and monetary policies, a central management of the common pool of foreign exchange reserves, external debt and exchange rate policy and the existence of a regional monetary authority that is the sole issuer of a full currency.

On the issue of fast tracking on the attainment of a regional currency, they emphasize on the need to merge the member states central banks to one regional central bank as well as the need for macro economic convergence.

Kibua and Tostensen (2005) recognize that foreign aid may be an impediment to achieving a monetary union as it poses questions on sustainability of a fairly stable balance of payments, foreign exchange reserves, stable exchange and interest rates.

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[8]Kibua, T.N. and A. Tostensen , '*Fast Tracking East African Integration, Assessing the Feasibilty of a Political Federation by 2010*', CMI reports, Chr. Michelsen Institute, R 2005:14

Kibua and Tostensen (2005), therefore, conclude that fast tracking monetary integration attainment in EAC may not be possible because it would take time to amalgamate member states' institutions into regional institutions.

Buigut and Valev (2007[9], based on economic market shocks asymmetry, contend there is no strong support for forming a currency union in the East Africa Region in the short term. Using a two model Vector Auto Regression model, their findings suggest contemporaneous shocks are not highly correlated in the region. They, however, suggest more integration in the region would reduce the asymmetry of the shocks, currently facing the region, in the long term. They also note that although symmetry of shocks is crucial in determining an optimal currency area, other key economic and political features characterizing the region should also be investigated.

Qobo (2007)[10] outlines that although the East African Community has made significant progress towards integration especially with the launch of a custom's union; it has had to deal with the challenge of a long history of strife amongst the integrating members. Thus, according to Qobo (2007), the objectives that have been set out by the EAC towards any subsequent integration must put into consideration managing tensions amongst member states and reducing asymmetrical distribution of any integration benefits thereof.

Buigut (2011)[11], using multivariate cointegration analysis to assess the level of convergence with respect to nominal and real exchange rates, monetary base and real GDP, finds that there are those members in EAC that pursue policies that are independent

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[9]Buigut, S.K. and N.T. Valev, '*Is the proposed East African Monetary Union an Optimal Currency Area? A Structural Vector Autoregression Analysis*', Andrew Young School of Policy Studies, Georgia State University, Working Paper 04-07, September 2004

[10]Qobo, M., '*The challenges of regional integration in Africa in the context of globalization and the prospects for a United States of Africa*', Institute for Security Studies, ISS paper 145, June 2007

[11]Buigut, S., '*A Fast-Track East African Community Monetary Union? Convergence Evidence from A Cointegration Analysis,* International Journal of Economics and Finance, Vol. 3, No. 1; February 2011 www.ccsenet.org/ijef

of other members as evidenced by partial convergence of EAC policies. Buigut (2011) concludes rather than fast tracking the process of establishing a monetary union in EAC, a gradual approach would be prudent because it would involve adjustments by the EAC member states to harmonise their monetary policy for a more formidable and sustainable monetary union.

Ngowi (2011)[12] recommends that the whole process of monetary integration in East Africa should be taken slowly. He points out that many East Africans, especially the common men, are yet to understand what common market and customs union are all about. Ngowi (2011), therefore, states the prime focus of East Africa, at the moment, should be to strengthen the customs union and common market that is already in place and ensuring the people fully understand them before embarking on a monetary union which, according to him, is a higher level of economic integration built on a common market and which also requires a solid people base.

1.42 Literature Review on the Lessons Associated with the formation and effective management of Monetary Unions within Africa

According to Ogunkola (2005)[13], a focus on harmonization and co-ordination of policies amongst ECOWAS member states would yield better results in their efforts towards the establishment of a single monetary zone in the region than the initiatives that individual members have taken to satisfy the conditions laid out in their national structural adjustment programmes (SAPs). He does not rule out the importance of the impact of the SAPs on each individual member economy on the attainment of a single currency zone,

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[12] Ngowi, H., '*East African Monetary Union- Are We Ready?*', All Africa.Com. 2011 http://allafrica.com/stories/201104050058.html

[13] Ogunkola, O., '*An Evaluation of the Viability of a Single Monetary Zone in ECOWAS*', African Economic Research Consortium, AERC Research Paper 147, (January 2005)

but rather emphasizes on the need for the same programme to be coordinated from the regional, rather than national, level.

Highlighting the socio economic factors responsible for the slow pace in the West African Common Currency agenda other than political will, Ojo (2005)[14] identifies political instability, lack of sustained political commitment to implement the agreed policy actions and inadequate sensitization. In the first case of political instability he points out that the military regimes common in West Africa up to the late 1990's were characterized by unstable governments and poor and undemocratic governance practices that alienated the countries from strategic and foreign donors who would support the various programmes financially or technically. In terms of the absence of sustained political will to implement the agreed policy actions, Ojo (2005) claims Nigeria and Ghana tried to push the minor countries, like the way France and Germany promoted monetary integration in Europe, but were unable to maintain the momentum to the point of policy execution because the rest of the countries in West African bloc played "spectator role" by not properly financing the ECOWAS operational activities and not maintaining peace and security. Finally Ojo (2005) states the West African States, with the exception of Ghana and Sierra Leone, performed badly on creating awareness and dissemination of information to the populace as a result of poorly planned National Sensitization Committee organization and funding.

According to Sagbamah (2005)[15], a major impediment to establishment of a monetary union in the ECOWAS was the dichotomies amongst the Francophone, Anglophone and

[14] Ojo, M.O., '*Towards a common currency in West Africa: Progress, Lessons and Prospects*', West African Journal of Monetary and Economic Integration, West African Monetary Institute, Second Half 2005, Volume 5, Number 2(a)

[15] Sagbamah, J.E.L., '*Perspectives on the European Monetary Union: Lessons for the Economic Community of West African States (ECOWAS)*', West African Journal of Monetary and Economic

Portuguese colonies in the West African sub region. The Francophone had a West African Monetary Union (UEMOA) that they considered superior to any other monetary arrangement in the region. The members thus undermined efforts to create an ECOWAS monetary union. This led to the Anglophone West African states to have their own parallel monetary union that in order to foster an early convergence, fusion and attainment of a monetary union in ECOWAS.

Kode (2005)[16] notes the quest for monetary integration in Africa as not a new phenomenon. He, however, notes one important variable that has implications on the long run sustainability of a monetary union as political will and commitment on the part of member states. A case in point, according to Kode (2005), is in the West African region where Ghana and Nigeria have shown overwhelming commitment to implement monetary integration in the ECOWAS block. To Kode (2005), the major challenge would be to incorporate such a will all across ECOWAS members so that the planned monetary union is achieved with minimal delay. Kode (2005) also points out that the will to push for a monetary union in West Africa has been raised by the successful introduction of the Euro in Europe.

Similarly, Nnanna (2006)[17] is of the opinion that monetary unions in Africa do not satisfy optimal currency area conditions when measured against income structure, product market flexibility, labor market mobility, degree of openness, intra trade relations and asymmetric terms of trade shocks. According to Nnanna (2006), African regional arrangements are characterized by wide development gaps between the highest and

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Integration, West African Monetary Institute, Second Half 2005, Volume 5, Number 2(a)

[16]Kode, D.E., '*Towards a Monetary Union in the Economic Community of West African States (ECOWAS): Prospects and Challenges*', MA Thesis, University of Witwatersrand, 2005

[17]Nnanna, O.J., '*Economic and Monetary Integration in Africa*', (Presented at G24 Meeting In Singapore, 14th September 2006)

lowest member, dependence on a limited number of primary goods, insular labor market mobility and huge difference in the terms of trade shocks. Nnanna (2006) however points that the aforementioned are factors that promote creation of an OCA status "ex ante" (i.e. monetary integration will eventually promote economic integration) and that an OCA status may also be achieved "ex post" (where economic integration eventually promotes monetary integration) such as the Euro currency, only subject to strong display of political will and commitment to give up sovereignty over monetary policy.

Qobo (2007)[18], relating the Europe experience to an African context, contends that African states may also need a jolt, but not necessarily like the fall of Bretton Woods system or the Asia Crisis in the 1990's, on their domestic system to force them to a real commitment to convergence. Qobo (2007) argues that the fall of the Bretton Woods system in the 1970's stirred pivotal states like France and Germany to advocate for more integration and subsequently led to a monetary integration in Europe. He argues that though it may not be easy, but such a jolt would enable African economies formulate sound fiscal and monetary policies at the domestic level which are key ingredients to successful economic convergence.

In 2008, The United Nations Economic Commission for Africa[19] on the other hand mentions a number of gaps in spite of Regional Economic Communities in establishing protocols and monetary programmes to be implemented in Africa. These include multiple memberships to regional economic blocs, divergence rather than convergence of economic policies, slow implementation of policies, limited national and regional capacities, domestic, regional and international financial constraints, lack of private

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[18] Qobo, M., '*The challenges of regional integration in Africa in the context of globalization and the prospects for a United States of Africa*', Institute for Security Studies, ISS paper 145, June 2007

[19] United Nations Economic Commission for Africa ,'*Assessing Regional Integration in Africa*', (Ethiopia; ECA PCMS, 2008)

sector involvement and lack of mechanism to handle external shocks. Consequently, the Commission concludes, given the scenario, Africa's ability to achieve monetary integration remains difficult. It asserts that the process of strengthening regional (as such monetary) integration should include guidelines for convergence of trade and macro economic policies of the region in question.

Tapsoba (2010)[20] also notes that the suitability of a monetary union amongst West African states is not particularly strong because the countries in the region are differently specialized in one or two primary products varying from agricultural to industrial products, hinged on the geography of the countries. Nevertheless Tapsoba (2010) argues that a monetary union could still be optimal if member states are able to share output risks. The risk sharing arrangement would allow financial transfers from booming economies to towards partners in recession. Tapsoba (2010) illustrates this view in an example of a pooling group where a country experiencing a temporary commodity boom can lend the extra revenue to their partners through budgetary transfers or regional credit markets.

1.43 Literature Review on the Lessons Associated with the formation and effective management of Monetary Unions outside Africa

Fidrmuc and Horvath (1998)[21] identify two factors that caused the demise of a monetary union in Czechoslovakia in spite of a remarkable social, demographic and economic convergence. These were namely nationalism and a flawed monetary union system. In

[20] Tapsoba, S.J., '*West African Money Integration and Interstates Risk-Sharing*', Centre D'Etudes Et De Recherches Sur Le Developpement International, Etudes et Documents, E 2010.02

[21] Fidrmuc, J. and J., Horvath, '*Stability of Monetary Unions: Lessons from the Break-up of Czechoslovakia*', National Bureau of Economic Research, NBER working paper series, Issues 7361-7370, Business and Economics 1999

terms of the former, the union disintegrated as the end of the communist regime removed political constraints that prevented it from happening before. In terms of the latter the union lacked political will and lacked fiscal transfers to reduce asymmetric economic shocks. In addition, the system had low exit costs. This all encouraged the disintegration of the monetary union.

Lim (2000)[22] raised the issue of a structural change in some economies of the EMU members so that the overall long term investment gains in the Euro area are sustained. Of particular concern was Germany's higher than normal productivity growth rate, which according to his view, needed to slow in order to allow real exchange rate convergence in the Euro area so as to prevent asymmetries in real exchange rates across different regions of the EMU.

According to the Directorate- General for economic and Financial Affairs of European Commission[23], the overall experience of the first decade of the Economic Monetary Union (EMU) shows great success especially in macro economic stability amongst members but there are some shortcomings that need to be addressed in the decade following. The emphasis is on dire need to raise potential growth and safeguard and increase the welfare of the Euro area citizens, ensuring a smooth adjustment capacity as EMU expands to take in new members and successfully protect the interest of the Euro area in the global economy. The commission proposes to achieve this through three pillars namely; the internal policy agenda, the external policy agenda and promoting effective governance of the EMU. The internal policy agenda seeks to deepen fiscal

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[22] Lim, J.,J., '*Whither Monetary Union, Revisiting the EMU one year on*', Msc Thesis submitted at the London School of Economics (2000)
www.jamus.name/research/if2.pdf

[23] The Directorate- General for economic and Financial Affairs, European Commission, '*EMU @ 10, Success and Challenges after 10 years of Economic and Monetary Union*', European Economy 2 | 2008

policy coordination and surveillance so as to broaden macroeconomic surveillance in EMU beyond fiscal policy and to better integrate structural reform in overall policy coordination within EMU. The external policy agenda, on the other hand, seeks to enhance the Euro area's international role in global economic governance. One challenge here is thus to build an international strategy synonymous with the international status of the Euro. It must play and active and assertive role in bi lateral and multi lateral dialogue with its strategic partners by developing common positions and consolidating its representation such that it speaks as one voice. Finally the last pillar seeks more effective system of economic governance to coordinate the first two pillars.

Mittal (2004)[24] highlights the major factors that impede a monetary union in ASEAN states as low levels of intra regional trade, weak institutional framework, wide development gap levels amongst members, lack of an anchor currency, low levels of cooperation on economic and policy issues, different political ideologies and nationalism. He further contends a successful potential ASEAN monetary union, Malaysia, Singapore, Thailand and to a lesser degree Indonesia need to be members because they are major partners of almost all the countries of ASEAN. They are thus more likely to be synchronized with all the ASEAN countries.

Sturm and Siegfried (2005)[25] contend that a supranational Gulf Cooperation Council (GCC) monetary institution is a prerequisite in order to conduct a single monetary and exchange rate policy geared to economic, monetary and financial conditions in the

[24] Mittal R., '*ASEAN Monetary Union- A Possibilty? A Comparison of ASEAN economic indicators with that of Euro Zone*', (unpublished), 2004
www.publicpolicy.stanford.edu/group/siepr/cgi-bin/pubpol/?q.../files/.../**Mittal**...

[25] Sturm, M. and N., Siegfried, '*Regional Monetary Integration In The Member States of the Gulf Cooperation Council*', European Central Bank, Occasional Paper Series No 31/ June 2005

monetary union as a whole. They contend that GCC member states have already achieved a good degree of monetary convergence but trail on fiscal convergence.

Sturm and Siegfried (2005) highlight the key issues to consider in the design of a GCC Monetary Union include clear unambiguous mandate of the monetary union, independence of the union from political manipulation, clearly defined organization structure of the monetary union, agreement on common set of monetary instruments and procedures, safe and reliable payment systems, high quality macro economic statistics of the member states, consensus on representation of the union in international for a and proper timing and sequences of the establishment of the union.

AlKholifey and Alreshan[26] argue that a monetary union is possible in GCC but a major condition for the union to take place, apart from a unification of the monetary policies of the member states, is close coordination of all policies especially fiscal policies. Even though they admit claims that a good pre requisite for a monetary union is high transaction costs which is absent in the region as a result of low intra trade volumes amongst member states, yet they believe this factor should support such a monetary union in the long term because mutual benefits by the members are of long term nature and would be reaped as time goes by.

1.5 Justification

This study has both academic and policy justification. Firstly, the study outlines where East Africa Community has come from in terms of monetary integration right from pre

[26] AlKholifey, A. and Alreshan, A., '*GCC Monetary Union*' (Proceedings of the SARB/IFC seminar on Economic and financial convergence en route to regional economic integration: experience, prospects and statistical issues amidst global financial turmoil Durban, South Africa, 14 August 2009) http://www.bis.org/ifc/publ/ifcb32.htm

independence to date. This will help academicians appreciate the milestones that have been made by EAC member states in their integration efforts.

The findings of the study could also be used by policy makers and experts involved in creation and management of monetary unions. By outlining the lessons learnt, this study could help policy makers to be proactive which effectively leads to informed and better decision-making process.

1.6 Theoretical framework

The main theory employed in this study is the theory of optimal currency areas whose proponents include but not limited to Mundell (1961), Frankel and Rose (1998) and McKinnon (2004).

The aforementioned theory essentially asks the question, "Under what circumstances should two countries choose to adopt the same currency instead of choosing to have distinct currencies?"[27]

Mundell (1961)[28] defined OCA as an area with internal factor mobility (including inter regional and inter industrial mobility) and external factor immobility so as to facilitate intra regional redistribution of resources. He established a group of countries will benefit from a unified currency subject to three prerequisites. Firstly the economic shocks should not hit the countries asymmetrically such that some countries benefit while others in the group suffer economic losses. This prerequisite suggests that there should be a positive correlation of economic shocks amongst the countries. Secondly Mundell (1961) suggests

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[27] Akila Weerapana, '*Optimal Currency Areas* ',Lecture 21, Fall Semester '09-'10 http://www.wellesley.edu/Economics/weerapana/econ213/econ213pdf/lecture%20213-21.pdf (last upated 27th March 2011)

[28] Mundell, R. A., '*A theory of Optimum Currency Areas*' , The American Economic Review, September 51(4) pp 657-665, 1961 www.sonoma.edu/users/e/eyler/426/mundell1.pdf

that there should be a high degree of labor mobility across the group of countries. The final prerequisite is a centralized fiscal policy should be in place to transfer resources from countries that are performing well to the others in the group that are not performing well.

A potential benefit of currency merger, according to Mundell (1961), is reduction of transaction costs associated with exchange rates conversion while handling the intra regional trade. A major cost on the other hand as result of monetary integration is a state's loss of sovereignty. An example of such a loss it the fact that the state can not devalue its currency as macro economic stabilizing tool.

In essence, Mundell (1961) suggests a country will weigh the costs and benefits before participating in a monetary union. It will opt for participation only if the benefits outweigh the costs of participation.

This initial theory by Mundell in 1961 was however criticized because it assumed a downward sloping and a stable Phillips curve in the long run. It was argued, by economists, there is no trade off between inflation and unemployment at least in the long run.

Needless to say, Mundell's contribution to the theory is considered worthwhile.

Frankel and Rose (1998)[29] contend that countries with close trade links will more often than not have highly directional business cycles and this would create and optimal currency area and promote an ideal situation for monetary integration. This, in essence, confirms Mundell's (1961) prerequisite of symmetry of shocks.

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[29] Frankel, J.A. and A. Rose, '*The Endogeneity of the Optimum Currency Area Criteria.*' Economic Journal , July 108(449), 1998
ideas.repec.org/p/nbr/nberwo/5700.html

McKinnon (2004)[30] argues that intra regional diversification provides a good ground for monetary integration because it allows absorption of economic shocks in specialized economies with different revenue bases. When one economy is hit adversely it is cushioned to a great extent by the other economy (ies) that are doing well. This would result in an optimal currency area.

1.7 Hypothesis

The study attempts to test the following hypothesis;

1. The current economic, legal and political environment in the EAC, and by extension the least developed and developing countries do not favor the creation and the sustainability of monetary unions.

The study utilizes economic structure and macro economic indicators such as interest rates, national savings to GDP rate, real GDP growth rate, Public debt to GDP ratio, Money supply, and external debt to GDP ratio across the EAC member states to evaluate the economic environment.

The study also uses data showing EAC member states' Political Stability, Democracy, Banking supervision, Corruption indices, Banks capital adequacy ratios, Fiscal policies and Nature of government intervention on the economy to analyse the legal and political environment.

1.8 Research Methodology

[30] McKinnon, R.I., '*Optimum Currency Areas and Key Currencies: Mundell I versus Mundell II.*' Journal of Common Market Studies, Special Issue November 42(4), 2004 onlinelibrary.wiley.com/doi/10.1111/j.0021-9886.**2004**.00525.../abstract

Data Collection: the study utilizes both primary and secondary data. The primary data was collected from questionnaires with key personnel from and EAC member states high commission.

Secondary economic data was be gathered mainly from, *EAC statistics portal*, *economy Watch*, International Monetary Fund's *International Financial Statistics* and *Euro Stats*. Other sources of economic and political data are books, e- books, government reports and statistics from *Central Bureau of Statistics*, journals, newspaper articles, website articles, thesis and dissertations and unpublished documents dealing with the study.

Data Presentation: the data gathered for the study was be illustrated through use of tables, bar and line graphs to pick out political, macro economic and policy patterns standing out.

Data Analysis: the study uses correlation designs to measure EAC environmental convergence among the EAC member states and time series data for forecasting future macro economic trends. The projections of the economic indicators (using polynomial and simple regression analysis) have been done through computer aided trend line generation.

1.9 Scope and Limitations of the Study

1.91 Chapter Outline

This study is divided into five chapters made up as follows:

Chapter One: **Introduction**

The chapter provides an insight into the dissertation problem context, background of the study, the statement of the research problem, objectives and justification of the study, literature review, the theoretical framework, the hypotheses, the scope and limitations of the study as well as the research methodology.

Chapter Two: **Historical Overview of Monetary Cooperation in East Africa**

Chapter two gives an overview of the evolution of monetary management in East Africa, from the age of cowry shells and establishment of the three sovereign central banks in the then East Africa region right to the desire to integrate their monetary affairs.

Chapter Three: **East African Monetary Integration and the Political Environment**

The chapter assesses the political and legal framework that encourages or inhibits the creation and sustenance of monetary unions and their application in the EAC context.

Chapter Four: **East African Monetary Integration and the Economic Environment**

The chapter exclusively looks at the economic factors that favor or impede Monetary Integration including economic structure, macro economic indicators and the likely trends of the EAC economic environment.

Chapter Five: **EAC Regulatory Framework and Harmonization of Partner States Monetary and Fiscal Policies**

The fifth chapter deals with the process of unifying the critical macro economic, political and legal policies across the countries involved in the integration. In addition this chapter covers the process of creating centralized regional policy making bodies.

Chapter Six: **Summary, Conclusions and Recommendations**

The final chapter of this study draws conclusions and makes recommendations based on the findings from Chapters two until Chapter five.

1.92 Limitations

This study may be limited in two areas. Firstly, this study uses data drawn from a relatively small sample due to time and resource constraint. Where we need to borrow from past experiences from other monetary union establishments, we rely mainly on West Africa and European monetary arrangements. The more, the integrated monetary units would have been, the wider would have been the scope of the study.

Secondly the international system is highly dynamic. Consequently, the economic, social and legal factors in play at any one time are inexhaustible. In essence, the study provides lessons mainly based on current observable variables. There are also latent or hidden variables that may not be easy to account for under this study.

CHAPTER TWO

HISTORICAL OVERVIEW OF MONETARY COOPERATION IN EAST AFRICA

2.0 A Shadow of the past

The drive to establish a single central bank in East Africa seems like a shadow of the past. Although it may not have been as elaborate as the one envisaged in the current treaty for the establishment East African Community, the use of a regional currency in the region dates back to as late 19th Century with the advent of the European colonisation. Almost the entire East African region was solely under the British protectorate. The protectorate, then, was responsible for the formation of regional institutions such as a common customs collection centre in 1900, the East African Currency Board of 1919, the Court of Appeal of Eastern Africa in 1909 and the Joint Economic Council in 1940, amongst other institutions[31]. All these institutions collapsed between the early 1960's (when Kenya, Uganda and Tanzania became sovereign republics) and the fall of the initial East African Community in the late 1970's.

Confining to the study of monetary integration, this chapter exclusively focuses on the introduction, structure and operations of the monetary systems that have been in operation from the time money was introduced in the East African coast to date.

The Republic of Rwanda and Burundi do not feature anywhere in this history. These two countries, geographically located in Central Africa, were under the Belgian colony, which had its own monetary arrangement. For a long time, after attaining their independence,

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[31] Maruping, M., 'Challenges for Regional Integration in Africa' in J. J. Teunissen and A. Akkerman (ed), *Africa in the World Economy-The National, Regional and International Challenges,* (The Hague: Fondad, 2005) pp. 137

they were still considered Central African states. They only became part and parcel of East Africa after joining the EAC bloc.

2.1 The Establishment of the government of the Eastern Africa protectorate and the East African Currency Board

The use of coin and notes, from the late 19th Century, in East Africa, as a medium of exchange, had been preceded by the use of cowry shells. Commonly referred to as cowries, these were shells of a marine mollusc, referred to as Cypraea Moneta, that were very common on the shores of Indian Ocean. Between 1830's and 1850's in Uganda, a cow was equivalent to 2,500 cowries[32].

Cowries were highly regarded. They could even be used during bride price negotiations as medium of exchange. One major drawback, however, on the use of cowries, was the fact that their supply could not be controlled. As well put by Enyondo (2006)[33], the core central bank function of issuing this 'legal tender' was left in the hands of nature.

Come the late 19th Century, the European countries scrambled for Africa in search of raw materials for their infant industries. This invasion led to colonisation and establishment of mandates and protectorates by the Europeans in almost the whole African continent.

By the time the Europeans had settled in East Africa, the popularity of the cowrie shells as medium of exchange started declining because of the large supply in circulation and subsequent loss of value. In its place, the coin money started gaining popularity. The British sphere of influence in East Africa, towards the end of 1886, covered Kenya and

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[32] Roscoe, J., '*The Baganda: An Account of their Native Customs and Beliefs*' 1911

[33] Enyondo, C., '*Bank of Uganda: 40 years of service: a pillar of the economy, 1966-2006*' Bank of Uganda Publications (2006)

Uganda[34]. The British government thereafter assigned British East Africa Company in 1888 to manage the territory[35].

In order to manage the region effectively, a decision was taken to construct a railway line, largely using Indian labourers, to connect Kenya and Uganda. This also led to the opening up of the interior Kenya and Uganda where cowrie shells were still being used. During this period of the construction of the rail, the most common coin currency was the Indian rupee, owing to Indians being the major coin traders and foreign settlers. As the interior of the protectorate opened up, the Indians also used the money they were paid to transact. This gave rise to the use of Indian rupee.

In 1905, therefore, the rupee was made the official currency of the British protectorate and was issued in various coin and note denominations[36]. The government of the Eastern Africa protectorate was responsible for issuing the currency until 1918.

In 1919, there were plans to abolish the use of Indian rupee as well as terminate the mandate of the Imperial British East Africa. By this time, the World War I had just ended and the British had acquired possession of the Tanganyika (currently mainland Tanzania) region which was a colony of Germany. The British control of East Africa, therefore, stretched from Kenya to Uganda and Tanganyika region. It was in this year that the East African Currency Board (EACB) was established to manage issuance of currency in the region.

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[34] History World http://www.historyworld.net/wrldhis/PlainTextHistories.asp?historyid=ad21#3283

[35] History World http://www.historyworld.net/wrldhis/PlainTextHistories.asp?historyid=ad21#3283

[36] http://www.centralbank.go.ke/Currency/CurrencyHistory.aspx

Table 2.0: Rupee Denominations in circulation under the Government of East Africa protectorate in 1905-1918

COINS	NOTES
½ Cent	1 Rupee
1 Cent	5 Rupees
5 Cent	10 Rupees
10 Cent	20 Rupees
20 Cent	50 Rupees
50 Cent	100 Rupees
	500 Rupees

Source: Central Bank of Kenya website

2.2 The Structure and Operations of the East African Currency Board

Right from its establishment, the EACB headquarters was located in Britain and administered by Whitehall officials even though its principal office was in Kenya[37]. The Board constituted of four commissioners who reported to the secretary of the state for the British colonies under the advisory of the Bank of England[38].

The board played a purely passive role with no intervention on the operations of the commercial banks that has started to bloom in the East Africa region as a result of international trade among East Africa, Europe and South Africa.

The first task of the Board, upon its establishment, was to replace the Indian rupee in circulation, which had been issued by the government of East Africa Protectorate, with the East African rupee and subsequently with East Africa Florins. One rupee was equal to one florin and 10 florins, on the other hand was equivalent to one pound sterling[39].

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[37] Symes, P., '*The East African Currency Board in Aden*' http://www.pjsymes.com.au/articles/EACBarticle.htm

[38] http://www.centralbank.go.ke/Currency/CurrencyHistory.aspx

[39] Musinguzi, M., '*When two cowrie shells could by a woman*', The East African, (posted 14th February 2009) http://www.theeastafrican.co.ke/magazine/-/434746/530264/-/item/2/-/11ul07y/-/index.html

On 1st January 1922[40] EACB introduced what would eventually be the official currency of the region, the East African Shilling, replacing the short lived Florin. The EACB

Exhibit 2.0: Sample East Africa Bank Notes (1912-1916) Mombasa Issues- The Government of the East Africa Protectorate

Source: East Africa Paper Money Index 1905-64 issues

http://www.numismondo.com/pm/eaf/

[40] http://www.centralbank.go.ke/Currency/CurrencyHistory.aspx

managed to complete the conversion of the rupee circulation in 1925[41]. This process however impacted negatively the operations of the Board. The value of silver had more than tripled between 1902 and the end of World War I which meant that the bullion value of the Indian rupee was higher than its face value. According to Peter Symes[42], the bullion value of the rupee was 2.75 shillings as opposed to its 1.33 shillings face value. In order to reduce the rupee circulation, EACB redeemed the rupee at a fixed price of 2.00 shillings.

The offer by the EACB coincided with the time when the global price of silver began depreciating as a result of the decline of the post war boom. The EACB offer, therefore, attracted speculators from other regions to buy the rupees and sell them in East Africa. As a result, the Liabilities of EACB sharply rose.

The situation of EACB was then further aggravated by the great depression of the 1930's. The lowest point of the EACB was reached in 1932 when the reserve ratio was at 9.9 per cent[43]. All this period when the position of EACB was unfavorable, the currency circulation was covered by government credit.

The position of EACB, however, began improving following the start of World War II and as well as from a favourable balance of payment positions of the colonies. During this period, also, the shilling monetary area of Kenya, Uganda, Tanganyika and Zanzibar was added temporarily the territories of British Somaliland, Aden and later the Italian colony of Somalia.

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41. *'The Currency Board and the rise of Banking in East Africa'* http://ideas.reec.org/p/mil/wpdepa/2007-10.html
42. Symes, P., *'The East African Currency Board in Aden'* http://www.pjsymes.com.au/articles/EACBarticle.htm
43. *'The Currency Board and the rise of Banking in East Africa'* http://ideas.reec.org/p/mil/wpdepa/2007-10.html

By the time the World War II was coming to an end, the EACB had made substantial profits from trade during the war period and from an expanded monetary area of the shilling. This had the effect of reversing the initial losses, experienced by the Board, prior to and until the great depression period. The Board had also, by then, built enough reserves to cover the currency circulation in the entire area.

In 1951, Aden joined the EACB membership and appointed a representative[44]. The shilling then became its official currency. This move by Aden and the high volumes of trade flowing through it increased the popularity of the currency amongst the neighbouring protectorates that an agency of EACB had to be established in Mukalla.

Table 2.1- Paper Currencies and Denominations in circulation issued by the East African Currency Board 1920- 1964

CURRENCY	DENOMINATIONS	DATE ISSUED
Rupee	1	1920
Florins	10 to 500	1920
Shillings	5 to 10,000	1921
Shillings	5 to 10,000	1933
Shillings	5 to 20	1939
Shillings	1 to 10,000	1938- 1952
Shillings	5 to 100	1953- 1957
Shillings	5 to 100	1953- 1963
Shillings	5 to 100	1964

Source: East Africa Paper Money Index 1905-64 issues
http://www.numismondo.com/pm/eaf/

2.3 The Decline of the East African Currency Board and subsequent dissolution

Following the prosperity of the EACB, plans were being made to move its administration to Kenya. In order to relieve London of holding external reserves, fiduciary issue with

44 Symes, P., '*The East African Currency Board in Aden*' http://www.pjsymes.com.au/articles/EACBarticle.htm

some degree of monetary policy was introduced locally in 1956[45]. Consequently, the EACB Board was reconstituted with a local chairman. Only one old member, the currency expert, was retained in the new Board. These changes brought about a new face of the EACB. These changes began taking shape even as it became apparent that the East African countries were on the verge of attaining independence.

The EACB was a success story, especially between 1950s and early 1960s. The Board had balanced maintaining acceptable liquidity levels, avoiding capital depreciation, paying out dividends to members and building reserves. There were even plans of upgrading the agency office in Mukalla to a full sub-centre. These plans, however, did not see the light of the day.

The new face EACB began to contract when British Somaliland withdrew from the Board in 1961. Similarly, by 1964, Aden had notified the Board of intention to leave EACB membership and issue its own currency. The EACB, therefore, remained in three independent territories namely Kenya, Uganda and Tanzania (Tanganyika and Zanzibar combined to form Tanzania). Torn apart on whether to operate a single regional central bank or three independent central banks for their respective countries, the three East African countries chose the latter. The EACB was therefore to be liquidated.

In 1965, the republic of Kenya, Uganda and Tanzania announced on the same day the establishment of their respective central banks.

The EACB ceased to exist in 1966, a year after the three East African countries chose monetary sovereignty over a centralised regional monetary institution.

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[45] '*The Currency Board and the rise of Banking in East Africa*'
http://ideas.reec.org/p/mil/wpdepa/2007-10.html

Exhibit 2.1: Sample East Africa Bank Notes (1953-1957 and 1964) front and back side - East African Currency Board

Source: East Africa Paper Money Index 1905-64 issues
http://www.numismondo.com/pm/eaf/

2.4 The Age of Sovereign Central Banks

After the declaration of independent central banks in 1965 by the three states of East Africa, they have all operated with autonomy performing their roles as outlined by the domestic laws of the respective states.

34 years after operating independent central banks and more than two decades after the collapse of the original East African Community, the three East African states revived the bloc and, now more than ever, are determined to merge their currencies and operate as it were during the pre independence era. The operations and management of the integrated monetary union as envisioned in the treaty establishing the EAC has been laid out under article 82 and 83 of the treaty.

2.5 The Road Ahead

It is quite evident that East Africa has come a long way as far as the evolution of monetary operations in the region, right from pre colonialism cowries' system to East Africa post independence currencies merger, is concerned.

One major difference, however, between the operations of the pre-independence East African Currency Board and the proposed East African Monetary Union is that whereas the former's mandate was over one protectorate that may have been considered one sovereign territory; the latter will operate within five independent territories.

This calls for in depth individual and comparative environmental analysis of all the EAC member states to ascertain whether the region is really an optimal currency area.

CHAPTER THREE

EAST AFRICA MONETARY INTEGRATION AND THE MEMBER STATES POLITICAL ENVIRONMENT

3.0 National Interest, International Cooperation and Political Will

In his book, '*Politics among Nations*', Thompson (1991) asserts that the main trademark that helps political realism to find its way in international politics is the concept of national interest defined in terms of power[46]. He explains that statesmen and stateswomen's action, as rational actors, will always be to increase the state's power. Power, herein, is defined as the state's ability to use its economic and non economic resources to influence the behavior of other states.

As such, states will coalesce and cooperate in common ventures in order to maximize their national interest and consequently their national power. The East African member states monetary integration is, therefore, both an economic as well as a political process and with a political objective. The EAC seeks to eventually speak in one voice as a political federation.

It is thus apparent from the aforementioned, that the partner states of the East Africa Community have one motive in merging their sovereign currencies; i.e. to preserve and increase their individual and common advantage over the rest of the states around the globe.

Similarly, any EAC partner state is bound to stop cooperating whenever there is a possible threat to its interest. The primary motive of a state, in essence, is to survive as a sovereign state in the long run.

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[46] Morgenthau H.J., (Revised by Thompson, K.W.), '*Politics among nations, the struggle for Power and Peace*', Sixth Edition (New Delhi: Kalyani Publishers, 1991)

The Political environment of the EAC has a direct bearing on the economic, military and diplomatic power of the state. Kenya, Uganda, Tanzania, Rwanda and Burundi will ensure that they do everything to preserve their interests as they embark on a monetary integration.

3.1 The Political Environment Indicators

Political will can not be empirically measured. It can, however, be observed by the level of commitment of the state in achieving preset objectives.

The political environment, on the other hand, manifests itself through various indicators such as relative economic gains, partner states governance orientation, political instability and historic political ties amongst others. These indicators are what ultimately determine the political will of a state.

Some of the indicators are explained hereunder.

3.1.1 Relative Gains

Political will was one of the major factors that caused the collapse of the initial EAC[47]. The survival of the community was dependent on each member's long term political interest of a competitive edge over each other.

When it became apparent that there were asymmetrical gains among the member states, the political will to sustain the community started dipping. This led to its eventual dissolution.

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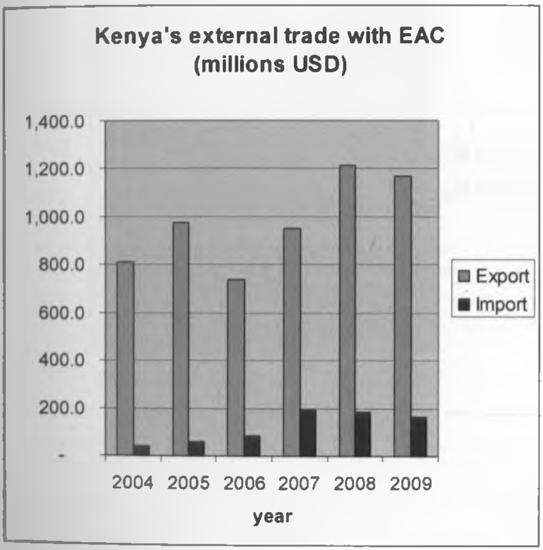
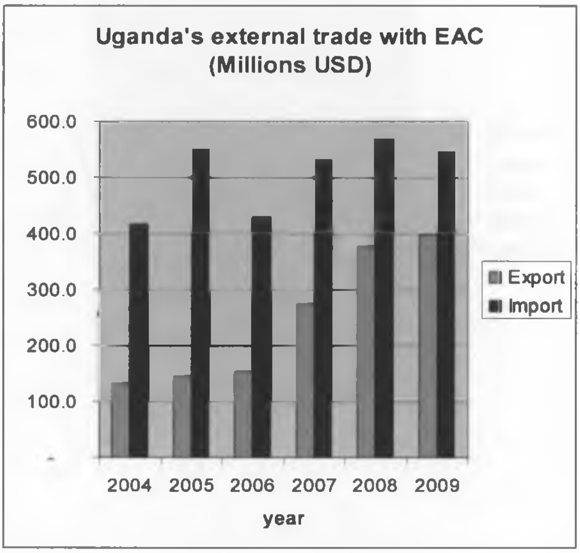
[47] Treaty for the establishment of the East African Community (as amended on 14th December, 2006 and 20th August, 2007), Preamble, paragraph 4 http://www.eac.int/

Like any other form of integration (i.e. customs union, common market and political federation), it is worthwhile to consider the EAC partner states both absolute and relative gains from a currency merger. This would determine the life of the union.

Waltz (1979)[48] argued this phenomenon out when we he concluded that a state's political interests supersedes its economic interests. According to his conclusion, no state will desire a symbiotic relationship scenario whereby it is gaining far less in comparison to its counterpart state's gain. This will also hold even where it is making significant amount of gains from the cooperation; i.e. absolute gains

Fig 3.0 EAC Members Inter Trade Data, 2004- 2009





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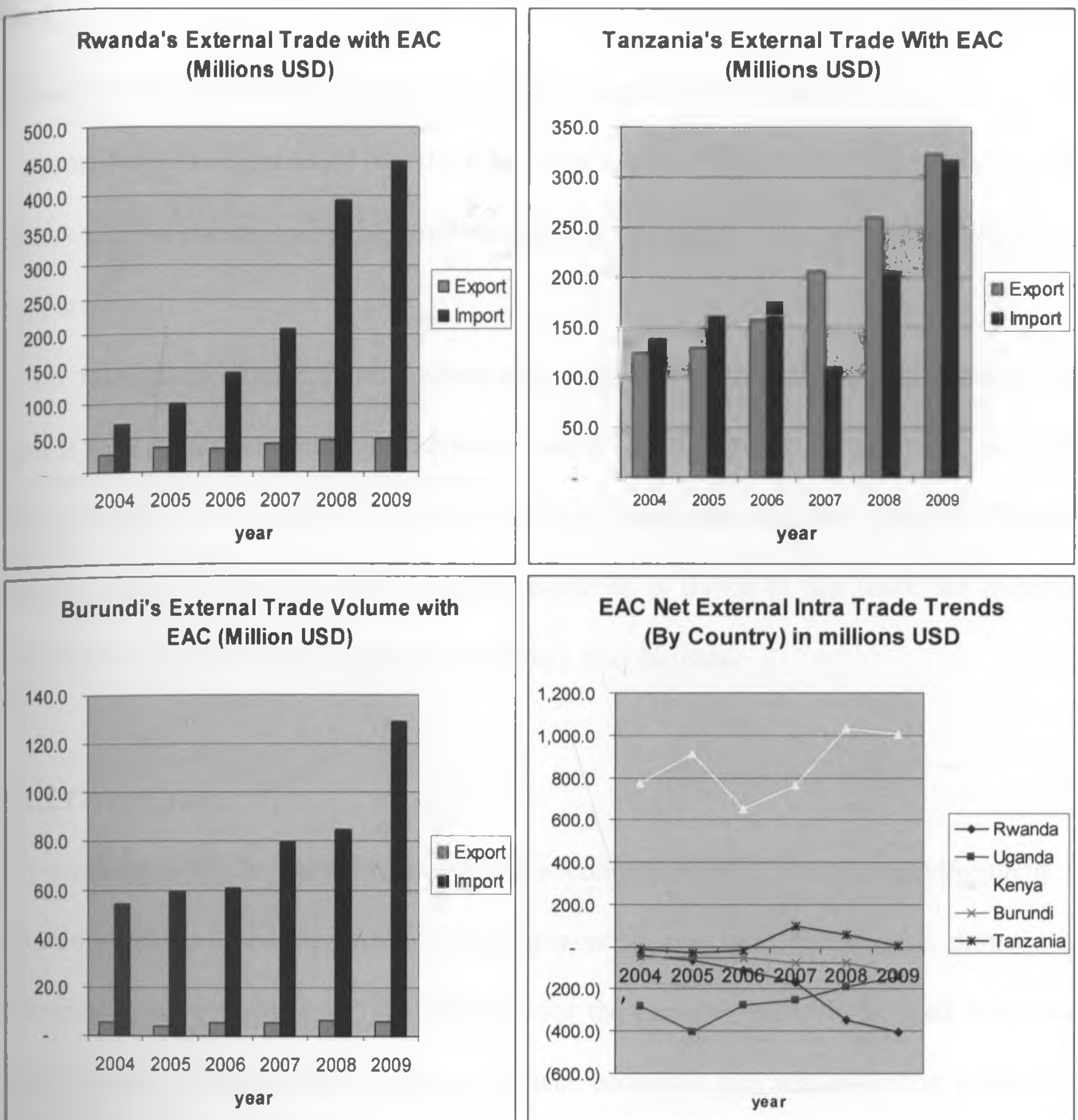
[48]Waltz, K.,'*Theory of International Politics'*, (Boston: Addison- Wesley: 1979)



Source: East African Community Statistics Portal
http://www.eac int/statistics/index.php?option=com_content&view=article&id=141&Ite
(Last updated 11th May 2011)

Figure 3.1 above illustrates intra trade pattern among the EAC partner states between the years 2004 to 2009. While Uganda, Burundi and Rwanda are net importers, Tanzania and Kenya on the other hand have been generally net exporters. We could therefore deduce that, in relative terms, Kenya is experiencing the highest gains from EAC intra trade as it stands.

If trade within East Africa is enhanced further and the above trend continues, then this scenario could cause some sense of inequality in terms of trade balance.

It seems from the illustration like the EAC is '*a one state's show*' over the rest. As such, Kenya may be perceived by the other states as the prime beneficiaries of the East African cooperation.

If the imbalanced gains are not checked now, and Waltz (1979) theory continues to hold, then it may create some tension between Kenya and the rest of the members in future. The perception can, however, be averted if Kenya plays the role of a motivator. It should employ both financial and non-financial resources in trying to fast track the monetary integration and assist where the other members may hesitate.

3.1.2 Governance

Governance is a key variable in creating a conducive or destructive environment for economic and political growth and development in any state. Since EAC partners are planning to share a currency, it is prudent for the member states to be well conversant with the manner each member uses its political, economic and administrative authority to run its affairs.

All the member states of the EAC attained their independence in the early 1960's, with Tanzania being the last one in 1964. This means they have the same age in terms of sovereignty. Difference in governance methods, however, has left all the states in different levels in terms of economic development.

Bad governance eventually translates to poor economic performance by a state. This is bound to spread and negatively impact the economies of the other members in an integrated union.

Two major indicators stand out when governance is mentioned; namely corruption and leadership. Both of these indicators have an effect on the real economic output of a state.

3.1.20 Corruption prevalence among East African Community Member States

Corruption is a reflection of weak institutions governing a state. According to Jain (2001)[49], corruption is an act in which the power of an office is used for selfish gains in a manner that contravenes the rules of the game.

Most monetary policy institutions in developing and emerging economies have lacked credibility because of the high corruption prevalence also inherent in such economies. As such, you will find these economies forming a monetary union in order to address such institutional deficiencies. According to Masson and Pattillo (2005)[50], this is one of the reasons why the West African Monetary Union (WAEMU) was formed.

This may, however, not resolve the problem. While analyzing this, Hefeker (2008)[51] states that a monetary union as a solution to weak sovereign central banks is ambiguous. He explains that in an asymmetric monetary union, with a strong partner country, the institutional quality in smaller member countries will either increase or decrease, depending on the quality of institutions in the strong partner. This is because the effects of the strong partner are increasing (or decreasing) in the relative size of the other countries.

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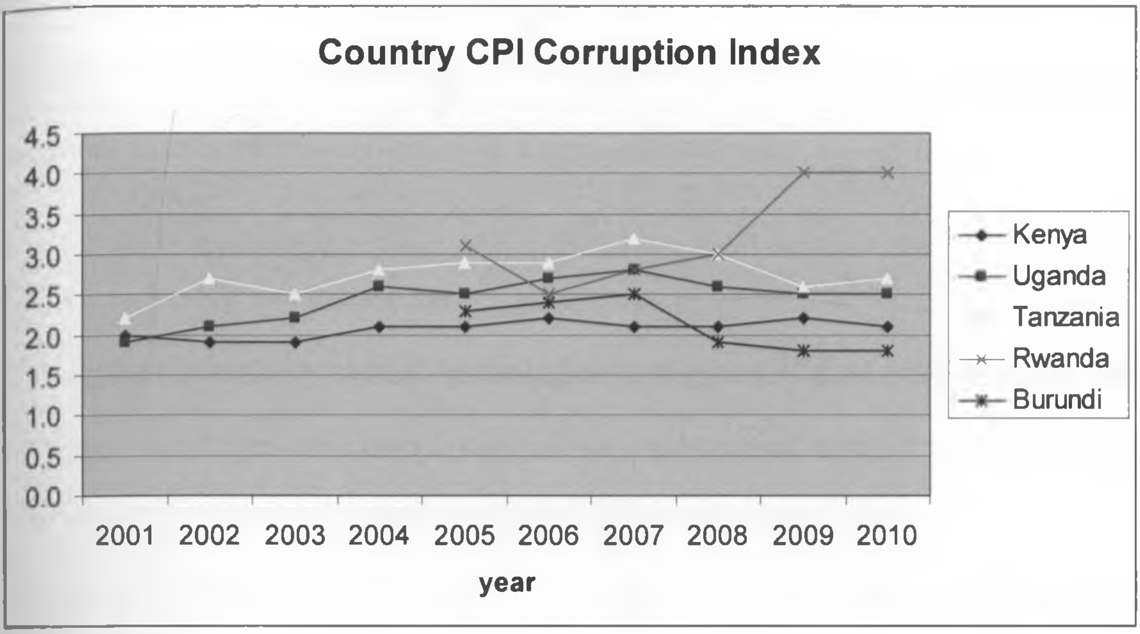
[49] Jain, A.K., '*Corruption: A Review*' in Journal of Economic Surveys, Volume No. 15 issue no 1, pages 71-121, February 2001

[50] Masson, P. and C. Pattillo, '*The Monetary Geography of Africa*', Washington: Brookings Institution Press;
2005)

[51] Hefeker, C.,'*Taxation, Corruption and Exchange Rate Regime*', Joint Discussion Paper Series in Economics by the Universities of AAChen, Gieben, Gottingen, Kassel, Marburg, Siegen, No. 11-2009, (2008)

Fig 3.1 East African States CPI Index, 2001- 2010



Source: Transparency International
http://www.transparency.org/policy_research/surveys_indices/cpi

Figure 3.1 above illustrates the corruption index for the EAC countries over the last 10 years (data for Rwanda and Burundi before joining EAC not available). Kenya, the most dominant player in East Africa, always trailed behind Uganda and Tanzania before the inclusion of Burundi and Rwanda in the community. After the admission on Rwanda and Burundi, Kenya has still trailed behind four members in terms of corruption index.

It is interesting to note that Rwanda's index initially falls then rises. This might indicate better and progressive governance structures are being built, considering this is a country that experienced genocide less than two decades ago.

If this trend is to remain according to the findings of Hefeker, Rwanda may be the poorest beneficiary of a monetary union because it is a relatively small country and consequently the high prevalence of corruption in the remaining four states will negatively impact its index. In addition, the credibility of a monetary union will be lower than that of its current central bank. This being the case, Rwanda may not be willing to surrender its monetary sovereignty over a supra national one.

3.1.21 Leadership and democracy

Poor leadership has been blamed for the underdevelopment of most developing and least developed economies. Post colonial Africa has yielded to all types of nation states that have provided all kinds of leadership that have exercised political power.

According to Ochola (2007)[52], there are five major traits that define good leadership. These are the ability to maintain nation wide peace, law and order, the ability to enhance the state's capacity to secure for its citizens and ensure no one is above the law, the ability to encourage the emergence of mechanisms for checks and balances and accountability, the capacity to detect and deal with corruption perpetrators regardless of their social or political status, and finally the ability to promote popular participation in governance and development in general.

[52] Ochola, S.A., '*Leadership and Economic Crisis in Africa*', (Nairobi: Kenya Literature Bureau: 2007)

Exhibit 3.0 EAC Partners' Political Profiles

Uganda

Political System: Restricted Democratic Practice
President: Yoweri Kaguta Museveni (NRM) [since 26 January 1986; seized power in 1986 military rebellion, elected 1996, re-elected 2001, 2006 and 2011] The President is elected by direct popular vote for a 5-year term.
Electoral System: Two Round (Run-off).
Prime Minister: Amama Mbabazi (NRM) [since 24 May 2011] The Prime Minister is appointed by the President.
Parliament [unicameral] (375 Seats) 238 members are elected by direct popular vote in single-member constituencies using the first-past-the-post system, 112 women are directly elected to represent each of the country's districts, 15 members representing special interest groups are indirectly elected (5 youth representatives, 5 representatives of persons with disabilities, and 5 worker's representatives), and 10 members represent the Uganda People's Defence Force (army). The President may appoint additional ex-officio members; members serve 5-year terms.

Political Situation since Independence
1962-1966 Democracy
1966-1969 Restricted Democratic Practice
1969-1971 One Party State (UPC)
1971-1979 Military Regime
1979-1980 Transitional Government
1980 Military Regime
1980-1985 Restricted Democratic Practice
1985-1989 Military Regime
1989-1996 Transitional Period
1996- Restricted Democratic Practice

Kenya

Political System: Emerging Democracy
President: Mwai Kibaki (DP) [PNU] [since 30 December 2002; elected 2002, re-elected 2007] The President is elected by direct popular vote for a 5-year term. Electoral System: First Past The Post.
Prime Minister: Raila Odinga (ODM) [since 17 April 2008] The post of Prime Minister, which had been abolished in 1964, was restored in 2008 as part of a power-sharing agreement brokered after the disputed 27 December 2007 presidential election.
National Assembly [unicameral] (224 Seats) 210 members are elected by direct popular vote in single-member constituencies using the first-past-the-post (simple majority) system, 12 are appointed by the President, and 2 (the Attorney-General and Speaker) are ex-officio members; members serve 5-year terms.
Electoral Authority: Interim Independent Electoral Commission

Political Situation since Independence
1963-1966 Emerging Democracy
1966-1969 Restricted Democratic Practice
1969-1982 [De-Facto] One Party State (KANU)
1982-1991 One Party State (KANU)
1991-1992 Multiparty Transition
1992-2002 Restricted Democratic Practice
2002-2007 Democracy
2007- Emerging Democracy

Tanzania

Political System: Democracy **President:** Jakaya Mrisho Kikwete (CCM) [since 21 December 2005; elected 2005, re-elected 2010] The President is elected by direct popular vote for a 5-year term. Electoral System: First Past The Post.
Prime Minister: Mizengo Pinda (CCM) [since 9 February 2008] The Prime Minister is appointed by the President.
National Assembly [unicameral] (357 Seats) 239 members are elected by direct popular vote in single-member constituencies using the first-past-the-post system, 102 seats are reserved for women elected by their political parties on the basis of proportional representation among the political parties represented in the National Assembly, 5 members are indirectly elected by the Zanzibar House of Representatives, up to 10 members may be appointed by the President, and 1 seat is reserved for the Attorney-General; members serve 5-year terms.
Electoral Authority: National Electoral Commission

Political Situation since Independence
Tanganyika |1961-1962|/Republic of Tanganyika |1962-1964|
1961-1964 [De-Facto] One Party State (TANU)
Sultanate of Zanzibar |1963-1964|/People's Republic of Zanzibar & Pemba |1964|
1963-1964 Emerging Democracy
United Republic of Tanzania |1964-Present|
1964-1965 [De-Facto] One Party State (TANU), Zanzibar (ASP)
1965-1992 One Party State (TANU/CCM), Zanzibar (ASP/CCM)
1992-1995 Multiparty Transition
1995-2010 Emerging Democracy
2010- Democracy

Rwanda

Political System: Restricted Democratic Practice
President: Paul Kagame (FPR) [since 22 April 2000; appointed vice president 1994, elected president by the Transitional National Assembly 2000, directly elected 2003, re-elected 2010] The President is elected by direct popular vote for a 7-year term. Electoral System: Two Round (Run-off).
Prime Minister: Bernard Makuza [since 8 March 2000] The Prime Minister is appointed by the president.
Parliament [bicameral]
Senate (26 Seats) 12 members are indirectly elected by provincial and sectoral councils, representing each province and the city of Kigali, 8 members are appointed by the president, 4 are appointed by the Forum of Political Organizations, and 2 members represent the universities and institutions of higher learning; members serve 8-year terms.
Chamber of Deputies (80 Seats) 53 members are elected by direct popular vote using the party-list proportional representation system, 24 women are elected by electoral colleges from each province and the city of Kigali, 2 members are elected by the National Youth Council, and 1 member is elected by the Federation of the Associations of the Disabled; members serve 5-year terms.
Electoral Authority: National Electoral Commission

Political Situation since Independence
1962-1965 Restricted Democratic Practice
1965-1973 One Party State (MDR-PARMEHUTU)
1973-1975 Military Regime
1975-1978 [De Facto] One Party State (MRND)
1978-1991 One Party State (MRND)
1991-1994 Multiparty Transition
1994-2003 Transitional Government
2003- Restricted Democratic Practice

Burundi

Political System: Emerging Democracy
President: Pierre Nkurunziza (CNDD-FDD) [since 26 August 2005; elected 2005, re-elected 2010] The President is elected by direct popular vote for a 5-year term.
Parliament [bicameral]
Senate (49 Seats) 34 members (2 from each province) are indirectly elected by communal councilors, 3 members are from the ethnic Twa minority, 4 former presidents, and 8 co-opted members appointed to ensure that gender (at least 30% women) quotas are met; members serve 5-year terms.
National Assembly (106 Seats) 100 members are elected by direct popular vote in multi-member constituencies using the party-list proportional representation system, 6 members are co-opted to ensure that constitutionally mandated ethnic (60% Hutu-40% Tutsi, and 3 Twa) and gender (at least 30% women) quotas are met; members serve 5-year terms.
Electoral Authority: National Independent Electoral Commission

Political Situation since Independence
1962-1966 Emerging Democracy
1966-1974 Military Regime & One Party State (UPRONA)
1974-1976 One Party State (UPRONA)
1976-1979 Military Regime
1979-1987 One Party State (UPRONA)
1987-1992 Military Regime & One Party State (UPRONA)
1992-1993 Multiparty Transition
1993 Democracy
1993-1996 Restricted Democratic Practice
1996 Military Regime
1996-2001 Restricted Democratic Practice
2001-2005 Transitional Government
2005-2010 Democracy
2010- Emerging Democracy

Source: African elections database
http://africanelections.tripod.com

There two broad categories of leadership, i.e. democratic and autocratic leadership which have different impacts on economic development. Pei (1999)[53] states that the case for democracy promoting economic development, more than an autocracy, rests on the central idea that the political and economic institutions, critical to fostering economic growth, would work more effectively under a democratic rule.

[53] Pei, M., '*Economic Institutions, Democracy and Development*', (Paper presented at the Conference on Democracy, Market Economy, and Development, sponsored by the World Bank and the government of the Republic of Korea, February 26-27, 1999)

Exhibit 3.0 on the previous pages shows the milestones that the East African States have taken to become politically democratic. Out of the five states, only one is classified democratic. Two are classified emerging democracies while the remaining two are classified as having restricted democracy.

This illustrates a picture of non homogeneity and disparity in terms of democracy amongst the community, suggesting a need to work on sovereign democracies before engaging in a monetary policy. This is because different leadership styles may portray different ideals which are potential conflict areas because everyone would want his way. Democracy, albeit, has weaknesses such as time wasting as you build consensus as well as policy compromises in trying to arrive at what is acceptable to majority. There is also a potential of abuse of freedom as people exercise their democratic right and space.

Table 3.0 Democracy ratings of EAC countries in comparison to Somalia (2010)

	Kenya	Tanzania	Uganda	Rwanda	Burundi	Somalia
World Democracy Ranking (out of 150 countries)	104	,84	91	115	128	147
Political Rights (range 1-7)*	4	4	5	6	4	7
Civil Liberties (range 1-7)*	4	3	4	5	5	7
Press Freedom Ranking (out of 150 countries)	83	68	73	134	118	137
Corruption Ranking (out of 149 countries)	127	92	101	51	141	149

* a score of 1 represents the most free while a score of 7 the least free

Source: World audit democracy statistics
http://www.worldaudit.org/statpage.htm

Table 3.0 above gives out the 2010 democracy and corruption ratings. While Rwanda has performed well in terms of corruption index, it has a lot of work in the area of democracy with a ranking at 115 out of 147 countries evaluated. Burundi is the worst performer in all categories of democracy, almost close to failed state Somalia especially in corruption index.

Tanzania, on the other hand, is the best performer in all categories. But even with its performance it still scores below average in all the areas except civil liberties.

Table 3.0 above show that Tanzania is the most liberal country in the community and would be the first to resist integration if the remaining countries do not exercise democracy the way they have.

3.1.3 Political Instability

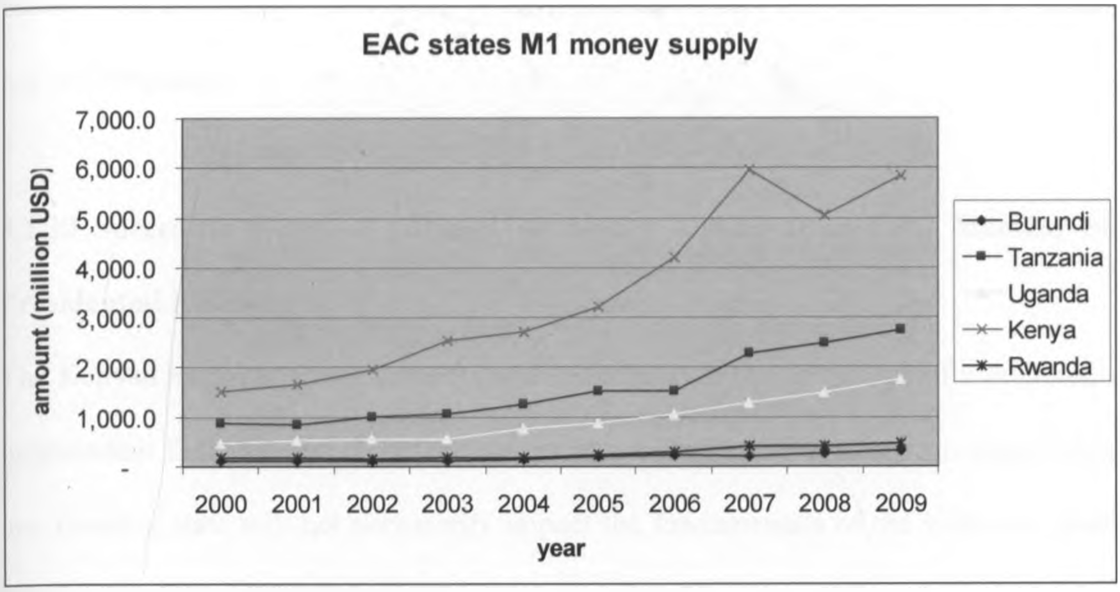
Political impasse, coup attempts and military regimes have characterized the political climate in most EAC states. Tanzania has been the most stable of all the countries. In late 2007 to early 2008, Kenya experienced the worst post election violence and crimes ever leaving as many as 1,500 people dead[54]. In 1993 in Burundi, the then president had been in office for only 100 days before he was assassinated, leading to the deaths of almost 200,000 Burundians of both Hutu and Tutsi tribes[55].

The dictatorial rule of Idi Amin and Guerilla War and Human Rights abuses under Milton Obote led to deaths of 200,000 and 100,000 Ugandans respectively[56]. Rwanda has also experienced genocide leading to the death of up to a million Rwandans as a result of power struggles between the two predominant tribes in the country[57].

Political stability has an effect on the capital and financial markets which in turn has a bearing on the countries gross domestic product.

[54] https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html (last updated 23/08/2011)
[55] https://www.cia.gov/library/publications/the-world-factbook/geos/by.html (last updated 23/08/2011)
[56] https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html (last updated 23/08/2011)
[57] https://www.cia.gov/library/publications/the-world-factbook/geos/rw.html (last updated 23/08/2011)

Fig 3.2 EAC Partner States Money Supply, 2001- 2009



Source: EAC statistical portal

Figure 3.2 above shows the monetary activity over the last 10 years between 2000 and 2009. It is only Kenya that has had a political regime change (i.e. in terms of the political party in government) as well as countrywide political impasse that occurred in late 2007 to early 2008.

After the regime change in 2002 when a new party took over the government, the money supply had a near exponential growth, synonymous with a similar economic growth, peaking in 2007.

The post- election violence of late 2007 and early 2008 caused capital outflow and affected the money supply. The supply has started peaking again after the coalition government came into force, restoring confidence in the financial and capital markets.

This demonstrates the negative effect of political tensions on a country's money supply leaving the central bank in a crisis. Something worth noting, from the illustration, is that the money supply in the remaining four states was not affected because the growth patterns did not change. This could be attributed to the fact that the financial systems are not yet integrated.

3.1.30 Successive Regional Political Instability Arising from EAC Member State Presidential Elections

The Kenyan example above gives a good illustration of the advantage of a delinked and independent financial and monetary system in a trade bloc. We have seen that a crisis in one member state will not necessarily impact the fundamentals of the system in another member state of the same bloc.

In an integrated monetary and financial system, the case is different because of the linkages in the system. Shocks from one nation will spread to the other states through contagion effects. Political instability therefore should be a matter of concern for EAC. Political crisis may be triggered by national elections. One typical characteristic common in all the EAC states are highly ethnicised political parties. Presidential and representative (i.e. county, parliamentary, civic etc) elections would therefore create ethnic tensions.

Table 3.1 shows the EAC members' election time table over the next ten years. One of the things that stand out is the fact that Burundi and Tanzania will be having elections in the same year 2015. Subsequently, Uganda will have elections the following year and Kenya the successive year. This means from EAC will have four general elections in three successive years.

Table 3.1 EAC partners' presidential election calendar

	Last election Year	Tenure	Next Election Year	Subsequent Election Year
Burundi	2010	5	2015	2020
Rwanda	2010	7	2017	2024
Tanzania	2010	5	2015	2020
Kenya	2007	5	2012	2017
Uganda	2011	5	2016	2021

Source: African elections database
http://africanelections.tripod.com

To avert an ethnic induced political crisis recurring, the government of Kenya has established a truth justice and reconciliation commission to give a voice to alleged victims of historical injustices and work on modalities of addressing these injustices. There is also a national commission and integration commission whose main aim is to promote peace and harmony amongst the citizens of Kenya. This is a step towards the right direction.

3.2 The Future of the EAC Political Environment and its Role in Shaping Economic Development

There is no doubt that the political environment will play a crucial role in determining whether a monetary union will be established in East African Community. The disparity observed amongst individual member state economic gains, governance and the potential political instability are all areas worth noting.

All the aforementioned political indicators have a bearing on EAC economic development in that they are responsible for creating a conducive or destructive climate for the growth of the EAC economy. A favorable EAC partner states' political environment will have a positive impact on the community's economic environment.

CHAPTER FOUR

EAST AFRICAN MONETARY INTEGRATION AND THE ECONOMIC ENVIRONMENT

4.0 The EAC economic profile

'*Regional integration, like the East African Community, is the best option that developing countries could use to jointly mobilise resources to face trade and development challenges in the global market*': Robert Zoellick, World Bank President [58]

The World Bank president gave the above remarks in 2011, through a video conference with journalists, as he attended an African Union summit in Ethiopia. The president also emphasized the need to integrate in order to boost national economic growth. Integration, he says, will not only expand markets but will also allow nations to pull resources together for the common good, especially after the negative impact of the current global recession.

The EAC area covers a total surface area of about 1,817,700 square kilometers with a population of about 129.5 million, as at mid 2009, according to the EAC secretariat report (2011)[59]. The annual real gross domestic product, over the last five years, stands at about USD 44 million, up from about USD 33 million, ten years ago.

Prospects for the region are still great, especially with the monetary integration plans. The East African Economic environment, however, has and will play a crucial role in

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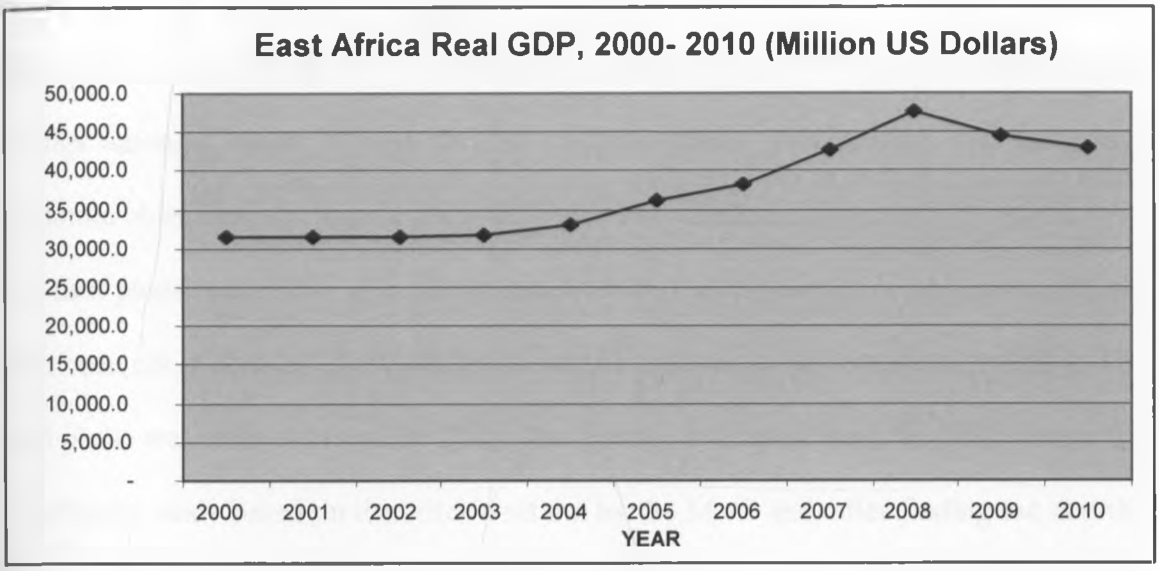
[58] Simbeye F., '*WB president touts EAC Integration*' http://www.eac.int/customs/index.php?option=com_content&view=article&id=128&catid=128 (Article courtesy of Tanzania Daily News)

[59] East African Community Secretariat, '*East African Community Facts and Figures, 2010*' (Arusha, 2011)

achieving this objective. To attain this, the community has gradually been opening up internally through establishment of a common external tariffs and free movement of goods and people within the region.

Fig 4.0 East African Community Combined Real GDP



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

The common market and customs union, albeit, are not enough for establishment of a monetary union. Two considerations, additionally, need to be put into account. Firstly, there need to be economic symmetry in the region in the sense that the ripples from a shock on one economy will move all the remaining economies in the same direction. In essence, no single economy in the region should be seen to be gaining at the cost of another economy.

A second consideration is the economic convergence for all the EAC partner states to achieve before merging their currencies. This minimum economic threshold is important in determining when EAC can achieve an optimal currency area.

4.1 Assessment of Economic Symmetry and Economic Convergence in East Africa Community

In its 2009 report, The East African Community Monetary Affairs Committee (MAC) laid out the economic environmental framework for the purpose of establishing a single currency in the region[60]. The framework touched on a number of macro economic indicators such as lending rates, exchange rates, inflation, real GDP growth rates, national savings amongst others. It was divided in three phases with primary and secondary economic objectives.

The first phase, consisting of primary and secondary macroeconomic objectives, should have been completed by 2010, while the second one was to be completed by 2014. The third phase was to be achieved by 2015. The European Central Bank, in 2010, conducted a feasibility study based on the criteria set out by the MAC and, after finding out that the member states had not yet attained the convergence targets, recommended that the convergence criteria be reviewed[61].

Although the EAC member states have adopted the report by the European Central Bank to review the laid out criteria, the MAC pre-conditions are useful for this particular study. Through trend analysis and time series forecasting, and the use of the MAC threshold as benchmark, the study will be able to make notable observations about the structure and patterns of the EAC partner states economies depicted by seven indicators namely; total public debt to GDP ratio, Real GDP growth rate, external debts to GDP ratio, Budget deficit to GDP ratio, Exchange rate stability, Current account balance to GDP ratio and National reserves to GDP ratio.

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[60] *'Achievements Challenges and Going Forward'* (A Report by East African Community Monetary Affairs Committee, Kigali 2009)

[61] ECB Staff Study, *'Study on the Establishment of a monetary union among the Partner States of the East African Community'*, (February 2010)

Exhibit 4.0 EAC macro economic convergence criteria as laid out by the EAC Monetary Affairs Committee (2009)

Stage 1 (Year 2007-2010)

Primary Criteria

a) Overall Budget Deficit to GDP Ratio (excluding grants) of not more than 6.0 percent, and Overall Budget Deficit to GDP Ratio (including grants) of not more than 3.0 percent;
b) Annual Average Inflation Rate not exceeding 5 percent;
c) External Reserves of more than 4 months of imports of goods and non-factor services.

Secondary Criteria

a) Achievement and maintenance of Stable Real Exchange Rates;
b) Achievement and maintenance of Market Based Interest Rates;
c) Achievement of sustainable Real GDP Growth Rate of not less than 7.0 percent;
d) Sustained pursuit of debt reduction initiative on domestic and foreign debt i.e. reduction of total debt as a ratio of GDP to a sustainable level;
e) National Savings to GDP Ratio of not less than 20 percent;
f) Reduction of Current Account Deficit (Excluding grants) as a percentage of GDP to sustainable level consistent with debt sustainability;
g) Implementation of the 25 Core Principles of Bank Supervision and Regulation based on agreed Action Plan for Harmonization of Bank Supervision; and
h)Adherence to the Core Principles for Systematically Important Payment Systems by modernizing payment and settlement systems.

Stage II (2011-2014)

Primary Criteria

a) Overall Budget Deficit to GDP Ratio (excluding grants) not exceeding 5 percent; and Overall Budget deficit to GDP Ratio (including grants) not exceeding 2 percent;
b) Annual Average Inflation Rate of not more than 5 percent;,
c) External Reserves of more than 6 months of imports of goods and non-factor services.

Secondary Criteria

a) Maintenance of Market Based Interest Rates;
b) Maintenance of high and sustainable rate of real GDP growth of not less than 7.0 percent;
c) Sustained pursuit of debt sustainability;
d) Domestic Savings to GDP Ratio of at least 20 percent;
e) Maintenance of sustainable level of Current Account Deficit (excluding grants) as percentage of GDP; and
d) Achievement of Sustainable Growth Rate of Real GDP of not less than 7.0 percent.

Stage III (2015)

Introduction and circulation of a single East African Currency

Source: Report by East African Community Monetary Affairs Committee (Kigali 2009)

4.10 Total Public Debt to GDP Ratio

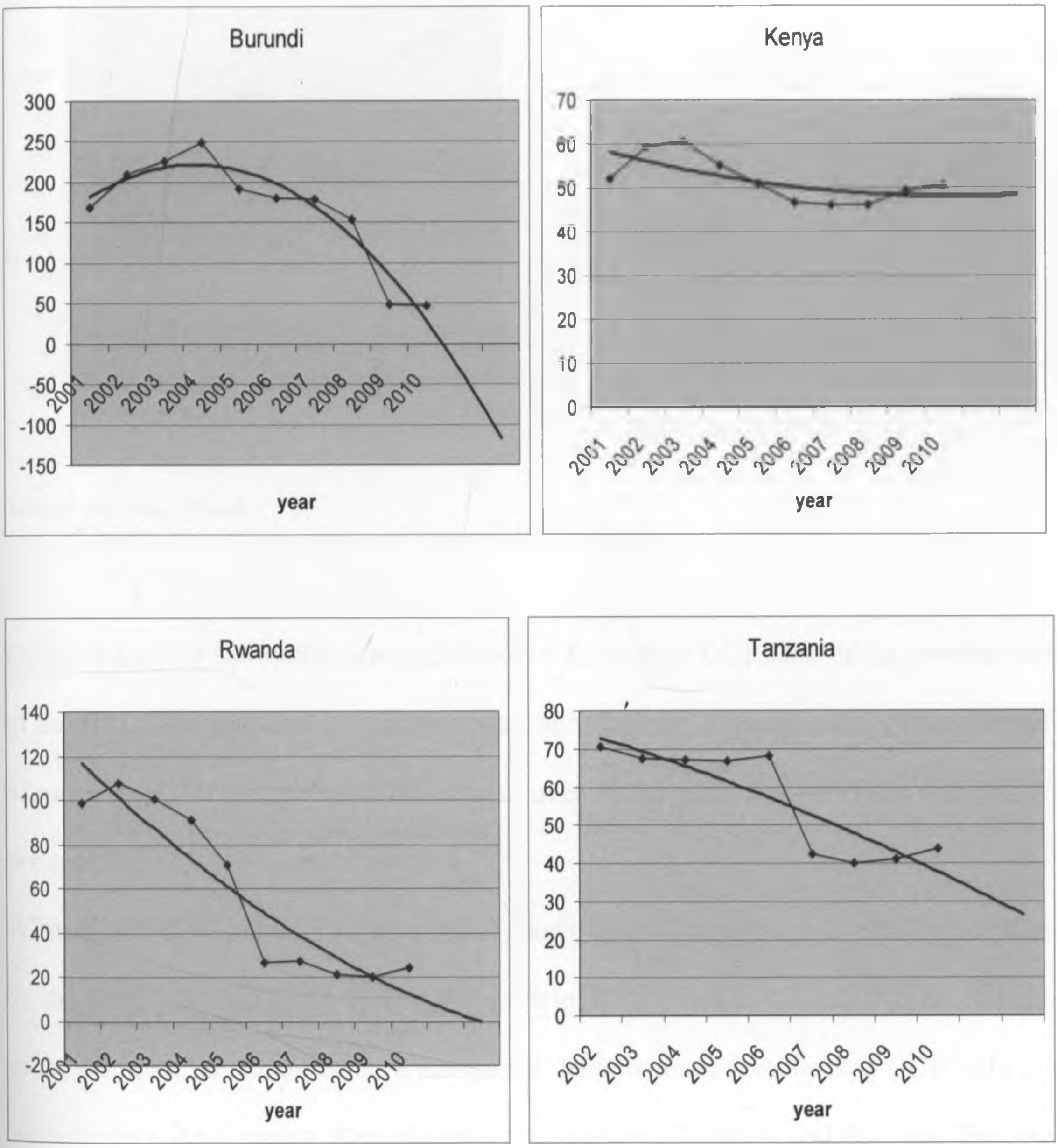
Fig 4.1 East African Member States Total

Debt to GDP ratio, 2001- 2010

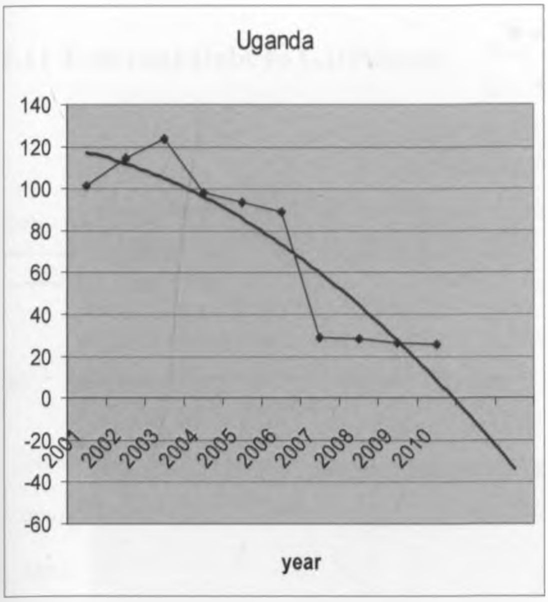
Key

——— Series

——— Trend line



Key
—— Series
—— Trend line



Source: Economy Watch
http://www.economywatch.com (last updated 01/08/2011)

Figure 4.1 above shows the expected direction the debt to GDP ratio of the member states of the EAC. The graphs show that ten years ago Burundi, Rwanda and Uganda had ratios of more than 100 per cent and Tanzania at over 70 per cent. Kenya's ratio was about 50 per cent.

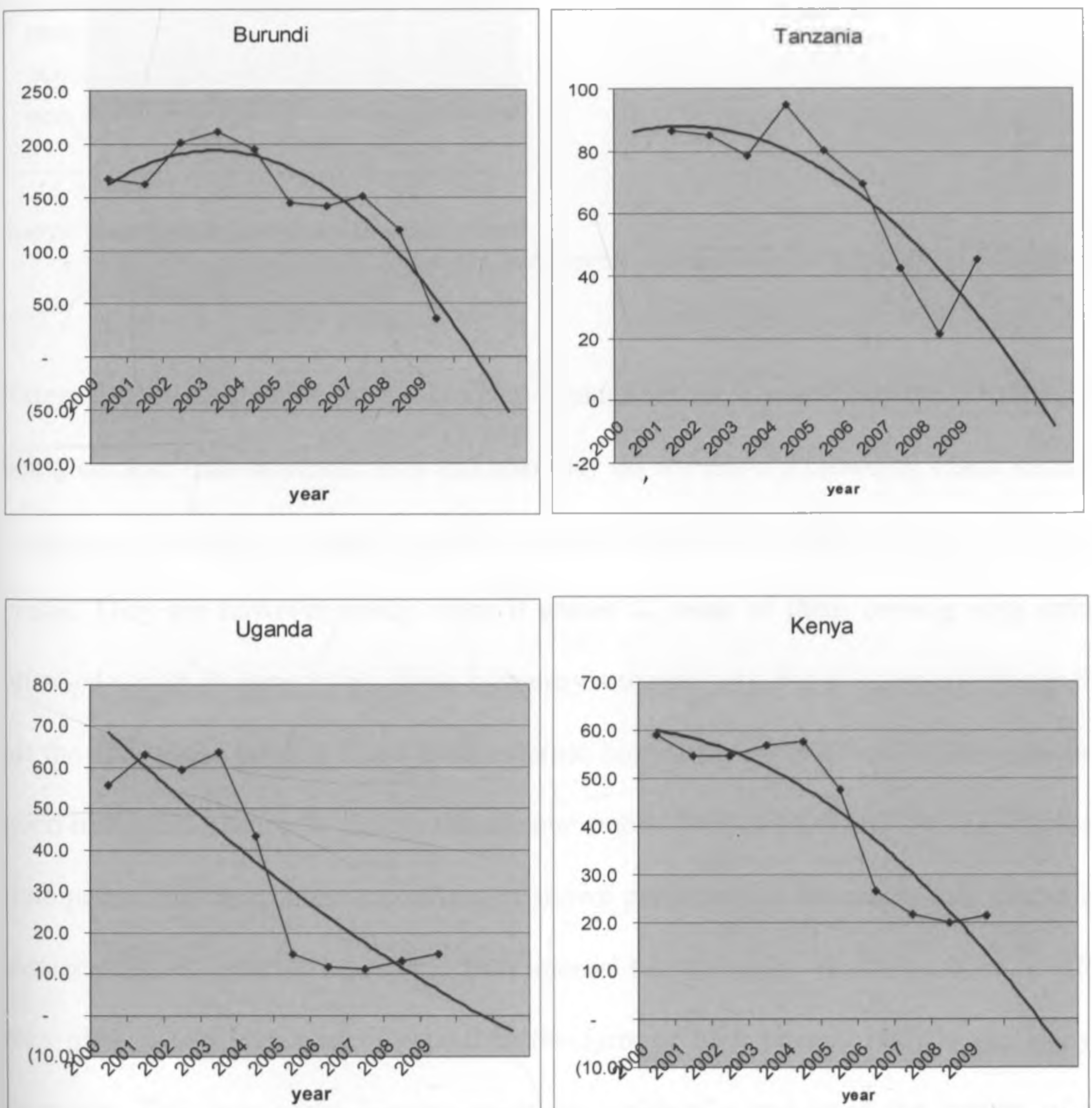
While Burundi, Uganda, Tanzania and Rwanda have all reduced their debt ratios, Kenya on the other hand has had a fairly constant ratio. If the economic conditions are to remain as they are, all the countries save Kenya will have reduced their debt to GDP ratio quite considerably. As it stands, Kenya's ratio is twice that of Uganda and Rwanda. The MAC report is, however, silent on the debt reduction target. It just indicates reduction to a sustainable level.

All the same, a high debt to GDP ratio is not favorable as will be outlined in chapter 5 of this study.

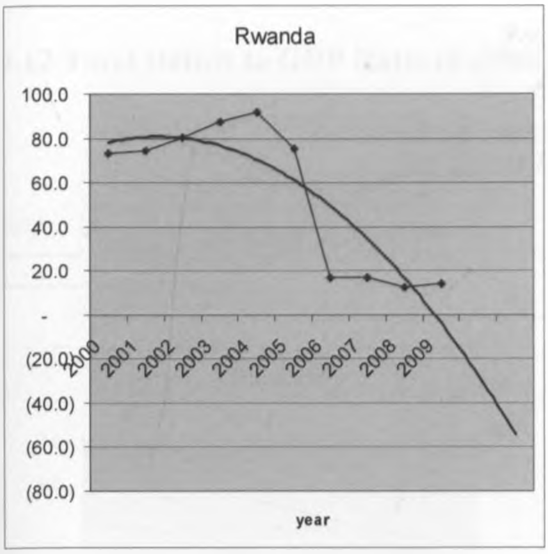
4.11 External Debt to GDP Ratio

Fig 4.2 East African Member States External Debt to GDP ratio. 2000- 2009

Key
——— Series
——— Trend line



Key
——— Series
——— Trend line



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

External debt as a source of government finance, in most cases, has the advantage of being cheaper than domestic debt and also they do not allow a crowding effect situation where a government is competing with the private sector and individuals over domestic credit. They are however costly when it comes to some of them coming with strings attached which, in some cases, dilute a country's sovereignty. Fig 4.1 above indicates that all the five states have reduced their external borrowing to GDP ratio. This may be a good indication except for Kenya whose total public debt to GDP ratio, within the same time period, has been almost constant as shown previously. This means that Kenya has instead replaced external borrowing with internal borrowing. A resultant crowding effect may give rise to high cost of capital in the form of high interest rates in the Kenyan economy. This may make Kenya investment unfriendly and stunt the growth of the economy because investors will look for the other partners where the cost of production is low.

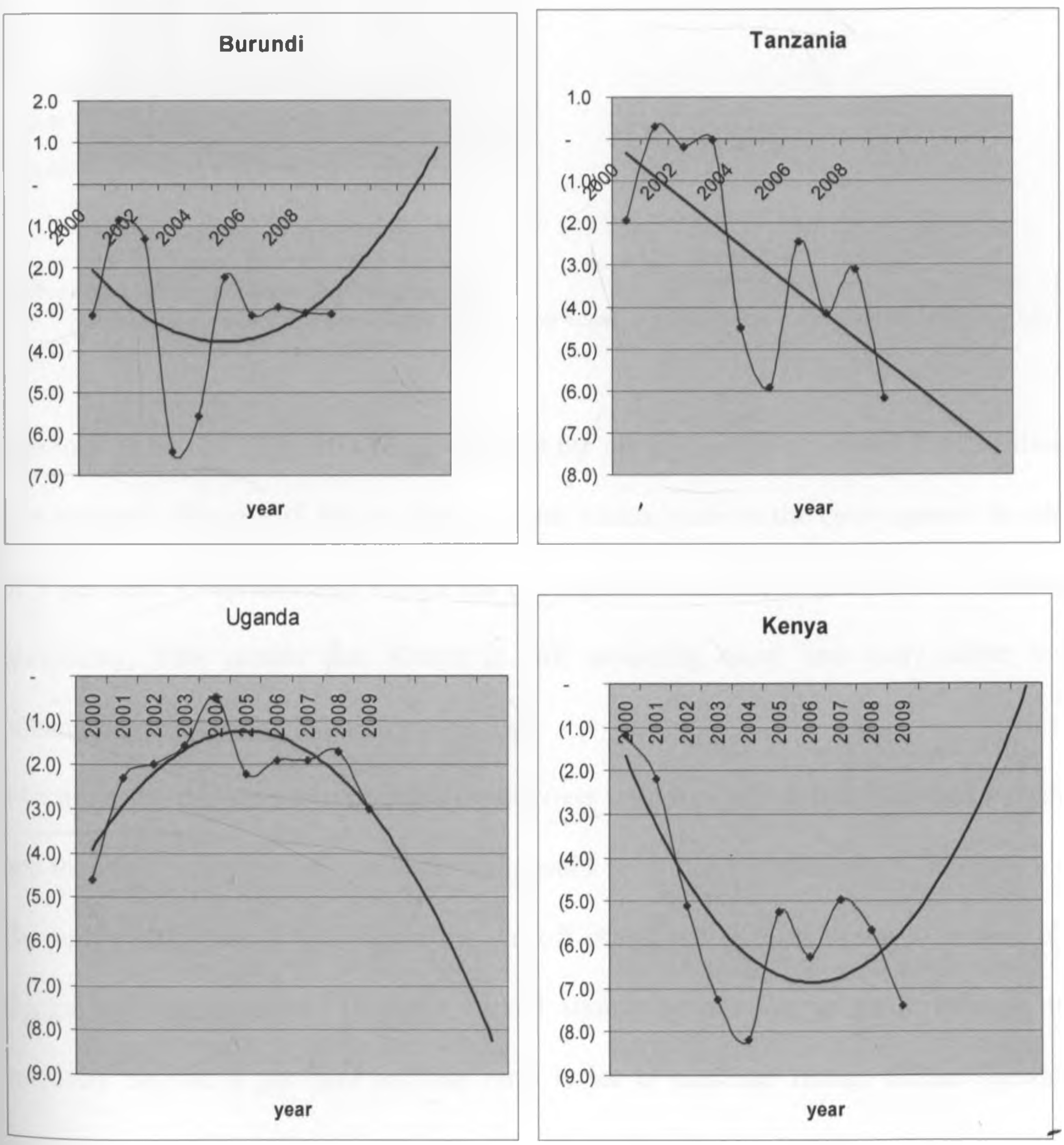
4.12 Total Deficit to GDP Ratio (Excluding grants)

Fig 4.3 East African Member States Total Deficit to GDP ratio. 2000- 2008

Key

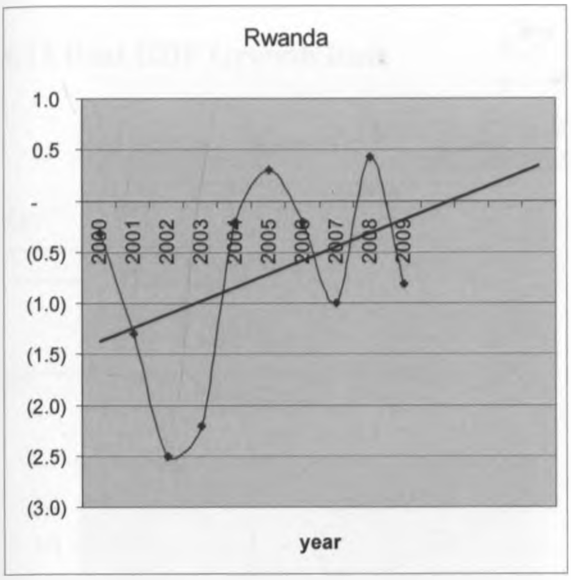
——— Series

——— Trend line



<u>*East African Member States Total*</u>
<u>*Deficit to GDP ratio. 2000- 2008 (Cont.)*</u>

Key
——— Series
——— Trend line



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

The total deficit to GDP ratio series amongst the member states as shown above indicates that currently Kenya still has the highest ratio which is above the convergence threshold of 7 per cent. Coincidentally Kenya has the highest total debt to GDP ratio as indicated previously. This means that Kenya is still mounting more and more debts to its outstanding ones through deficit budgeting.

The trend, on the other hand, indicates that over time Kenya's deficit is bound to reduce and therefore in the medium term the ratio could come down considerably. Rwanda's and Burundi's ratio, which are within the cut off point, will still continue to reduce if all things are held constant. Tanzania's trend should be a cause to panic because it is currently beyond 6 per cent and the ratio is set to continue rising. Unlike Tanzania, Uganda's ratio is also increasing but it is currently just above 3 per cent which is within the threshold.

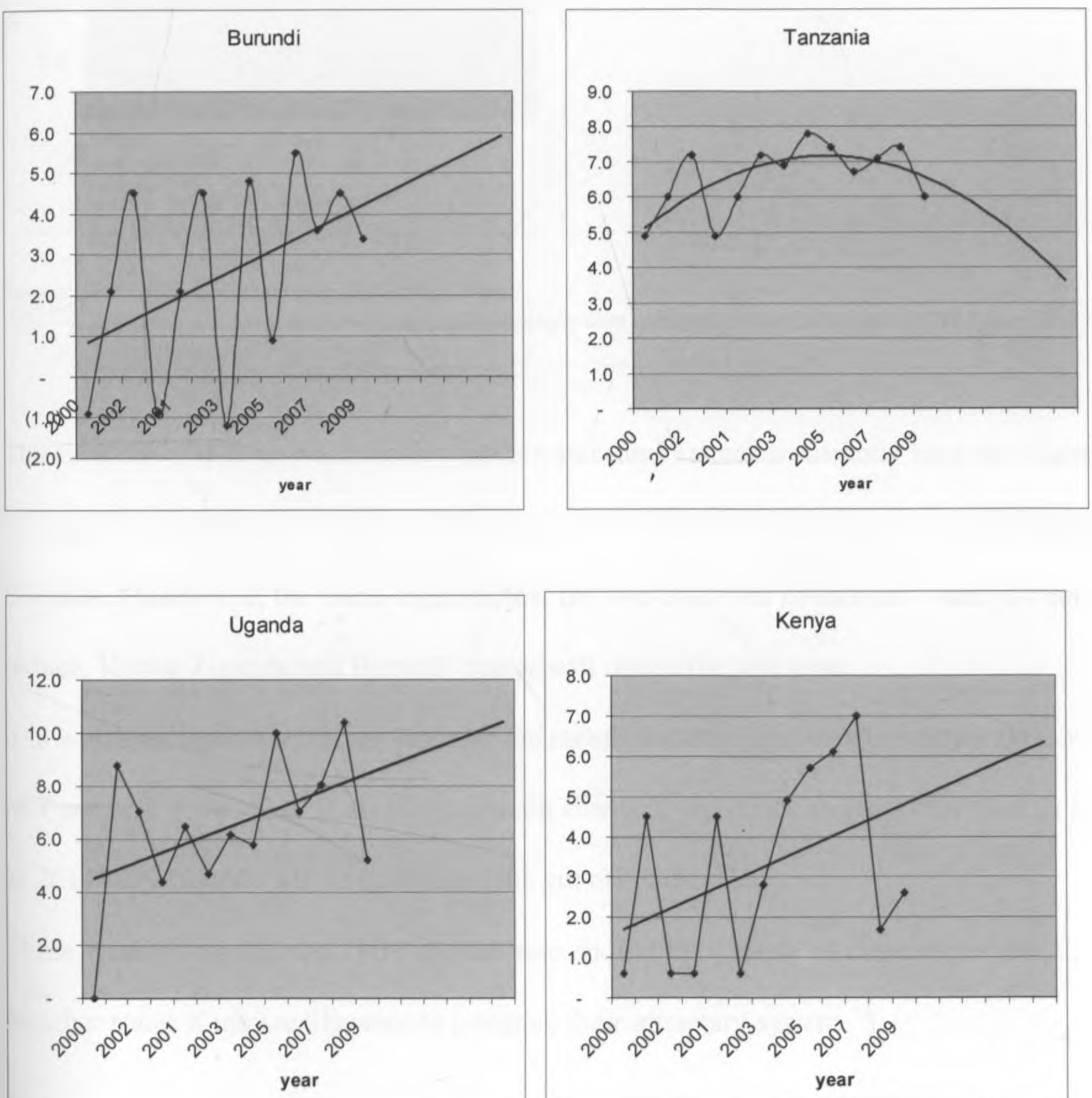
4.13 Real GDP Growth Rate

Fig 4.4 East African Member States Real GDP growth rate, 2000- 2009

Key

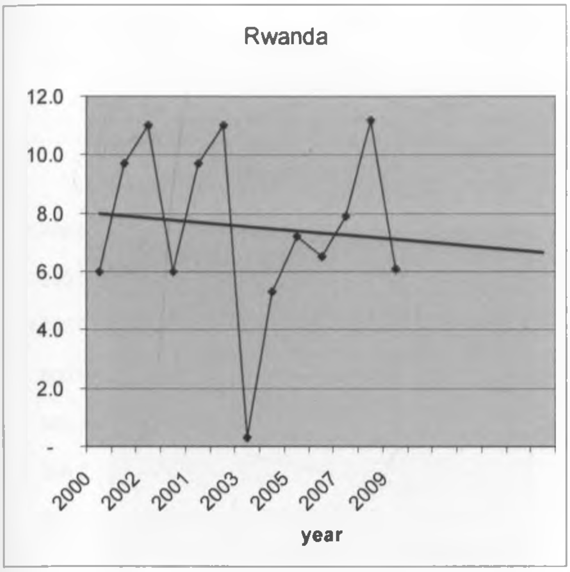
——— Series

——— Trend line



East African Member States Real
GDP growth rate, 2000- 2009 (Cont.)

Key
——— Series
——— Trend line



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=11
(last updated 15th Apr 2011)

The time series data above indicates that Rwanda and Tanzania currently have the highest real GDP growth rate of about 6 per cent then followed by Uganda and subsequently Burundi. Meanwhile, the trend suggests that the two countries economies' rates are set to reduce. Kenya, Uganda and Burundi's rates will rise in the mid term.

It is worth noting that currently none of the member states meet the convergent threshold of 7 per cent per annum. If all things remain constant, the trend suggests that even as late as 2014 only Uganda will have attained the cut off point.

These findings on the real GDP growth rate should be a cause of concern for the EAC member states if they really want to integrate their monetary system.

4.14 Exchange Rate Stability

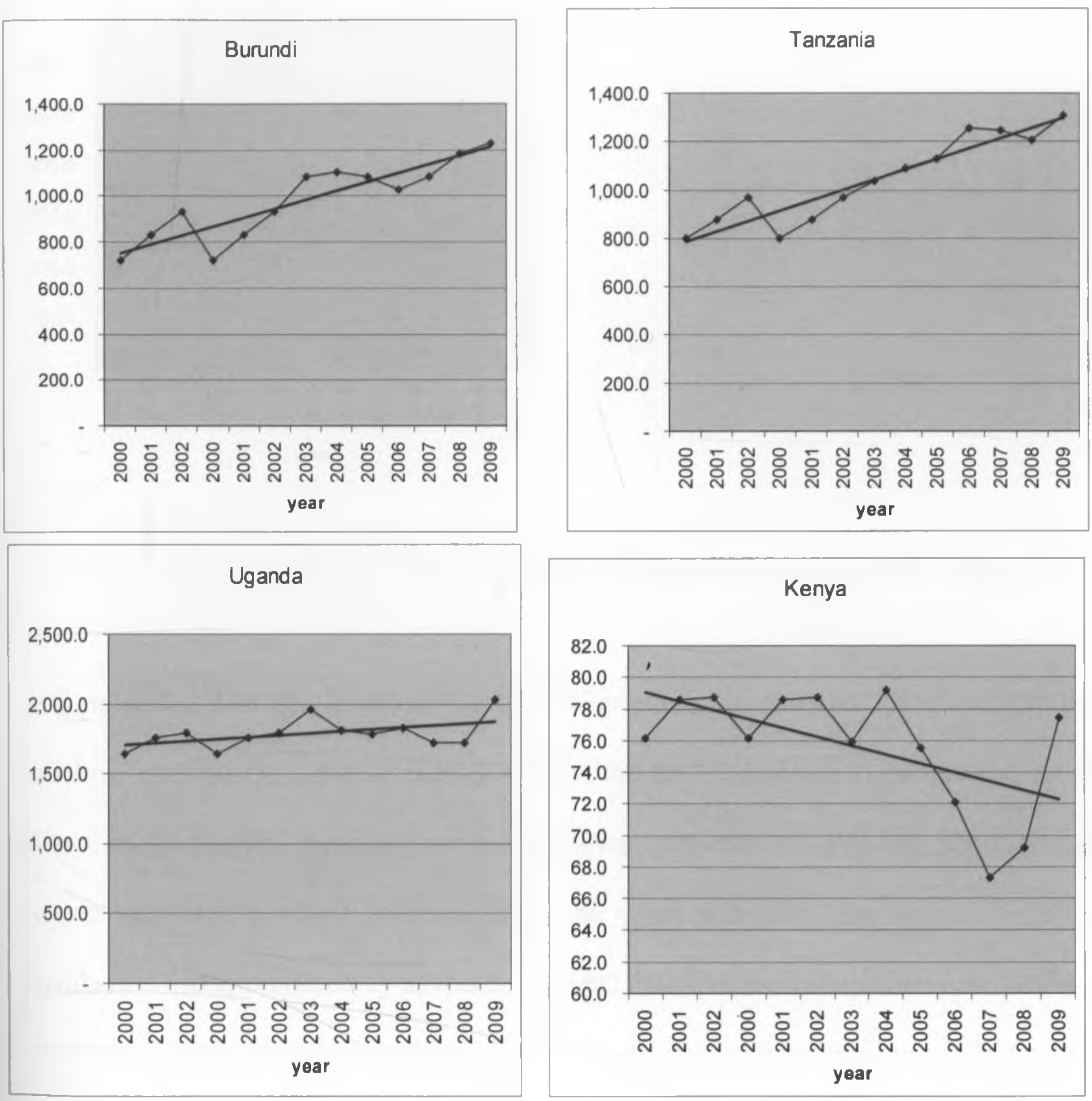
Fig 4.5 East African Member States National

Currency to US Dollar rate, 2000- 2009

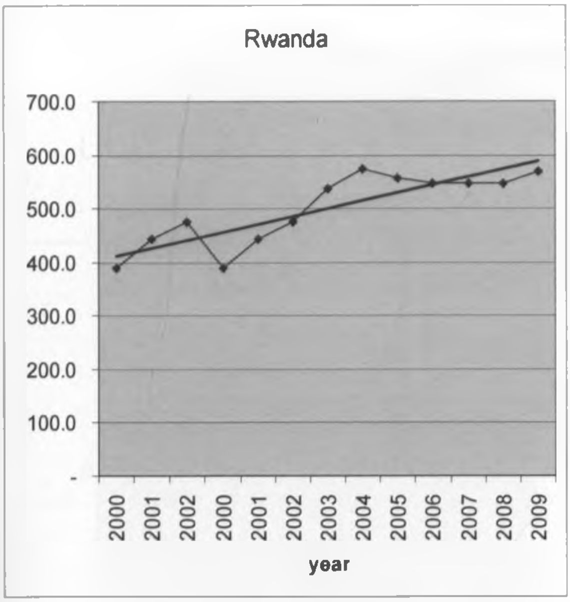
Key

——— Series

——— Trend line



Key
Series
Trend line



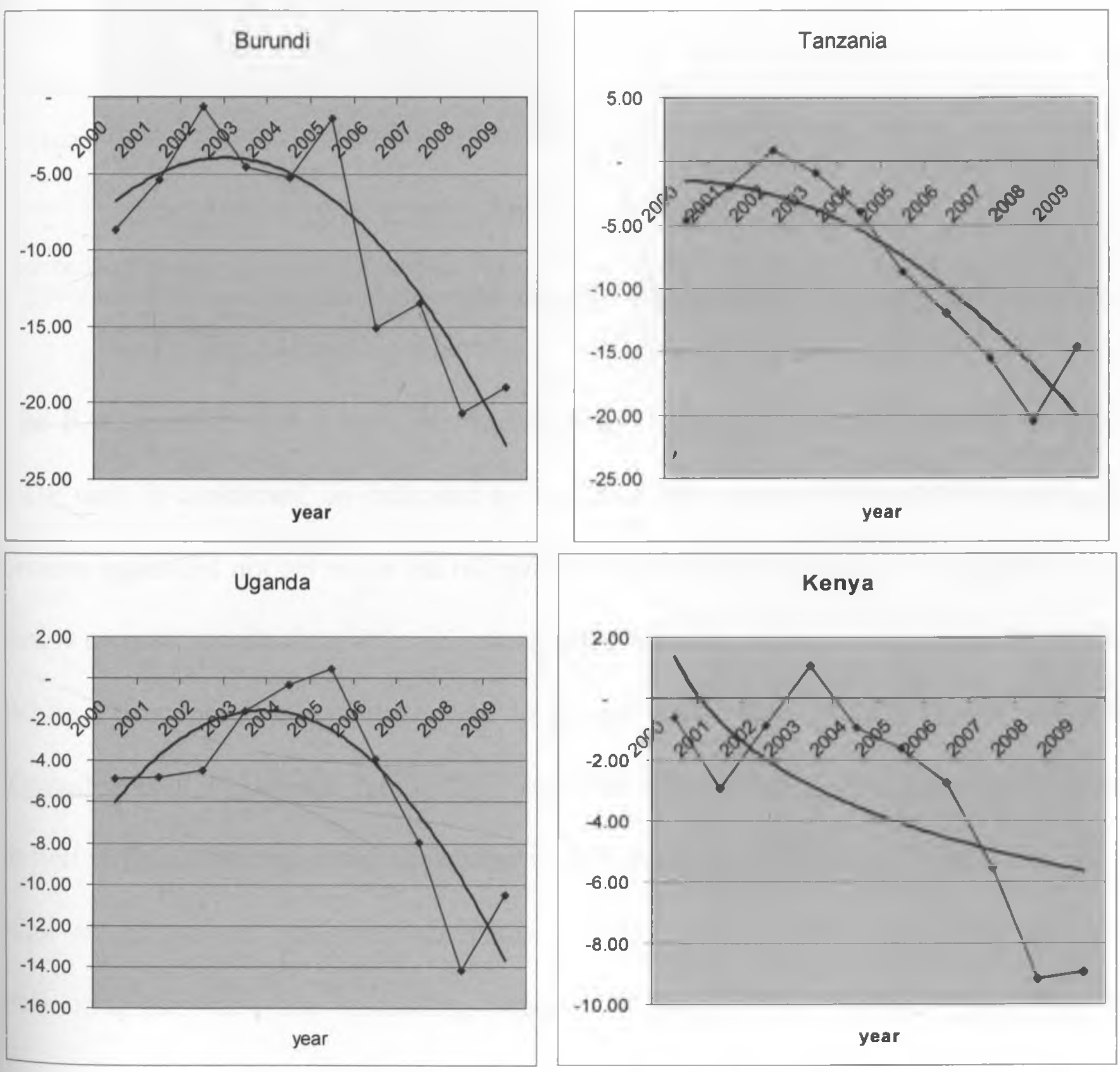
Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

The time series, data above, shows the US Dollar exchange rate and deviation from the trend line, over ten year period from 2000, for the EAC countries. Although the series shows that the Kenyan economy has had the lowest depreciation over the period, it has however exhibited a rather volatile trend. The graph indicates that on one occasion Kenya's rate had appreciated by as much as 15 per cent in three years (from year 2004 up to 2007) and depreciated by another 15 per cent in the subsequent three years. This is also the same time that the economy of Kenya grew by high margins. The economies of Burundi, Tanzania, and Rwanda have all steadily depreciated over the ten year period by about 50 per cent from their original rate in 2000. Uganda's depreciation over the period has been about 25 per cent.

4.15 Current account to GDP ratio

Fig 4.6 East African Member States Current Account to GDP ratio. 2000- 2009

Key
——— Series
——— Trend line

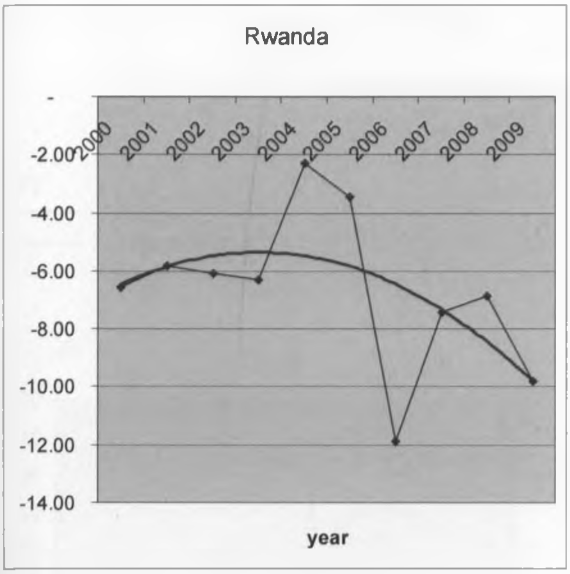


East African Member States Current
Account to GDP ratio. 2000- 2009 (Cont.)

Key

——— Series

——— Trend line



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

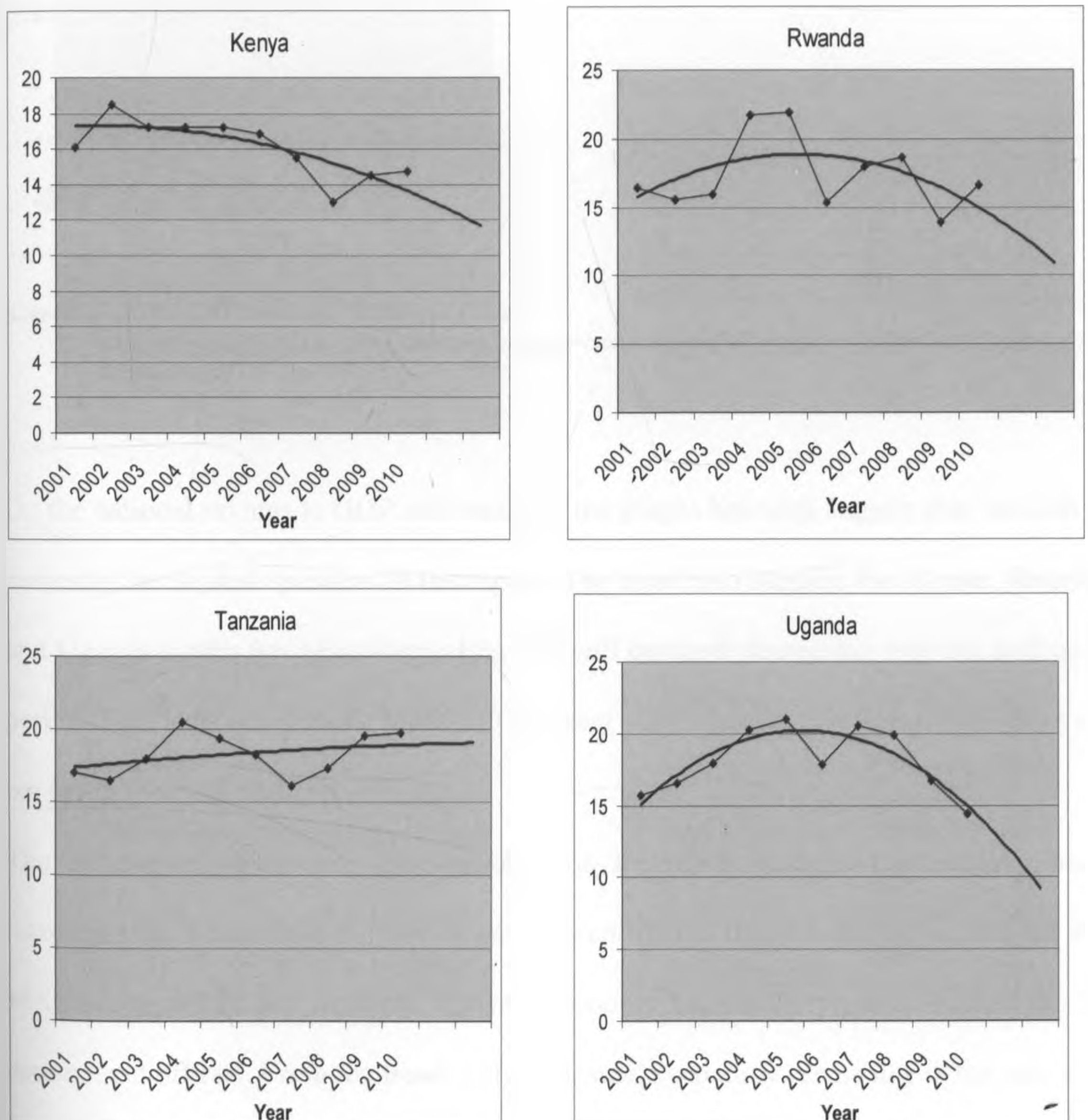
The EAC member states have performed badly, in terms of current account deficit to GDP ratio is concerned, as indicated by the above illustrations. The MAC convergence criteria again did not set out a cut off point limit but expressed it as a manageable ratio that is consistent with the public debt sustainable levels.

While the economies have done well to reduce public debt to GDP ratio (except for Kenya) as well as external debt to GDP ratio, the trend indicates that the current account deficit will be widening in the short term with Burundi and Tanzania's deficit reaching as high as 20 percent. The member states of EAC need to tackle this issue by either promoting exports while controlling imports, otherwise if the trend continues then the economies of these states will continue experiencing currency depreciation due payments in other currencies as a result of the net import position.

4.16 National Savings to GDP Ratio

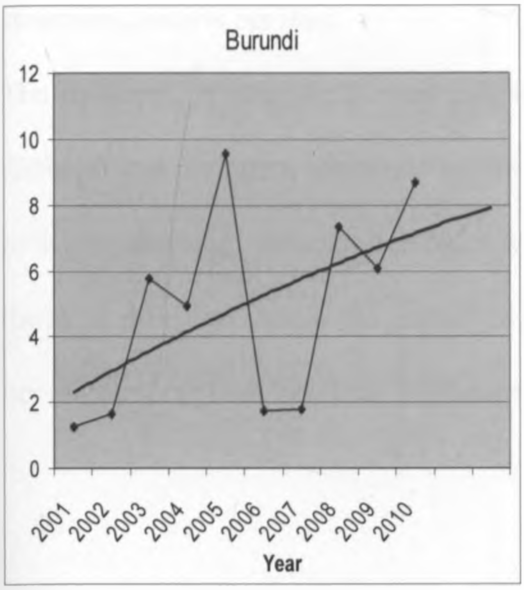
Fig 4.7 East African Member States Current National Savings to GDP ratio, 2001- 2010

Key
——— Series
——— Trend line



East African Member States Current
National Savings to GDP ratio. 2001- 2010 (Cont.)

Key
——— Series
——— Trend line



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

On the national savings to GDP ratio outlook, the graphs herewith suggest that Burundi is currently the highest spenders in the region. The trend also suggest that Kenya, Rwanda and Uganda's ratio has being decreasing and will continue decreasing over the mid term period. The range between the highest (Tanzania) and lowest savers (Burundi) is about 12 per cent.

The economies of Burundi and Tanzania, on the other hand, have steadfastly been increasing their ratio over the last 10 years, even though Burundi has never attained the MAC suggested 20 per cent rate. Kenya's economy has similarly never touched the 20 per cent cut off rate. From the trend, only Tanzania's economy seems like is the only one that may be able to attain 20 percent in the mid term.

4.2 Divergent EAC Economic Trends and Divergent Policies' Adoption

The macroeconomic indicators discussed and analyzed under this study show great divergence, amongst the member states, in terms of current and probable future economic structures, *ceteris paribus*.

The different patterns, thus observed, may just suggest how each member is pursuing different and divergent economic policies. This require some harmonization of economic policies pursued in the region in order to try and ensure that the indicators are all moving the same direction, across the partner states, and thus try to achieve economic symmetry. For starters, the members may harmonize their fiscal and monetary policies.

CHAPTER FIVE

EAC REGULATORY FRAMEWORK AND HARMONIZATION OF PARTNER STATES MONETARY AND FISCAL POLICIES

5.0 The Scope of EAC Monetary and Financial Cooperation

According to Article 82(1) of the EAC treaty, the partner states are obliged to cooperate in monetary and fiscal matters consistent with the approved macro economic policies harmonization programmes and convergence framework of the community[62].

To this end, there is a fiscal affairs committee (FAC), composed mainly of the finance ministers from the partner states, and a monetary affairs committee (MAC) principally constituting of the governors of the central banks of member states. Originally the two committees were one referred to as the fiscal and monetary affairs committee.

The monetary affairs committee's main objective is to facilitate monetary and financial integration in the region. One of its tasks is to harmonize the monetary policy, legal and regulatory framework of banking supervision, development of financial markets and payment systems in EAC.[63]

The fiscal affairs committee, on the other hand, makes policy decisions for the efficient and harmonious functioning and development of the Community's fiscal affairs.

Fiscal and monetary policies go hand in hand in maintaining economic stability. Once a monetary union is established in EAC, it will therefore mean that the only tool left in the hands of the member states will be fiscal policies. This chapter analyses the level of EAC

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[62]Treaty for the establishment of the East African Community (as amended on 14th December, 2006 and 20th August, 2007)
http://www.eac.int/

[63] *'Achievements Challenges and Going Forward'*
(A Report by East African Community Monetary Affairs Committee, Kigali 2009)

partner states' convergence of policies with respect to monetary and fiscal (more specific public debt management) affairs.

5.1 EAC Monetary Affairs

5.10 The EAC Monetary Union Road Map

On 10th March 2010, the EAC council of ministers adopted a road map for the establishment of an East African Central Bank (EACB) presented by the joint coordinating committees on monetary affairs, fiscal affairs and capital markets, insurance and pension[64]. So far the first three stages of the road map have been completed.

The HLTF is currently negotiating the legal instruments for the creation of an East African Monetary Institute.

In spite of the negotiations having begun and still ongoing, it is still prudent to analyse policy similarities amongst EAC members. Just like macro economic symmetry and convergence, a stable EAMU is also dependent on the level of monetary policies' parity across EAC member states. Areas to look at such parity include general banking supervision, legal supervisory framework and payment and settlement mechanisms.

[64] http://www.eac.int/component/k2/item/388-press-release-joint-meeting-of-ministers-of-finance-eac-affairs-endorses-report-on-east-african-monetary-union.html?tmpl=component&print=1 (Last updated 3rd March 2010)

Exhibit 5.0 Highlights of the original draft EAMU Road Map

- Adoption of the Study report on the establishment of a monetary union among the Partner States of the East African Community by April 2010.
- Establishment of the High Level Task Force (HLTF) mandated to negotiate necessary legal instruments by April 2010.
- Establishment of Sectoral Council of Ministers Responsible for Finance by the EAC Council of Ministers by April 2010.
- The negotiation of the legal instruments necessary for the establishment of East African Monetary Institute (EAMI) by September, 2010.
- Establishment of the EAMI (a transitional body to prepare for establishment of the EAMU) by December 2011.
- Negotiations of the EAMU Protocol and EACB Act to start in March 2011 and expected to end 12 months from the start date.
- Review of macroeconomic convergence criteria by July 2011 and the establishment of Exchange Rate Mechanism (ERM) by December 2011.

Source: East African Community Portal
http://www.eac.int/component/k2/item/388-press-release-joint-meeting-of-ministers-of-finance-eac-affairs-endorses-report-on-east-african-monetary-union.html?tmpl=component&print=1
(Last updated 3rd March 2010)

5.11 The EAC Central Banks General Bank Supervision

Table 5.0 below shows the progress that has been made with some of the policy standardization amongst EAC member states. Under general bank supervision, Burundi seems to be lagging behind. In general however, the member states have tried in implementing standardized policies under this indicator especially in areas such as introductory of mandatory quarterly published reporting by commercial banks, development of risk management measures, micro finance regulation and implementation of risk based supervision.

Table 5.0 EAC Central Banks degree of legal and regulatory policy harmonization

		Burundi	Kenya	Rwanda	Tanzania	Uganda
1	**General banking supervision**					
	Quarterly publication requirements		x	X	X	
	Holding of regional workshops on micro finance supervision and regulation	X	x	X	X	x
	Implementing risk based supervision		x	X	X	x
	Development of risk management measures	X	x	X	X	x
2	**Legal supervision framework**					
	Licensing of banks now vested with central bank	x	x	x	x	x
	Enactment of anti money laundering laws	x	x	X	X	
	Establishment of financial intelligence units			X	X	
	Enactment of micro finance laws	x	x	X	X	x
	Formulation of laws that govern establishment of credit reference bureaus	x	x	X	X	x
	Introduction of cheque capping		x	X	X	x
3	**Payment and settlement**					
	Strategic approach to payment systems development		x	X	X	x
	Collateralized lending to clearing banks	x	x	X	X	x
	'Failure to settle' arrangements		x		X	x
	East african cheque standard	x	x	X	X	x
	Adoption of swift standard	x	x	X	X	x
	Harmonization of payment system definitions	x	x	X	X	x
	Introduction of mobile money	x ,	x	X	X	x
	Harmonization of payment systems oversight benchmarks	x	x	X	X	x
	Use of real time gross settlement (RTGS)		x	X	X	x

Key

X	Already Implemented

Source: Monetary Affairs Committee Report, Kigali 2009 (updated)

5.12 The EAC Central Banks Legal Supervision framework

When it comes to the legal supervision of EAC financial institutions, the central banks have done a tremendous work in harmonizing anti money laundering laws, enactment of micro finance laws and laws that govern the sharing of credit information, cheque capping, laws governing the establishment of credit reference bureaus and central banks' authority to license commercial banks. Burundi and Rwanda seem to be lagging a bit behind though.

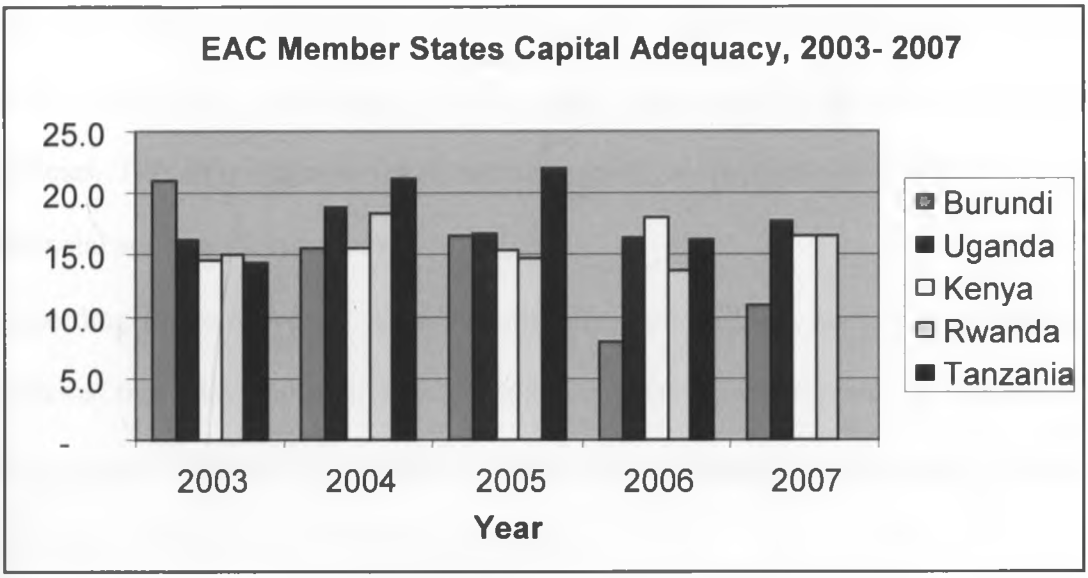
5.13 Payment and Settlement Systems

The EAC has also made some progress in standardizing payment procedures and systems. Again Burundi seems to be lagging behind in payment systems development and implementation. The EAC banks have adopted the Bank of International Settlements (BIS) payment systems definition, adoption of swift payment standards and standardization of a typical cheque from East Africa with the minimum laid down physical characteristics and security features along with the magnetic ink character recognition codeline.

5.2 EAC member states capital adequacy trends

Figure 5.0 on the next page gives us the capital adequacy volumes in millions of US Dollars for the various EAC member states. All the countries but Kenya have had erratic volumes, with Burundi having the most inconsistent pattern. Something to also note is that the figures for Rwanda, in some cases has overtaken the figures for Kenya. In all the years mentioned, Kenya has not topped yet it is the largest economy in the region. This may suggest that capital adequacy policies in all these countries are not in harmony.

Fig 5.0 Capital adequacy in EAC member states (millions US Dollars)



Source: East African Community Statistical Portal http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

5.3 Challenges of harmonizing monetary policies in EAC

There are various challenges facing the process of standardizing EAC monetary policies. These include slow implementation processes, too stringent conditions that may inhibit economic growth, divergent views between prudential regulation and International Financial Reporting Standards, time lags before sharing of information amongst member states is approved, lack of supporting systems to newly planned policies amongst others.

EAC member states have experienced slow implementation of policies because of either lack of resources or technical expertise to assist in such implementation. In most cases you will find that the best experts serve for a short while then leave central banks to pursue their careers in commercial banks are raising employee turnover. There also exists lack of adequate Risk based systems manual for the central banks and financial constraints.

In some cases some legislation are inadequate or are too stringent when passed in the member states. An example is the Know Your Customer (KYC) and Anti Money Laundering (AML) procedures that may shy away potential investors because of the policies. This may stagnate the economic growth of member states because of lack of financial and capital injections.

According to the Monetary Affairs Committee report (2009), some EAC members lack systems that may enhance new legislations. One case in point is lack of unique identification systems in Uganda, Tanzania and Burundi which would enhance the functions of a regional credit reference bureau.

There are also inconsistencies when it comes to banks adopting International Financial Reporting Standards (IFRS) and prudential guidelines on financial reporting especially in provisional accounting for some loans. As a result, under IFRS, the assets of a commercial bank may be overstated. The Monetary Affairs Committee has tried to correct this situation by adopting a common position that where the provisions under IFRS are less than prudential guidelines, then the difference is charged to the commercial bank's credit risk reserves held with its central bank.

Sharing of information amongst EAC member states have been delayed because the entire process of drafting a memorandum of understanding between states, right to its adoption may take time.

5.4 EAC Fiscal Affairs Convergence

5.40 Prudent Public Debt Management

As mentioned earlier, EAC partner states may eventually give up their sovereignty in monetary policies and only remain with fiscal policies to manage economic stability. It will therefore be mandatory for the states to observe prudent fiscal policies especially public debt management.

The World Bank defines public debt as the sum of all public and publicly guaranteed debt[65]. This is, therefore, the sum of all domestic and external obligations of the central government and its agencies, the county government and its agencies, state owned corporations or companies which the central or county governments or their agencies have a majority shareholding along all domestic and external obligations guaranteed for repayment by the public sector

A high level of public debt is undesirable. A country's substantial amount of resources is channeled to servicing of debts. This may hamper economic growth. Countries in a monetary union experience a more dynamic macro economic environment because of the financial institutions and markets linkages.

According to Ferrucci and Penalver (2003)[66], countries in a monetary union with no regional fiscal management policy will tend to over borrow with laxity on management of their debt levels. It is, therefore, advisable for the countries in a monetary integrated region to collectively monitor public debt in order to maintain financial and monetary stability in the region.

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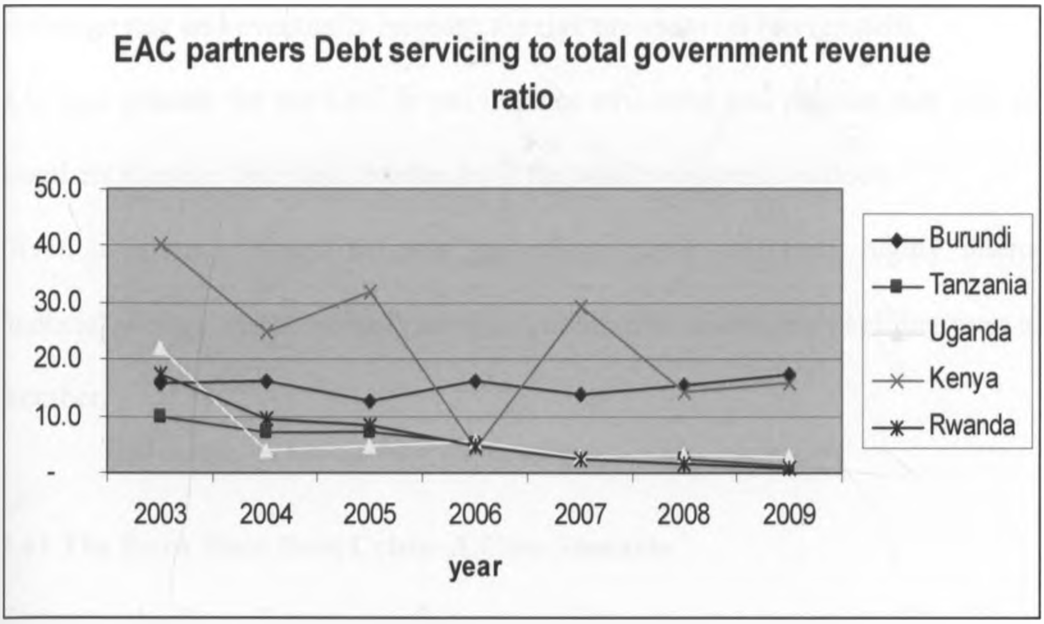
[65] http://www.worldbank.org/

[66] Ferrucci, G. and A., Penalver, *'Assessing Sovereign Debt under Uncertainty'*, Bank of England Financial Stability Review, December 2003

Fig 5.1 Debt Servicing to Government Revenue Ratio, 2003- 2009



Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

Figure 5.1 above shows the debt servicing to government revenue ratio. Kenya's ratio at one time stood at over 40 per cent in 2003 but has drastically reduced over the years to less than a half. This could either mean the absolute public debt amount is decreasing, or the revenue collection has been enhanced, or both. Whichever way it is looked at, the reduction of the proportion of government revenue used to service debts rate shows enhanced management of fiscal operations in the country. The rates for the rest of the countries have also decreased except Burundi which is averaging about 15 per cent.

Ferrucci and Penalver still observe that management of debt should be viewed from a changing rather than a static form. This is because major macro economic variables such as budget balance, inflation, domestic and foreign debt interest rates are very volatile, making future prediction with confidence a difficult task. Furthermore, these variables are also correlated with an adverse effect on one variable causing an adverse effect on another. For example, an adverse balance of payments will put pressure on the foreign exchange rate and eventually increase the risk premium on foreign debt.

It is thus prudent for the EAC to put in place structures and policies that will ensure that members manage their debt burden from the whole economic outlook.

Given a scenario where the EAC monetary union will have highly interconnected financial sectors, one member's adverse public debt effects risks spilling over to another member.

5.41 The Euro Zone Debt Crisis- A Case Scenario

Currently the Euro Zone is experiencing a debt crisis. At the heart of the Euro zone are well performing economies such as Germany and France. Yet there are also others experiencing economic turmoil such as Portugal, Ireland, Greece and Spain where financial bail outs are being injected to rescue these economies.

What started out as a global financial market crisis, in late 2007, which saw the bankruptcy (or near bankruptcy) of major financial institutions and companies in United States and in Europe, and their subsequent bail out plans, has now evolved to the current debt crisis in Europe. According to the Guardian[67], the crisis has seen economies such as Britain officially entering recession in 2009 and Greece credit rating downgraded the same year. As at the end of 2010, Greek's public debt to GDP ratio stood at over 140 per cent[68]

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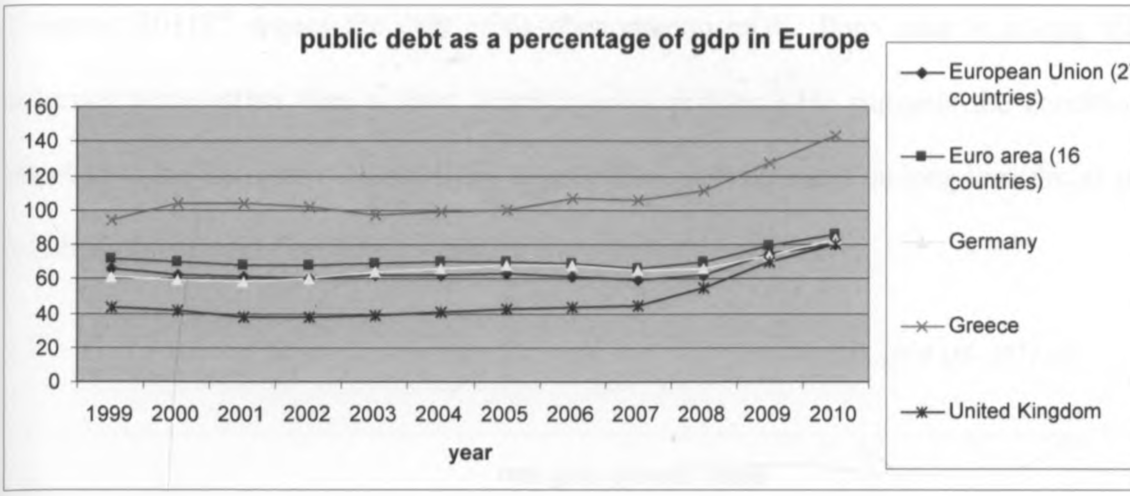
[67] http://www.guardian.co.uk/business/2010/may/10/debt-crisis-euro-timeline
[68] Euro Stats
http://epp.eurostat.ec.europa.eu

Fig 5.2 Selected European Economies Public Debt to GDP ratio, 1999- 2010



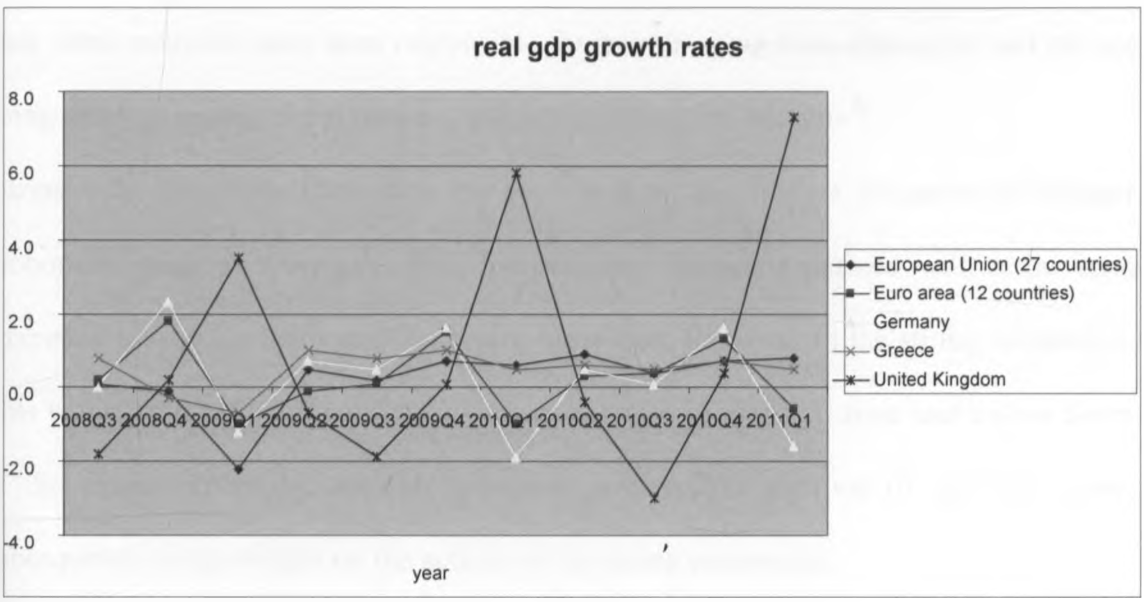
Source: Euro Stats

Figure 5.2 above shows how the public debt ratio rose sharply from 2008, consistent with the start of the financial crisis. Germany's ratio as a country has been lower than the Euro 16 showing it has managed its public debt better than some members of the Euro. Britain, which is not part of the Euro zone, has had the lowest ratio even before the introduction of the Euro Currency. Greece has had the highest rise in the debt ratio since the start of the 2008 crisis.

The crisis, referred to as the worst since the great depression of the 1930's has given policy makers a hard task to tackle. The European Central bank, the International monetary Fund, European governments have all tried to inject funds in the European economy, as a crisis control and mitigation mechanism, so as to minimize the spread of default and stabilize the financial and economic system of the zone.

This has however not done much in the long run due to the structure of the crisis. Valiante (2011)[69] argues the debt crisis phenomenon in the Euro zone is a long term solvency issue rather than a short term liquidity problem. He suggests the conditions attached to the European Central Bank intervention must be based on long term fiscal and political objectives of economic stability and survival respectively.

Fig 5.3 Selected European Economies Quarterly Real GDP Growth rates, 2008 Q3- 2011 Q1



Source: Euro Stats

The above real gdp growth rate (base index year 2000) shows Britain with the most erratic growth curve. Germany, on the other hand, has almost an equal and similar pattern from the Euro 12. Britain is in a more flexible position to effect policy changes to avert the growth rate inconsistency. One reason may be because of an independent currency from the Euro. Germany, on the other hand, may be a bit rigid because its policies are also dependent on the Euro zone member states policies.

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[69]Valiante, D.,'*The Eurozone Debt Crisis:From its Origins to a Way Forward'*,Economic Policy, CEPS Policy Briefs (19th August 2011)

This might be one advantage of a sovereign monetary policy over a monetary union in the wake of a crisis. In a monetary integrated economy the non performing economies offset the gains from the performing economies largely due to interconnected financial and economy markets among the member states.

Short term intervention through funds injection, in the Euro zone, has seen the stronger economies in the zone growing weary of repetitive bail outs. According to wordpress, Germany is fed up with bearing the burden of other members' debts in the Euro zone and feels these members have been responsible for mismanaging their economies and are not doing much to reverse the situation while just awaiting for bail outs[70].

Intrinsically, the whole Euro zone has been built on the implicit guarantee of stronger economies such as Germany. The moment the financial markets will sense such guarantee is waning, there shall be capital flow from the weak to the strong economies. This would result in the final fall of weak economies in the Euro zone and a slow down of the strong economies through contagion effects. The survival of the Euro zone, subsequently, is dependant on the actions of the strong economies.

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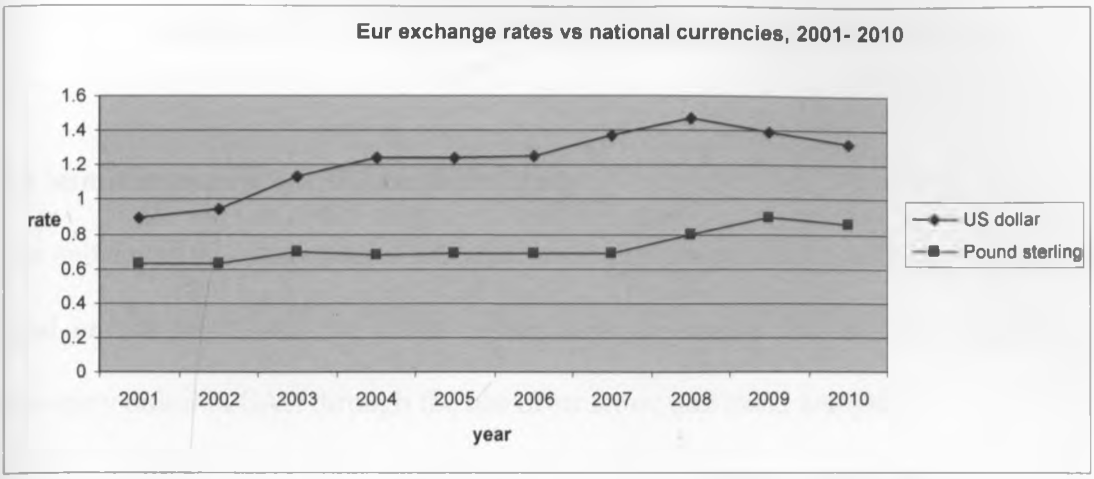
[70] http://stocklook.wordpress.com/2010/12/12/euroa-boon-or-a-bane/

Fig 5.4 Euro Exchange Rates Vs National Currencies



Source: Euro Stats

The Euro had been stable against the Pound and appreciated over the years against the dollar until 2008 when the crisis in Europe became more pronounced. From 2009 the Euro has been depreciating against the two currencies.

The continual depreciation could be explained by the spill over effects of the crisis, leading to increased magnitude of the crisis. Currently Portugal, Ireland, Greece and Spain are amongst the countries, in the Euro zone, facing solvency problems.

5.42 Lessons for the EAC from the current Euro Debt Crisis

The situation in Euro zone provides useful insight for the proposed EAMU on debt crisis management. There should be a well coordinated framework for crisis prevention and crisis control and mitigation.

Crisis prevention measures aim at avoiding such a scenario from ever happening in EAC. Crisis control, on the other hand, will assist in reducing the severity of the impact of such a crisis, in the event that it ever occurs.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 Summary and Conclusions of the study

The subject of this study was to assess how the current prevailing economic, political and legal environment, and the future trends, will determine the ultimate formation of a monetary union in EAC through the use of structure and trend analysis.

On the political front, the study looked at relative gains, governance and political stability. It was observed that so far there is a lot of disparity in terms of relative gains illustrated through the member states contribution to intra trade volumes. Kenya seemed as the greatest beneficiary from the community and as such would put the EAC in a precarious situation like the one that led to the collapse of the first one.

The other issue in the political context that stood out is the heterogeneity of the democratic and corruption indices as indicators of governance. For political stability, it was noted that most EAC member states have been involved in ethnic conflicts arising from ruler ship. The study shows the negative effect of political impasse on investment.

On the economic context, the study revealed how divergent the economies of the EAC member states are. In some cases some economic indicators in some economies were moving in one direction while others are moving in a different direction. In only one case, i.e. external debt to GDP ratio did the trend show continual reduction.

The findings of the study also show that not even one macro economic measure did the entire partner states converge. The trend analysis also showed that a convergence in the short term is also still not feasible.

The study finally analyzed the legal environment in EAC. While there have been many developments in the harmonization of banking policies and legislation, there also existed many challenges in the area such as resource constraints, time lags due to formation and adoption of inter state memoranda of understanding to allow free sharing of information and lack of systems that enhance some provisions in established legislations and high employee turnover.

Finally the study shows the importance of fiscal policies coordination amongst member states so that there is accountability in terms of public debt management. This, as illustrated, would avert a crisis similar to that been experienced in Europe.

From the above, it is clear that the EAC member states are characterized by asymmetric economic patterns, weak governance institutions and regulatory framework which first need to be strengthened independently. This requires not just a mid term but a longer term (like 10 years) planning. The Euro has taken several decades to build and yet it is facing major hurdles. Any monetary union must have the right economic, political and legal foundations.

6.1 Recommendations

From the aforementioned, the road map to monetary integration needs to be carefully designed and not rushed without due consideration of the realities on the ground. As far as the economic environment is concerned, the EAC should not review the convergence criteria, as was suggested by the European Union, but rather give themselves more time to stabilize their economies through implementing sound macro economic policies. The time would also allow the common market protocol, which came into effect July 2010, to precipitate. Most East Africans are aware of the Customs Union and Common Market but not about the Currency Merger. More resources ought to be deployed to create more awareness about the common market and encourage the movement of goods within the region. In Kenya, for example, there are very few goods that come from say Burundi yet Burundi uses the Mombasa port to export its products.

Subsequent to the common market protocol, there should be systematic integration of financial markets before the greater monetary cooperation. It should be a piece meal process to monetary integration.

On the political front, because of its absolute and relative advantages over the rest of the EAC member states, Kenya should play the role like that of Germany and Nigeria in Euro and West African Anglophones monetary zones respectively. In these two cases, these countries employed financial and non financial resources to see not only the establishment, but the sustenance of the monetary unions. Rather than being perceived as too much ahead, Kenya should be seen as promoting cohesion by willing to migrate best trade practices, and legislation from the country to the entire East Africa region.

Secondly, there also need be strengthening of EAC governance institutions and promotion of democracy. It is advisable that that convergence threshold on EAC member states corruption, democracy and other governance indicators' indices be also included in the macro economic convergence criteria.

On matters of averting political tensions, and subsequently monetary instability, there should be promotion of peace and harmony through concerted national cohesion and integration efforts and peace creation awareness programmes by the government conducted on a full time basis.

Finally, in order to enhance policy convergence, it is recommended that there should be more training and development of human resources in the central banks, sharing of e-learning facilities amongst central banks, enhancing partnership with regional training institutes and collaboration with international banks in the region, and creating a more conducive and level playing ground for smooth integration.

6.2 Suggested areas for future studies

Other areas that future studies may be based upon procedures to follow in the event of changes in the composition of the EAC member states due to either expansion of the monetary union to accommodate new members (e.g. the new Republic of Southern Sudan) or exit of an already existing member.

Another area may be the implications of an amalgamation of two or more regional blocs such as the proposed COMESA, SADC and EAC merger with a view of having a single currency, i.e. should the blocs have their own regional currencies first before amalgamating or should they introduce a single currency in the whole bloc.

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Annex I

A: EAC Corruption Index

B: EAC Bank Supervision Indicators

C: Selected Macroeconomic Indicators to GDP, Percent

D: EAC State Currency to US Dollar Exchange Rate

E: EAC Debt and Debt Service to Selected Macroeconomic Indicators, Percent

F: EAC GDP Figures

G: Intra EAC Trade (Million USD)

H: EAC Money Supply

I: EAC Member States National Savings to GDP Ratio

J: EAC Member States Government's Budgetary Operations

K: Europe General government gross debt percentage of GDP

L: Euro Exchange Rates against other Currencies

M: European Economies Real GDP Growth Rate

Annex II

Questionnaire Interviews with High Commissions of Uganda, Burundi and Rwanda

A

EAC Corruption Index

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Kenya	2	1.9	1.9	2.1	2.1	2.2	2.1	2.1	2.2	2.1
Uganda	1.9	2.1	2.2	2.6	2.5	2.7	2.8	2.6	2.5	2.5
Tanzania	2.2	2.7	2.5	2.8	2.9	2.9	3.2	3	2.6	2.7
Rwanda					3.1	2.5	2.8	3	4	4
Burundi					2.3	2.4	2.5	1.9	1.8	1.8

Source: Transparency International
http://www.transparency.org/policy_research/surveys_indices/cpi

B

Bank Supervsion indicators, US million dollars

Indicator	2003					2004				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Capital adequacy	21.0	14.4	16.2	14.6	15.1	15.6	21.2	18.8	15.5	18.3
Asset Quality	4.5	7.2	11.2	-	21.4	20.1	3.5	2.2	11.4	-
Profitability ratio										
Return on Assets	2.1	4.5	2.2	1.4	1.4	1.0	2.9	4.3	2.1	2.2
Return on Equity	20.7	43.2	-	31.1	14.8	9.9	28.4	37.8	-	21.6
Net Interest Margin	51.5	10.0	-	-	-	-	54.8	10.1	-	-
Yield on Advances	13.8	9.9	-	-	-	-	14.8	7.9	-	-
Cost of deposits	3.9	-	-	-	-	-	4.4	-	-	-
Cost to income ratio	67.1	62.7	-	-	-	-	61.6	61.7	-	-
Overheads to Total income	-	28.5	-	-	-	-	-	35.6	-	-
Sensitivity to Market Ratios										
Forex Exposure/Core Capital (Net Forex Open Position/Core Capital)	(55.6)	23.0	-	(4.5)	-	-	(38.8)	(2.0)	-	6.1
Forex Loans/Forex Deposits	34.6	28.4	-	-	-	-	40.3	32.6	-	-
Forex Assets/Forex Liabilities	-	99.4	-	-	-	-	-	103.2	-	-
Short term gap ratio (Short term gap/Total Assets)	41.2	(24.3)	-	-	-	-	44.4	(26.0)	-	-
Liquid Assets/Total Deposits	62.8	59.5	48.2	-	34.0	41.3	62.0	63.1	45.5	-

Table 2.8b cont'd: Bank Supervsion indicators, US million dollars

Indicator	2005					2006				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Capital adequacy	16.6	22.0	16.8	15.4	14.7	8.0	16.3	16.4	18.0	13.7
Asset Quality	20.4	4.9	2.3	9.3	-	18.5	7.3	3.0	5.3	25.0
Profitability ratio										
Return on Assets	1.8	3.3	3.4	2.4	1.5	1.5	3.9	3.1	2.8	2.4
Return on Equity	18.5	33.1	29.6	-	16.5	15.8	37.0	28.3	28.2	27.0
Net Interest Margin	-	60.9	10.2	-	-	-	74.9	15.1	7.9	1.8
Yield on Advances	-	15.0	10.2	-	-	-	16.4	10.3	10.4	3.4
Cost of deposits	-	5.3	-	-	-	-	7.2	-	3.3	0.5
Cost to income ratio	-	56.9	65.6	-	-	-	43.8	68.3	-	76.7
Overheads to Total income	-	-	32.9	-	-	-	-	30.6	52.5	102.7
Sensitivity to Market Ratios										
Forex Exposure/Core Capital (Net Forex Open Position/Core Capital)	-	(49.9)	(2.7)	-	7.0	-	(51.3)	(7.4)	-	9.0
Forex Loans/Forex Deposits	-	42.6	48.8	-	-	-	41.7	48.8	-	-
Forex Assets/Forex Liabilities	-	-	102.0	-	-	-	-	109.5	-	-
Short term gap ratio (Short term gap/Total Assets)	-	42.4	(21.6)	-	-	-	50.1	(17.0)		-
Liquid Assets/Total Deposits	53.2	62.4	60.0	41.7	-	51.2	55.5	50.7	41.8	-

Table 2.8b cont'd: Bank Supervsion indicators, US million dollars

B (Cont)

Bank Supervsion indicators. US million dollars

Indicator	2007				
	Burundi	Tanzania	Uganda	Kenya	Rwanda
Capital adequacy	10.9		17.7	16.5	16.6
Asset Quality	18.1		4.1	3.9	18.1
Profitability ratio					
Return on Assets	2.3	4.7	3.9	3.0	1.5
Return on Equity	26.4	29.0		27.5	15.1
Net Interest Margin	-	73.7		8.1	
Yield on Advances	-	15.9		10.8	2.9
Cost of deposits	-	-		3.3	0.0
Cost to income ratio	-	42.8			80.2
Overheads to Total income	-	-		50.6	44.2
Sensitivity to Market Ratios					
Forex Exposure/Core Capital (Net Forex Open Position/Core Capital)	-	(57.3)	(8.4)		0.4
Forex Loans/Forex Deposits	-	-	56.6		1.0
Forex Assets/Forex Liabilities	-	-			112.0
Short term gap ratio (Short term gap/Total Assets)	-	-			21.5
Liquid Assets/Total Deposits	41.6	53.0	46.7	44.8	76.4

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

C

Selected macroeconomic indicators to GDP, percent

	2000					2001				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Budget (overall) deficit/surplus to GDP	(3.2)	(1.9)	(4.6)	(1.2)	(0.3)	(0.9)	0.3	(2.3)	(2.2)	(1.3)
Budget (overall) deficit/surplus excl. grants to GDP	(6.3)	(4.5)	(10.9)	(4.2)	(11.1)	(8.7)	(3.8)	(10.2)	(2.8)	(9.7)
Budget deficit (Cash)	-	1.5	-	-	(1.3)	-	0.8	(2.0)	-	(5.6)
External grants to GDP	3.1	2.6	6.0	0.5	10.8	7.8	4.0	7.9	0.4	8.4
Tax revenue to GDP	18.4	9.4	11.0	15.3	9.2	20.3	9.6	10.9	17.3	10.7
Revenue excl. grants to GDP	-	10.5	11.0	18.0	9.6	-	10.7	10.8	20.3	11.6
Total Expenditure to GDP	25.5	15.1	22.0	15.8	21.6	30.2	14.5	21.0	20.7	21.2
Recurrent expenditure to GDP	17.6	11.6	11.0	8.5	12.4	21.2	11.3	11.2	17.7	14.5
Dev't expenditure to GDP	7.9	3.5	9.0	7.3	8.3	9.0	3.2	8.7	2.9	6.7
Current balance to GDP			(5.4)					(5.0)		
Capital acc. balance to GDP			-					-		

	2002					2003				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Budget (overall) deficit/surplus to GDP	(1.3)	(0.2)	(2.0)	(5.1)	(2.5)	(6.4)	(0.0)	(1.6)	(7.3)	(2.2)
Budget (overall) deficit/surplus excl. grants to GDP	(12.1)	(4.1)	(12.2)	(3.7)	(11.6)	(16.6)	(6.5)	(9.8)	(8.6)	(9.8)
Budget deficit (Cash)	-	(0.7)	(5.0)	-	(2.7)	-	(0.3)	-	-	(3.6)
External grants to GDP	10.8	3.9	7.0	2.3	9.1	10.1	6.5	8.2	1.3	7.7
Tax revenue to GDP	18.3	9.8	12.2	19.0	12.9	18.6	10.0	11.8	17.2	12.0
Revenue excl. grants to GDP	-	10.8	12.2	20.7	12.9	-	11.0	11.9	18.7	12.8
Total Expenditure to GDP	33.1	14.9	25.0	30.0	24.5	37.5	17.5	17.8	27.3	22.2
Recurrent expenditure to GDP	21.9	11.8	14.0	27.2	17.2	22.1	12.5	-	24.7	16.9
Dev't expenditure to GDP	11.3	3.1	10.0	2.9	7.2	15.4	5.1	-	2.6	5.3
Current balance to GDP			(4.5)			(4.1)	-	(1.9)	-	(11.0)
Capital acc. balance to GDP			-			1.7	-	-	-	7.5

	2004					2005				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Budget (overall) deficit/surplus to GDP	(5.6)	(4.5)	(0.5)	(8.2)	(0.2)	(2.2)	(5.9)	(2.2)	(5.3)	0.3
Budget (overall) deficit/surplus excl. grants to GDP	(20.0)	(10.2)	(7.8)	(9.5)	(11.2)	(14.2)	(11.1)	(7.1)	(6.3)	(11.0)
Budget deficit (Cash)	-	(4.5)	-		(1.7)	-	(5.3)	-	-	(0.5)
External grants to GDP	16.8	5.7	7.4	1.3	11.0	12.0	5.2	4.9	1.0	12.4
Tax revenue to GDP	20.7	10.6	11.8	17.0	11.8	18.5	11.0	12.3	18.5	11.2
Revenue excl. grants to GDP	-	11.6	12.0	19.8	12.9	-	12.0	12.7	20.0	13.5
Total Expenditure to GDP	46.1	21.8	16.3	29.3	22.3	34.7	23.1	16.5	26.3	25.3

Recurrent expenditure to GDP	27.6	14.5	-	25.0	14.4	25.7	15.8	10.5	23.5	16.1
Dev't expenditure to GDP	18.6	7.2	-	4.2	7.9	9.0	7.3	7.2	2.8	9.1
Current balance to GDP	(4.9)	-	(0.7)	(0.8)	(2.8)	(1.2)	-	(0.1)	(1.3)	(4.3)
Capital acc. balance to GDP	5.2	-	-	0.9	11.9	5.5	-	-	0.5	13.2

C- Cont.

Selected macroeconomic indicators to GDP, percent

	2006					2007				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Budget (overall) deficit/surplus to GDP	(3.1)	(2.4)	(1.9)	(6.3)	(0.2)	(2.9)	(4.2)	(1.9)	(5.0)	(1.0)
Budget (overall) deficit/surplus excl. grants to GDP	(14.5)	(8.3)	(7.1)	(7.5)	(10.5)	(18.9)	(9.9)	(4.9)	(5.8)	(13.1)
Budget deficit (Cash)	-	(3.4)	-	-	(0.7)	-	-		-	(1.5)
External grants to GDP	11.2	5.9	5.2	1.2	10.3	16.0	-	3.0	0.9	12.0
Tax revenue to GDP	17.5	12.5	12.5	17.6	11.8	18.3	-	12.9	19.2	13.0
Revenue excl. grants to GDP	-	13.6	13.0	18.8	12.7	19.9	15.3	13.3	20.6	13.7
Total Expenditure to GDP	34.1	22.0	16.7	26.3	22.6	38.8	25.2	18.8	26.4	27.3
Recurrent expenditure to GDP	24.3	17.5	10.2	22.5	15.4	26.2	16.1	11.8	21.7	17.0
Dev't expenditure to GDP	9.8	7.3	7.2	3.8	7.3	12.7	9.2	5.9	4.7	10.1
Current balance to GDP	(13.9)	-	(3.5)	(2.1)	(12.7)	(12.3)	(0.8)	(5.6)	(4.1)	(12.3)
Capital acc. balance to GDP	15.8	-	32.3	0.7	17.8	12.4	-	-	0.6	18.5

	2008					2009				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Budget (overall) deficit/surplus to GDP	(3.1)	(3.1)	(1.7)	(5.7)	0.4	(3.1)	(6.2)	(3.0)	(7.4)	(0.8)
Budget (overall) deficit/surplus excl. grants to GDP	(13.6)	(8.2)	(4.6)	(7.3)	(10.5)	(12.4)	(11.2)	(5.7)	(8.9)	(12.4)
Budget deficit (Cash)		-			0.1		(5.3)		-	(1.2)
External grants to GDP	10.5	5.8	2.9	1.6	10.9	6.9	5.0	2.7	1.6	11.6
Tax revenue to GDP	18.0	14.9	12.2	23.3	12.8	18.1	14.8	12.5	23.4	12.1
Revenue excl. grants to GDP	19.8	15.9	12.6	24.6	14.9	22.4	15.7	12.7	25.3	12.7
Total Expenditure to GDP	33.3	24.1	17.4	32.4	25.3	33.0	26.9	18.5	39.0	23.9
Recurrent expenditure to GDP	27.5	16.3	10.9	26.9	14.4	27.0	18.4	11.1	27.9	14.2
Dev't expenditure to GDP	5.8	8.0	5.5	9.9	10.4	6.0	8.5	7.2	11.1	9.8
Current balance to GDP	(15.6)	(13.7)	(8.9)	(0.1)	(9.9)	(13.1)	(10.1)	(6.1)	(0.5)	(7.2)
Capital acc. balance to GDP	13.8	2.6	-	0.0	4.5	81.8	2.6	-	0.7	3.8

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

D

State currency to US dollar exchange rate

Indicator	States	2000	2001	2002	2000	2001	2002
End of year (31st December)	Burundi	726.1	831.5	943.0	726.1	831.5	943.0
	Tanzania	803.3	916.3	976.7	803.3	916.3	976.7
	Uganda	1,766.7	1,727.4	1,852.6	1,766.7	1,727.4	1,852.6
	Kenya	78.0	78.6	77.1	78.0	78.6	77.1
	Rwanda	-	458.9	507.0	0.0	458.9	507.0
	EAST AFR	-	-	-	-	-	-
Annual average	Burundi	720.7	830.4	930.8	720.7	830.4	930.8
	Tanzania	800.7	877.3	967.1	800.7	877.3	967.1
	Uganda	1,644.5	1,755.7	1,797.0	1,644.5	1,755.7	1,797.0
	Kenya	76.2	78.6	78.7	76.2	78.6	78.7
	Rwanda	389.7	443.0	475.0	389.7	443.0	475.0
	EAST AFR	-	-	-	-	-	-

Indicator	States	2003	2004	2005	2006	2007	2008	2009
End of year (31st December)	Burundi	1,093.0	1,109.5	997.8	1,002.5	1,119.5	1,235.0	1,230.5
	Tanzania	1,063.6	1,043.0	1,165.5	1,261.6	1,132.1	1,280.3	1,313.3
	Uganda	1,935.3	1,738.6	1,816.9	1,775.3	1,711.6	1,956.2	1,896.6
	Kenya	76.1	77.3	72.4	69.4	62.7	77.7	75.8
	Rwanda	574.8	567.6	553.9	549.6	544.2	558.9	571.2
	EAST AFR	-	-	-	-	-	-	-
Annual average	Burundi	1,082.6	1,100.9	1,081.6	1,029.0	1,081.9	1,185.7	1,230.1
	Tanzania	1,038.9	1,089.1	1,129.2	1,253.9	1,244.1	1,206.3	1,307.2
	Uganda	1,963.6	1,810.8	1,780.7	1,831.5	1,723.5	1,720.4	2,030.5
	Kenya	75.9	79.2	75.5	72.1	67.3	69.2	77.4
	Rwanda	538.0	575.0	557.0	548.0	547.0	547.6	568.3
	EAST AFR	-	-	-	-	-	-	-

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

E

Debt and debt service to selected macro economic indicators, percent

	2000					2001				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Consessional debt to external debt	1.0	-	92.7	64.0	-	1.0	-	93.5	66.5	-
Non-consessional debt to external debt	0.0	-	7.3	21.0	-	0.0	-	6.5	33.5	-
Total debt service to total current expenditure	11.2	-	22.0	15.0	-	11.3	10.5	21.0	32.5	18.4
Total debt service to total gov't revenue	12.4	-	21.0	18.0	-	10.8	11.5	22.0	28.1	-
Total debt service to goods & service exports	0.4	-	53.0	16.0	37.6	0.8	8.1	47.3	13.0	31.9
Total interest payments to total revenue excl. grants	9.3	-	10.0	14.0	-	8.3	2.0	10.0	14.7	20.7
Total interest payments to goods & services exports	21.1	-	-	3.0	41.9	25.7	1.4	-	13.7	28.4
Total interest payme	1.6	-	1.0	-	0.4	1.8	0.2	1.0	3.6	0.8
International reserves to total external debt	4.2	-	23.6	-	14.8	2.6	7.7	26.9	14.0	16.7
Total external debt o	166.8	-	55.8	59.0	73.3	161.5	86.4	63.1	54.7	74.2

	2002					2003				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Consessional debt to external debt	1.0	-	94.5	70.5	-	98.8	-	88.6	71.7	96.1
Non-consessional debt to external debt	0.0	-	5.7	29.5	-	1.2	-	11.4	28.3	3.9
Total debt service to total current expenditure	10.3	6.9	18.0	30.6	15.9	22.0	7.9	4.8	43.0	14.2
Total debt service to total gov't revenue	10.7	8.1	21.0	29.0	-	15.6	9.7	22.0	40.1	17.2
Total debt service to goods & service exports	0.6	5.0	45.2	12.0	39.2	64.3	5.5	41.7	11.0	30.6
Total interest payments to total revenue excl. grants	7.3	3.7	11.0	12.7	26.6	6.5	2.2	12.0	15.2	21.8
Total interest payments to goods & services exports	25.0	2.3	-	10.4	50.0	18.0	1.3	2.1	11.9	35.6
Total interest payme	1.5	0.5	1.0	2.4	0.3	1.4	0.3	0.2	2.9	0.2

International reserves to total external debt	5.6	10.3	23.5	20.0	17.4	5.5	16.0	24.0	7.0	14.6
Total external debt o	200.9	85.1	59.4	54.7	80.4	211.6	78.5	63.6	56.8	87.4

Debt and debt service to selected macro economic indicators, percent

	2004					2005				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Consessional debt to external debt	99.2	-	90.0	70.2	96.2	99.2	-	92.7	62.3	99.0
Non-consessional debt to external debt	0.8	-	10.0	29.8	3.8	0.8	-	7.3	37.7	1.0
Total debt service to total current expenditure	23.2	6.0	8.4	24.7	16.6	16.0	5.5	10.5	33.5	4.6
Total debt service to total gov't revenue	16.1	7.2	4.0	24.7	9.4	12.6	7.1	4.6	32.0	8.1
Total debt service to goods & service exports	57.6	4.5	35.2	8.0	23.5	34.4	4.5	11.9	4.0	7.3
Total interest payments to total revenue excl. grants	8.5	2.2	2.2	16.9	12.0	4.5	1.7	1.9	10.9	9.2
Total interest payments to goods & services exports	17.6	1.4	2.2	13.1	15.2	8.0	1.1	1.6	8.2	12.1
Total interest payme	1.7	0.3	0.3	3.1	0.1	1.0	0.2	0.2	2.2	0.1
International reserves to total external debt	5.3	21.1	27.5	8.9	18.7	9.0	19.6	30.9	69.0	25.8
Total external debt outstanding to GDP	194.8	94.8	43.3	57.6	91.6	144.6	80.4	14.7	47.6	75.2

	2006					2007				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Consessional debt to external debt	99.5	-	82.2	-	97.4	100.0	-	84.7	-	98.0
Non-consessional debt to external debt	0.5	-	17.8	-	2.6	-	-	15.3	-	2.0
Total debt service to total current expenditure	20.5	4.2	11.5	25.1	7.1	18.9	1.5	6.5	27.7	2.6
Total debt service to total gov't revenue	16.1	5.0	5.4	4.2	4.8	13.8		2.8	29.2	2.5
Total debt service to goods & service exports	46.0	3.0	14.6	17.6	12.0	50.0	1.2	7.4	19.1	4.4
Total interest payments to total revenue excl. grants	4.0	1.7	1.6	10.1	1.4	3.9	0.7	0.6	10.3	0.9

Total interest payments to goods & services exports	7.3	1.0	1.2	9.2	1.9	7.8	0.5	0.4	1.0	1.2
Total interest payme	0.8	0.2	0.2	2.3	0.2	0.8	-	0.1	2.1	0.1
International reserves to total external debt	9.9	20.6	112.0	23.8	90.7	13.0	43.7	158.3	31.6	95.7
Total external debt outstanding to GDP	141.8	69.6	11.7	26.5	17.0	151.1		11.0	21.7	16.8

E (Cont.)

Debt and debt service to selected macro economic indicators, percent

	2008					2009				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Consessional debt to external debt	100.0	0.5	100.0	-	98.0	100.0	-	100.0	-	100.0
Non-consessional debt to external debt	-	-	N/A	-	2.0	-	-	N/A	-	-
Total debt service to total current expenditure	14.0	2.2	3.7	30.3	1.7	13.3	1.5	4.0	17.2	1.3
Total debt service to total gov't revenue	15.4	2.4	3.2	14.1	1.7	17.2	1.3	2.9	15.7	0.8
Total debt service to goods & service exports	38.1	1.8	2.2	4.0	4.6	50.3	1.2	1.8	16.8	5.1
Total interest payments to total revenue excl. grants	3.8	0.8	1.2	10.9	0.9	8.4	0.9	1.3	10.1	0.0
Total interest payments to goods & services exports	6.1	0.6	0.4	9.9	2.6	31.1	0.6	0.4	10.2	2.6
Total interest payme	0.7	0.1	0.1	2.7	0.1	2.9	0.1	0.1	2.6	0.1
International reserves to total external debt	21.0	49.4	149.8	53.6	90.8	70.8	45.7	121.0	53.3	100.8
Total external debt outstanding to GDP	119.3	21.3	13.1	19.9	12.6	36.4	45.1	14.8	21.5	14.0

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111
(last updated 15th Apr 2011)

F: GDP figures

Real GDP growth rates

State	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Burundi	(0.9)	2.1	4.5	(1.2)	4.8	0.9	5.5	3.6	4.5	3.4
Tanzania	4.9	6.0	7.2	6.9	7.8	7.4	6.7	7.1	7.4	6.0
Uganda, 2002	-	8.8	7.1	6.2	5.8	10.0	7.0	8.1	10.4	5.2
Kenya	0.6	4.5	0.6	2.8	4.9	5.7	6.1	7.0	1.7	2.6
Rwanda	6.0	9.7	11.0	0.3	5.3	7.2	6.5	7.9	11.2	6.1
EAST AFRICA										

Note: Rates for Uganda were computed using GDP in local currency

Real GDP, Million US dollars

State	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Burundi	558	646	662	538	628	703	884	858	837	866
Tanzania	10,001	9,676	9,406	9,358	9,625	9,968	9,581	10,154	12,395	11,907
Uganda	-	5,958	6,056	6,489	7,437	8,320	8,659	9,944	11,000	9,809
Kenya	12,905	13,059	13,082	13,918	13,948	15,514	17,260	19,842	19,676	17,970
Rwanda	1,755	1,674	1,733	1,534	1,504	1,669	1,790	1,973	3,682	3,852
EAST AFRICA		**33,014.0**	**32,940.7**	**33,840.1**	**35,146.8**	**36,174**	**38,174**	**42,771**	**47,590**	**44,405**

GDP at current market prices, Million US dollars

State	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Burundi	709	662	628	595	680	796	908	936	1,108	1,252
Tanzania	10,182	10,374	10,800	11,653	12,828	14,139	14,156	15,412	20,715	21,368
Uganda	-	6,340.7	6,472	7,049.8	8,433.6	10,040	11,011	13,549	16,378	16,826
Kenya	12,705	12,983	13,151	14,987	16,249	19,133	22,779	27,022	30,108	29,334
Rwanda	1,819	1,730	1,776	1,766	1,979	2,391	2,854	3,411	4,689	5,266
EAST AFRIC	**25,415**	**25,749**	**32,827**	**36,051**	**40,169**	**46,499**	**51,708**	**60,331**	**72,998**	**74,047**

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

G

Intra - EAC Trade (Million USD)

Country	Partner	Flow	2004	2005	2006	2007	2008	2009
Burundi	Kenya	Export	0.4	0.4	1.2	2.2	1.5	0.4
		Import	27.5	34.0	35.4	29.4	30.3	23.3
		Balance	(27.1)	(33.6)	(34.3)	(27.3)	(28.8)	(22.9)
	Uganda	Export	0.7	0.9	1.2	1.0	1.6	1.9
		Import	11.0	11.4	16.9	38.7	34.5	69.1
		Balance	(10.3)	(10.4)	(15.7)	(37.7)	(32.9)	(67.2)
	Tanzania	Export	0.2	-	-	0.1	0.0	0.6
		Import	14.9	12.8	7.6	9.8	16.8	34.1
		Balance	(14.7)	(12.8)	(7.6)	(9.7)	(16.8)	(33.5)
	Rwanda	Export	4.2	2.7	3.1	2.2	3.5	3.1
		Import	0.7	0.9	1.0	1.7	3.1	2.6
		Balance	3.5	1.8	2.1	0.5	0.4	0.5
	Rest of EAC	Export	5.4	4.0	5.5	5.3	6.6	6.0
		Import	54.1	59.1	60.9	79.5	84.7	129.2
		Balance	(48.7)	(55.0)	(55.5)	(74.2)	(78.1)	(123.2)
Tanzania	Kenya	Export	83.7	76.3	97.2	106.9	188.6	192.9
		Import	130.1	155.3	169.1	103.6	198.0	304.5
		Balance	(46.4)	(79.0)	(71.9)	3.3	(9.4)	(111.6)
	Uganda	Export	11.7	20.1	20.5	20.3	36.5	89.1
		Import	7.6	5.1	5.3	6.5	6.6	12.1
		Balance	4.1	15.0	15.2	13.8	29.9	76.9
	Rwanda	Export	6.4	7.4	9.1	11.3	19.8	16.4
		Import	0.1	0.1	0.1	-	-	0.0
		Balance	6.3	7.3	9.0	11.3	19.8	16.4
	Burundi	Export	22.0	25.1	31.0	67.4	15.0	25.1
		Import	0.1	0.1	1.0	-	0.4	0.3
		Balance	22.0	25.1	30.0	67.4	14.6	24.8
	Rest of EAC	Export	123.8	128.9	157.8	205.9	259.9	323.5
		Import	137.8	160.5	175.5	110.1	205.0	316.9
		Balance	(14.0)	(31.6)	(17.7)	95.8	54.9	6.5
Uganda	Kenya	Export	77.0	72.4	88.0	118.2	164.6	174.0
		Import	399.2	520.7	401.0	495.7	511.3	502.7
		Balance	(322.2)	(448.3)	(313.0)	(377.5)	(346.7)	(328.7)
	Tanzania	Export	12.2	15.4	13.7	30.6	30.5	33.8
		Import	15.8	30.1	28.7	30.8	55.5	40.8
		Balance	(3.6)	(14.7)	(15.0)	(0.2)	(25.0)	(7.0)
	Rwanda	Export	24.7	36.1	30.5	83.3	136.9	135.3
		Import	0.6	0.5	0.5	3.8	2.9	3.1
		Balance	24.1	35.6	30.0	79.5	134.0	132.2
	Burundi	Export	18.1	20.8	20.6	42.7	45.4	55.8
		Import	0.7	0.2	0.2	0.8	0.9	0.4
		Balance	17.4	20.6	20.4	41.9	44.5	55.4
	Rest of EAC	Export	132.0	144.7	152.8	274.8	377.4	398.8
		Import	416.3	551.5	430.4	531.1	570.6	547.0
		Balance	(284.3)	(406.8)	(277.6)	(256.3)	(193.2)	(148.2)

G (Cont.)

Intra - EAC Trade (Million USD)

Country	Partner	Flow	2004	2005	2006	2007	2008	2009
Kenya	Kenya	Export	468.1	564.9	385.7	498.5	611.2	596.6
		Import	12.8	18.5	13.9	88.8	75.5	57.1
		Balance	455.3	546.4	371.8	409.7	535.8	539.5
	Tanzania	Export	226.3	264.1	253.6	331.5	422.4	388.2
		Import	25.4	41.0	62.6	99.2	105.0	100.8
		Balance	200.9	223.1	191.0	232.3	317.4	287.4
	Rwanda	Export	78.2	96.3	66.1	86.2	129.4	123.0
		Import	0.2	1.5	2.9	1.3	0.4	3.1
		Balance	78.0	94.8	63.2	84.9	129.1	119.9
	Burundi	Export	37.5	49.0	30.3	36.0	50.3	59.3
		Import	0.0	0.5	4.7	2.3	1.1	1.2
		Balance	37.5	48.5	25.6	33.7	49.2	58.1
	Rest of EAC	Export	810.1	974.3	735.8	952.2	1,213.4	1,167.1
		Import	38.4	61.5	84.1	191.6	182.0	162.2
		Balance	771.7	912.8	651.6	760.6	1,031.4	1,004.9
Rwanda	Kenya	Export	23.7	32.6	29.9	34.4	32.0	32.4
		Import	38.9	49.9	69.4	85.7	173.0	176.4
		Balance	(15.1)	(17.3)	(39.5)	(51.3)	(141.0)	(144.0)
	Tanzania	Export	0.6	1.8	1.9	3.2	6.9	5.6
		Import	23.4	39.0	61.6	98.5	167.9	160.7
		Balance	(22.7)	(37.2)	(59.8)	(95.4)	(161.0)	(155.1)
	Rwanda	Export	0.1	0.2	0.9	0.4	1.1	4.0
		Import	5.2	8.0	8.3	15.7	47.3	108.0
		Balance	(5.0)	(7.8)	(7.4)	(15.3)	(46.2)	(104.0)
	Burundi	Export	0.5	0.3	0.4	2.1	6.2	5.4
		Import	1.6	2.2	4.0	7.2	6.0	4.5
		Balance	1.1	1.9	3.7	5.1	(0.2)	0.9
	Rest of EAC	Export	25.0	34.9	33.0	40.0	46.2	47.3
		Import	68.9	99.1	143.4	207.1	394.2	449.7
		Balance	(43.9)	(64.2)	(110.4)	(167.1)	(348.0)	(402.3)

Source: East African Community Statistical Portal http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

H

EAC Money Supply, US million dollars

Indicator	2000					2001				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Money and Supply										
(i) M1	107.8	865.2	460.7	1,530.0	176.0	107.8	836.0	528.3	1,654.3	171.3
(ii) M2	145.0	1,361.5	660.8	4,032.6	237.9	145.2	1,346.4	764.5	4,100.9	231.8
(iii) M3	151.9	1,740.0	861.6	4,608.7	306.1	152.2	1,786.2	959.1	4,683.7	295.0
(iv) Foreign currency deposits	-	378.6	200.8	576.2	61.8	-	439.9	194.6	582.8	61.0
Net Foreign Assets	48.8	1,049.2	708.9	1,069.7	171.3	27.1	1,320.3	916.4	1,170.3	182.8
Domestic Credit	182.6	891.1	543.4	4,886.5	243.5	202.9	702.5	510.7	4,835.8	214.0
i) Credit to private sector	147.9	424.1	352.0	3,709.5	181.7	146.1	441.5	365.1	3,456.5	172.7
ii) Credit to govt(net)	34.7	467.0	179.3	1,073.7	61.8	56.5	261.1	140.4	1,277.2	41.3
iii) Credit to other public sector	-	-	12.2	103.3	-	-	-	5.3	102.1	-
Currency outside banks	43.1	490.1	231.6	556.2	58.0	41.0	429.1	257.3	576.2	58.2
Currency in circulation	47.3	553.3	205.0	665.3	63.1	46.8	479.4	227.8	675.3	64.5

Indicator	2002					2003				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Money and Supply										
(i) M1	120.2	981.6	539.9	1,947.6	158.6	122	1,047	561	2,546	162
(ii) M2	162.9	1,544.8	822.5	4,551.0	241.7	171	1,618	861	5,189	234
(iii) M3	174.3	2,098.1	1,056.2	5,252.3	303.6	187	2,245	1,178	5,926	312
(iv) Foreign currency deposits	88.8	553.2	233.8	701.3	58.0	16	627	317	736	73
Net Foreign Assets	41.8	1,625.1	864.9	1,360.7	218.1	61	2,052	1,179	1,627	194
Domestic Credit	204.9	856.3	740.1	5,321.5	187.2	197	789	664	5,820	222
i) Credit to private sector	170.6	585.3	416.8	3,746.3	179.9	149	768	494	3,978	182
ii) Credit to govt(net)	34.3	270.9	319.7	1,471.1	7.3	42	21	166	1,764	40
iii) Credit to other public sector	-	-	3.6	104.0	-	6		5	79	
Currency outside banks	45.3	508.2	285.0	699.3	58.9	41	530	322	729	63
Currency in circulation	61.4	562.3	251.9	811.5	64.6	44	582	282	830	68

Indicator	2004					2005				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Money and Supply										
(i) M1	145	1,262	753	2,723	177	195	1,509	873	3,194	227
(ii) M2	186	1,966	1,140	5,593	236	260	2,409	1,329	6,562	312
(iii) M3	203	2,730	1,511	6,612	324	281	3,376	1,695	7,713	390
(iv) Foreign currency deposits	18	764	372	1,020	89	20	967	366	1,151	78
Net Foreign Assets	48	2,282	1,472	1,836	299	86	2,197	1,503	2,184	399
Domestic Credit	224	970	635	6,480	140	272	1,445	689	7,320	125
i) Credit to private sector	148	1,016	636	4,767	186	163	1,223	706	5,507	235
ii) Credit to govt(net)	70	(46)	(7)	1,571	(47)	104	222	(26)	1,647	(109)
iii) Credit to other public sector	6		6	141	8	5		9	166	4
Currency outside banks	52	666	401	810	67	68	764	458	916	85
Currency in circulation	56	729	339	918	72	73	842	391	1,062	90

H (Cont.)

EAC Money Supply, US million dollars

Indicator	2006					2007				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Money and Supply										
(i) M1	225	1,530	1,043	4,205	288	213	2,263	1,295	5,956	420
(ii) M2	304	2,531	1,583	7,982	414	293	3,632	1,919	10,640	563
(iii) M3	343	3,804	2,040	9,410	522	353	5,148	2,505	12,407	690
(iv) Foreign currency deposits	39	1,272	456	1,428	108	60	-	586	1,767	126
Net Foreign Assets	91	2,826	2,178	3,019	520	145	1	2,798	4,096	646
Domestic Credit	364	1,547	707	8,646	170	343	15	657	10,702	338
i) Credit to private sector	196	1,608	986	6,439	296	198	2,813	1,246	8,288	475
ii) Credit to govt(net)	159	(61)	(299)	1,941	(126)	139	1	(620)	2,185	(139)
iii) Credit to other public sector	9		20	266	4	6		15	229	3
Currency outside banks	68	820	589	1,101	100	75	1,027	707	1,531	116
Currency in circulation	77	922	509	1,287	107	83	1,197	579	1,850	134

Indicator	2008					2009				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Money and Supply										
(i) M1	267	2,467	1,482	5,054	404	314	2,734	1,744	5,834	468
(ii) M2	350	4,271	2,316	9,862	687	415	5,028	2,839	11,848	752
(iii) M3	457	5,826	2,962	11,595	835	528	6,686	3,584	13,795	922
(iv) Foreign currency deposits	106	1,555	646	1,733	147	113	1,657	745	1,947	170
Net Foreign Assets	234	3,192	2,311	3,353	722	225	3,761	3,008	3,238	775
Domestic Credit			1,457	10,647	359	452		1,779		380
i) Credit to private sector	215	3,559	1,767	8,401	610	248	3,294	2,106	9,859	625
ii) Credit to govt(net)	140	(262)	(335)	2,095	(254)	202	98	(344)	2,883	(247)
iii) Credit to other public sector			12	152	3	2	507	9	165	5
Currency outside banks	92	1,124	641	1,206	145	98	1,193	-	1,332	135
Currency in circulation (outside central bank)	105	1,336	763	1,489	158	111	1,444	701	1,606	151

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

I

East African Member States National Savings to GDP Ratio

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Kenya	16.097	18.513	17.231	17.24	17.243	16.817	15.456	13.029	14.497	14.702
Rwanda	16.435	15.562	15.932	21.757	21.941	15.394	17.976	18.634	13.858	16.647
Tanzania	17.08	16.525	17.937	20.435	19.319	18.255	16.154	17.312	19.541	19.734
Uganda	15.752	16.525	17.937	20.235	20.979	17.811	20.583	19.853	16.691	14.443
Burundi	1.272	1.644	5.781	4.912	9.561	1.754	1.786	7.338	6.071	8.668

Source: Economy Watch

J

Summary of governments' budgetary operations, million US dollars

	2000/01					2001/02				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Government Revenue	159	-	672	2,350	340	194	1,658	1,180	2,691	334
Domestic Sources										
Tax	130	-	611	1,943	168	135	1,115	688	2,240	179
Non-Tax	6	-	62	344	8	8	124	60	395	15
Grants	22		-	63	164	52	419	431	56	140
Gov't Expenditure	125	-	815	1,082	226	141	1,029	991	2,299	245
Wage & Salaries	47	-	297	844	94	48	371	360	865	86
Other Expenditu	78	-	518	238	132	92	658	631	1,435	160
Gov't Expenditure	-	-	183	-	-	-	-	233	-	-
Budget Deficit (inc	(22)	-	(326)	(217)	(3)	(6)	29	(44)	(284)	(22)
Budget Deficit (Ex	(44)	-	(326)	(533)	-	(58)	(390)	(475)	(371)	-
Financing Gap	-	-		-	-	-	-		-	-
External	-	-	-	-	-	-	-	-	-	-
Domestic	-	-	-	-	-	-	-	-	-	-
Balancing item	-	-	-	-	-	-	-	-	-	-

	2002/03					2003/04				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Government Revenue	200	1,698	1,220	3,027	362	185	2,159	1,645	3,422	364
Domestic Sources										
Tax	115	1,168	741	2,502	199	111	1,286	905	2,768	213
Non-Tax	17	109	43	218	14	14	118	67	449	14
Grants	68	421	435	307	149	60	755	673	205	136
Gov't Expenditure	137	1,179	977	3,573	280	132	1,349	1,072	4,064	301
Wage & Salaries	49	386	371	867	80	49	412	378	1,663	77
Other Expenditu	89	793	606	2,706	200	83	938	695	2,401	224
Gov't Expenditure	-	-	243	-	-	-	-	585	689	95
Budget Deficit (inc	(8)	(22)	(0)	(488)	(41)	(38)	(3)	(12)	(1,331)	(39)
Budget Deficit (Ex	(76)	(443)	(436)	(679)	-	(99)	(758)	(685)	(1,536)	(175)
Financing Gap	-	-		-	-	-	38		1,536	49
External	-	-	-	-	-	-	375	-	221	10
Domestic	-	-	-	-	-	-	(338)	-	1,315	39
Balancing item	-	-	-	-	-	-	-	-	-	-

	2004/05					2005/06				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Government Revenue	232	2,333	1,924	4,022	472	259	2,574	1,760	4,570	618
Domestic Sources					255			1,268		323
Tax	121	1,484	1,151	3,546	233	147	1,698	1,222	4,004	291
Non-Tax	13	121	51	279	21	16	143	45	288	32
Grants	98	728	722	197	217	95	733	492	278	295
Gov't Expenditure	161	1,750	1,143	4,496	284	205	2,066	1,249	5,135	387
Wage & Salaries	53	462	446	1,543	84	67	537	492	1,885	92
Other Expenditu	108	1,288	698	2,954	200	137	1,529	757	3,249	295
Gov't Expenditure	-	-	709	531	155	-	-	662	865	218
Budget Deficit (inc	(38)	(579)	(62)	(1,006)	(4)	(18)	(836)	(185)	(1,430)	7
Budget Deficit (Ex	(136)	(1,307)	(784)	(1,203)	(221)	(113)	(1,569)	(677)	(1,708)	(288)
Financing Gap	38	-		1,203	(34)	18	-	(185)	1,708	(12)
External	(12)	616	73	189	83	13	444	(147)	295	61
Domestic	50	(37)	(24)	1,014	(42)	5	305	(45)	1,413	(58)
Balancing item	-	-	13	-	(8)			7		9

J (Cont.)

Summary of governments' budgetary operations, million US dollars

	2006/07					2007/08				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Government Revenue	280	2,934	2,141	5,776	683	336	2,137	2,349	7,199	864
Domestic Sources			1,529		375			1,914		461
Tax	159	1,932	1,475	5,175	351	172	1,973	1,863	6,113	435
Non-Tax	19	167	54	370	27	15	163	51	619	26
Grants	102	834	611	230	308	149	758	435	467	403
Gov't Expenditure	221	1,911	1,499	5,837	466	245	2,448	1,698	7,812	573
Wage & Salaries	87	650	571	2,159	114	169	761	652	2,628	135
Other Expenditu	134	1,261	928	3,679	353	76	1,686	1,046	5,184	438
Gov't Expenditure	-	-	723	1,275	217	118	-	847	3,075	341
Budget Deficit (inc	(30)	(345)	(224)	(1,336)	(5)	122	(596)	(268)	(3,688)	(35)
Budget Deficit (Ex	(132)	(1,179)	(835)	(1,566)	(312)	(28)	(1,354)	(703)	(4,156)	(438)
Financing Gap	30	-	(224)	1,566	(17)	28	-	268	4,156	(50)
External	19	497	(382)	195	64	9	(4,861)	329	910	59
Domestic	11	(12)	147	1,372	(20)	4	2,022	(138)	3,246	(32)
Balancing item	-	-	11	-	(26)	15	-	77	-	23

	2008/09					2009/10				
	Burundi	Tanzania	Uganda	Kenya	Rwanda	Burundi	Tanzania	Uganda	Kenya	Rwanda
Government Revenue	335	4,325	2,420	7,234	1,182	384	4,569	2,623	7,903	1,280
Domestic Sources	219	3,401	1,962	6,790	649	281	3,511	2,168	7447	668
Tax	200	3,203	1,898	6,431	611	227	3,335	2,127	6871	639
Non-Tax	19	198	64	359	28	21	176	41	577	29
Grants	116	924	458	445	534	93	1,058	456	456	612
Gov't Expenditure	305	3,709	1,706	10,175	696	338	4,190	1,886	8178	747
Wage & Salaries	218	1,274	613	2,456	158	150	1,298	644	2693	171
Other Expenditu	87	2,434	1,092	7,719	537	188	2,892	1,242	5485	576
Gov't Expenditure	65	1,626	859	2,731	422	75	1,967	1,228	3265	514
Budget Deficit (inc	(34)	(1,010)	(261)	(2,941)	20	(39)	(1,587)	(513)	(1,817)	(43)
Budget Deficit (Ex	(150)	(1,934)	(719)	(3,385)	(488)	(132)	(2,645)	(969)	(2,272)	(654)
Change in arrears		47			(15)	(40)	126			(19)
Deficit cash basis		(963)			5	(88)	(1,461)			(61)
Financing	34	963	261	3,385	(5)	88	1,461	513	1423	61
External	12	758	289	777	103	37	1,039	302	50	61
Domestic	28	205	(49)	2,609	(109)	51	422	211	1374	1
Balancing item	(6)	-	21	-	-	(44)	-	-	-	-

Source: East African Community Statistical Portal
http://www.eac.int/statistics/index.php?option=com_content&view=article&id=141&Itemid=111 (last updated 15th Apr 2011)

al government gross debt percentage of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ean Union untries)	:	:	:	:	65.7	61.9	61	60.4	61.8	62.2	62.8	61.5	59	62.3	74.4	80
ean Union untries)	:	:	:	:	65.9	62	61.2	60.6	62.1	62.5	63.2	62	59.6	63	75.1	80.7
rea (17 s)	:	:	:	:	71.6	69.1	68.1	67.9	69	69.5	70	68.4	66.2	69.9	79.3	85.1
rea (16 s)	72.1	73.8	73.3	72.9	71.7	69.2	68.2	68	69.1	69.5	70.1	68.5	66.3	70	79.4	85.3
n	130.4	127.3	123	117.4	114	108	107	104	98.5	94.2	92.1	88.1	84.2	89.6	96.2	96.8
a	:	:	108	77.6	77.6	72.5	66	52.4	44.4	37	27.5	21.6	17.2	13.7	14.6	16.2
Republic	14.6	12.5	13.1	15	16.4	18.5	24.9	28.2	29.8	30.1	29.7	29.4	29	30	35.3	38.5
rk	72.6	69.4	65.4	61.4	58.1	52.4	49.6	49.5	47.2	45.1	37.8	32.1	27.5	34.5	41.8	43.6
ny ing former om 1991)	55.6	58.4	59.7	60.3	60.9	59.7	58.8	60.4	63.9	65.8	68	67.6	64.9	66.3	73.5	83.2
	8.2	7.6	7	6	6.5	5.1	4.8	5.7	5.6	5	4.6	4.4	3.7	4.6	7.2	6.6
	82	73.4	64.3	53.6	48.5	37.8	35.5	32.1	30.9	29.6	27.4	24.8	25	44.4	65.6	96.2
	97	99.4	96.6	94.5	94	103	104	102	97.4	98.6	100	106	105	110.7	127	142.8
	63.3	67.4	66.1	64.1	62.3	59.3	55.5	52.5	48.7	46.2	43	39.6	36.1	39.8	53.3	60.1
	55.5	58	59.2	59.4	58.9	57.3	56.9	58.8	62.9	64.9	66.4	63.7	63.9	67.7	78.3	81.7
	121.5	120.9	118	114.9	114	109	109	106	104	104	106	107	104	106.3	116	119
	51.4	52.6	56.9	58.6	58.9	58.8	60.7	64.6	68.9	70.2	69.1	64.6	58.3	48.3	58	60.8
	15.1	13.9	11.1	9.6	12.5	12.3	14	13.5	14.6	14.9	12.4	10.7	9	19.7	36.7	44.7
nia	11.5	13.8	15.4	16.5	22.7	23.7	23.1	22.3	21.1	19.4	18.4	18	16.9	15.6	29.5	38.2
bourg	7.4	7.4	7.4	7.1	6.4	6.2	6.3	6.3	6.1	6.3	6.1	6.7	6.7	13.6	14.6	18.4
ry	85.4	71.4	62	59.9	59.8	54.9	52	55.6	58.3	59.1	61.8	65.7	66.1	72.3	78.4	80.2
	35.3	40.1	48.4	53.4	57.1	55.9	62.1	60.1	69.3	72.4	69.6	64.2	62	61.5	67.6	68
lands	76.1	74.1	68.2	65.7	61.1	53.8	50.7	50.5	52	52.4	51.8	47.4	45.3	58.2	60.8	62.7
	68.3	68.3	64.4	64.8	67.3	66.5	67.3	66.7	65.8	65.2	64.6	62.8	60.7	63.8	69.6	72.3
l	49	43.4	42.9	38.9	39.6	36.8	37.6	42.2	47.1	45.7	47.1	47.7	45	47.1	50.9	55
al	59.2	58.3	54.4	50.4	49.6	48.5	51.2	53.8	55.9	57.6	62.8	63.9	68.3	71.6	83	93
ia	6.6	10.6	15	16.8	21.7	22.5	25.7	24.9	21.5	18.7	15.8	12.4	12.6	13.4	23.6	30.8
ia	:	:	:	:	:	:	26.7	27.9	27.3	27.4	26.7	26.4	23.1	21.9	35.2	38
a	22.1	31.1	33.8	34.5	47.9	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.6	27.8	35.4	41
	56.6	57	53.9	48.4	45.7	43.8	42.5	41.5	44.5	44.4	41.7	39.7	35.2	34.1	43.8	48.4
n	72.8	73.3	71.2	69.9	64.3	53.9	54.7	52.5	51.7	50.3	50.4	45	40.2	38.8	42.8	39.8
Kingdom	51.2	51.3	49.8	46.7	43.7	41	37.7	37.5	39	40.9	42.5	43.4	44.5	54.4	69.6	80
	:	:	:	:	:	:	:	:	:	:	26	27.9	28.5	70.5	87.8	:
nstein	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
y	:	:	:	:	:	:	29.2	36.1	44.3	45.6	44.5	55.4	51.5	49.1	43.1	44.7
rland	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
egro	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	40	40.9	43.2	43.7	35.5	32.9	28.9	35.3	:
r Yugoslav lic of onia, the	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	104	93	85.1	59.2	52.3	46.1	39.4	39.5	45.4	:

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of Data:: Eurostat

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1 ECU/EUR = ... units of national currency (annual average)

currency\time	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US dollar	0.8956	0.9456	1.1312	1.2439	1.2441	1.2556	1.3705	1.4708	1.3948	1.3257
Bulgarian lev	1.9482	1.9492	1.949	1.9533	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Czech koruna	34.068	30.804	31.846	31.891	29.782	28.342	27.766	24.946	26.435	25.284
Danish krone	7.4521	7.4305	7.4307	7.4399	7.4518	7.4591	7.4506	7.456	7.4462	7.4473
Estonian Kroon	:	:	:	:	:	:	:	:	:	:
Latvian lats	0.5601	0.581	0.6407	0.6652	0.6962	0.6962	0.7001	0.7027	0.7057	0.7087
Lithuanian litas	3.5823	3.4594	3.4527	3.4529	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528
Hungarian forint	256.59	242.96	253.62	251.66	248.05	264.26	251.35	251.51	280.33	275.48
Polish zloty	3.6721	3.8574	4.3996	4.5268	4.023	3.8959	3.7837	3.5121	4.3276	3.9947
Romanian leu	2.6004	3.127	3.7551	4.051	3.6209	3.5258	3.3353	3.6826	4.2399	4.2122
Swedish krona	9.2551	9.1611	9.1242	9.1243	9.2822	9.2544	9.2501	9.6152	10.6191	9.5373
Pound sterling	0.62187	0.62883	0.69199	0.67866	0.6838	0.68173	0.68434	0.79628	0.89094	0.85784
Croatian kuna	7.482	7.413	7.5688	7.4967	7.4008	7.3247	7.3376	7.2239	7.34	7.2891
Denar (of the former Yugos	60.9131	60.9786	61.2631	61.3372	61.297	61.1896	61.173	61.5201	61.2815	61.48
Turkish lira	1.1024	1.4397	1.6949	1.7771	1.6771	1.809	1.7865	1.9064	2.1631	1.9965
Icelandic krona	87.42	86.18	86.65	87.14	78.23	87.76	87.63	143.83	172.67	161.89
Norwegian krone	8.0484	7.5086	8.0033	8.3697	8.0092	8.0472	8.0165	8.2237	8.7278	8.0043
Swiss franc	1.5105	1.467	1.5212	1.5438	1.5483	1.5729	1.6427	1.5874	1.51	1.3803
Japanese yen	108.68	118.06	130.97	134.44	136.85	146.02	161.25	152.45	130.34	116.24
Canadian dollar	1.3864	1.4838	1.5817	1.6167	1.5087	1.4237	1.4678	1.5594	1.585	1.3651
Russian rouble	26.151	29.7028	34.6699	35.8192	35.1884	34.1117	35.0183	36.4207	44.1376	40.2629

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Source of Data:: Eurostat

Last update: 24.08.2011

Date of extraction: 30 Aug 2011 13:36:30 MEST

Hyperlink to the table: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00033

EAC Member States Questionnaire

Respondent Name:
Organization: Republic of Rwanda
Position:

1. Who is the final authority in charges of East African Community affairs in Rwanda Republic?

2. Which are the dominant political parties in Rwanda?

3. Are there any banks incorporated in Rwanda operating in any of the other four EAC countries?

4. Do we have any products from Rwanda being sold in the Kenyan market?

5. How long does it take for a cheque to clear in Rwanda?

6. Do you issue foreign currency cheques to individuals and corporates?

EAC Member States Questionnaire

7. Are there any financial innovations (such as m- pesa) in Rwanda?

8. Which body ultimately manages corruption in Rwanda?

9. On a scale of 1 to 10, do you think people in Rwanda are aware of the EAC currency merger?

<u>EAC Member States Questionnaire</u>

Respondent Name:
Organization: United Republic of Tanzania
Position:

1. Who is the final authority in charges of East African Community affairs in United Republic of Tanzania?

2. Which are the dominant political parties in Tanzania?

3. Are there any banks incorporated in Tanzania operating in any of the other four EAC countries?

4. Do we have any products from Tanzania being sold in the Kenyan market?

5. How long does it take for a cheque to clear in Tanzania?

6. Do you issue foreign currency cheques to individuals and corporates?

<u>EAC Member States Questionnaire</u>

7. Are there any financial innovations (such as m- pesa) in Tanzania?

8. Which body ultimately manages corruption in Tanzania?

9. On a scale of 1 to 10, do you think people in Tanzania are aware of the EAC currency merger?

EAC Member States Questionnaire

Respondent Name:
Organization: Republic of Uganda
Position:

1. Who is the final authority in charges of East African Community affairs in Uganda?

2. Which are the dominant political parties in Uganda?

3. Are there any banks incorporated in Uganda operating in any of the other four EAC countries?

4. Do we have any products from Uganda being sold in the Kenyan market?

5. How long does it take for a cheque to clear in Uganda?

6. Do you issue foreign currency cheques to individuals and corporates?

EAC Member States Questionnaire

7. Are there any financial innovations (such as m- pesa) in Uganda?

8. Which body ultimately manages corruption in Uganda?

9. On a scale of 1 to 10, do you think people in Uganda are aware of the EAC currency merger?

EAC Member States Questionnaire

Respondent Name:
Organization: Republic of Burundi
Position:

1. Who is the final authority in charges of East African Community affairs in Burundi Republic?

2. Which are the dominant political parties in Burundi?

3. Are there any banks incorporated in Burundi operating in any of the other four EAC countries?

4. Do we have any products from Burundi being sold in the Kenyan market?

5. How long does it take for a cheque to clear in Burundi?

6. Do you issue foreign currency cheques to individuals and corporates?

EAC Member States Questionnaire

7. Are there any financial innovations (such as m- pesa) in Burundi?

8. Which body ultimately manages corruption in Burundi?

9. On a scale of 1 to 10, do you think people in Burundi are aware of the EAC currency merger?