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The Future of Integration: The East African Monetary Union.

Introduction.

Integration remains on the forefront of the East African Community grounded in the Treaty that establishes the East African Community (EAC Treaty). The EAC Treaty sets out stages of East African integration starting with the establishment of a Common Market, thereafter a Monetary Union and ultimately a Political Federation.

With notable strides having been made to implement the first stage of the Common Market, focus has been shifted to evaluate the progress on the second stage of a Monetary Union. This is being implemented through the East African Monetary Union (EAMU) which largely impacts sectors like trade, finance and investment promotion and private sector development. The EAMU Protocol, adopted in accordance with the EAC Treaty to operationalise the EAMU, was signed on November 30, 2013. The protocol sets out a time frame for the realisation of the Monetary Union within 10 years and allows the EAC Partner States to progressively converge their currencies into a single currency in the Community.

Economic integration is a critical stage in the integration and time has proved that, if any, this strengthens regional blocs with protection in terms of price stability and against inflations during recessions. It has also proved to be a contributor to intra-trade in regional blocs.

This article seeks to examine the current status of the Monetary Union and explore comparative studies with other successful currency areas in the region and overseas to assess what lessons can be learnt and adopted.

Assessing the East African Monetary Union at present.

In the East Africa Budget speech for the year 2021-2022 delivered by Hon. Adan Mohamed, the EAC member states were updated on the progression of the Monetary Union and that the Act for the *Establishment of the East African Monetary Institute* (EAMI) was to come into force on July 1, 2021. Once established, the Institute is expected to carry out much of the preparatory work for the creation of the Monetary Union.[1]

Pursuant to the EAMU Protocol, the deadline for the implementation of a single currency regime in the region was set for 2024. However, this is not attainable at the moment since the EAC is still facing a number of challenges including the member states facing difficulties in complying with the macro-economic convergence criteria on inflation, fiscal deficit, public debt and the volume of foreign exchange reserves. According to a 2017 United Nations Economic Commission for Africa (UNECA) Report, the lack of firm commitments to implement decisions taken by different regional committees to fast-track implementation of EAMU protocol as well as the non-binding decisions by EAC central bank governors have also contributed to the slow progress of the single currency implementation. The EAC Council of Ministers is set to meet before the end of this year to review the roadmap towards the implementation of a single currency in light of all the above.[2]

[1] Press Release, 'EAC tables USD 91.7 Million Budget estimates before EALA for the 2021/2022 Financial Year': https://www.eac.int/press-releases/2122-eac-tables-usd-91-7-million-budget-estimates-before-eala-for-the-2021-2022-financial-year.

[2] Anyanzwa, J., 'EAC end-year meet to review monetary union roadmap', *The East African*, July 20, 2021: https://www.theeastafrican.co.ke/tea/business/eac-end-year-meet-to-review-monetary-union-roadmap-3479780.

Comparative study of the West African Economic Monetary Union and European Monetary Union as currency areas.

The West African Economic Monetary Union (WAEMU) was established in 1994 by the governments of seven West African countries using the CFA Franc as a common currency. WAEMU operates both a currency union and a free-trade zone area.

WAEMU stands tall as a commendable monetary union in the African continent. The region show cases relatively high and growing intraregional exports and stands second in line to SADC with the highest level of intraregional regional trade. The region's shared common currency, common central bank (Central Bank of West Africa States), regional real time gross settlement (RTGS) system, regional automated clearing house (ACH), and removal of tariffs and quantitative restrictions have led to reduced transactions costs. The net result has been the further promotion of intra-regional trade. Fixed exchange rates continue to act as buffers against price instability caused by political instability or poor governance in member states.[3]

The region however faces criticism regarding its operations with the CFA Franc pegged to the euro and unlimited convertibility guarantee provided by the French Treasury. The concerns particularly lie around the requirement for the Central Bank of West Africa States to deposit part of its foreign exchange reserves in an account with the French Treasury in exchange for this guarantee. A report by UNCTAD reveals that the region's potential is still held back from the lack of proper ICT infra-structure as well as proper structures, platforms and harmonised legal regulation for e-commerce trade.[4]

On its part, the European and Monetary Union (EMU) was launched in 1992 by countries under the European Union and aimed at coordinating economic and fiscal policies, a common monetary policy and common currency within the region. The EMU has been able to achieve this with institutions in place like the European Central Bank (ECB) which operates as an independent central bank as well as member states having integrated fiscal systems.

The EMU currency area has indeed had admirable successes. The ECB's management of the euro area economy produced a period of subdued inflation, with the average inflation rate since January 2000 reportedly being 1.75 percent.[5] Regarding financial markets and banking, the single currency has facilitated efficiencies in payments systems through real time settlement of large transactions via the TARGET system operated by the Eurosystem. The currency has also dealt with issues of exchange rate fluctuations between euro area member states further facilitating trade.[6]

Pitfalls cannot be ignored and the currency area despite such successes still endures a number of challenges including use of fiscal policies and slow macroeconomic adjustment by member countries furthermore ineffectiveness of controls like the Stability Growth Pact to curtail fiscal debt matters.[7] Some member states remain greatly affected by sovereign default, for example, by Greece's debt crisis which affects financial markets creating sensitivity in the pricing of risk related to potential default by countries or to prospects of countries exiting the euro.[8]

Differences in perspectives by member countries remains a challenge to the European Union and the currency area for example the use of the Euro is not favoured by every nation in the European Union. This has not been made any easier with the recent exit of the United Kingdom which never wholly adopted use of the Euro.

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[3] Sy, A. & M. Sow, 'Four questions on the state of the West African Economic and Monetary Union and implications for other regional economic communities', *Brookings*, March 15, 2016: https://www.brookings.edu/blog/africa-in-focus/2016/03/15/four-questions-on-the-state-of-the-west-african-economic-and-monetary-union-and-implications-for-other-regional-economic-communities/

[4] UNCTAD, *Member States of the West African Economic and Monetary Union eTrade Readiness Assessment* 2020: https://unctad.org/system/files/official-document/dtlstict2020d10_en.pdf.

[5] Whelan, K., 'The Euro at 20: Successes, Problems, Progress and Threats', *Monetary Dialogue*, January 2019 at p. 9.

[6] Ibid, at p. 10.

[7] Ibid, at p. 13.

[8] Ibid, at p. 16.

Lessons to be learnt and adopted as the EAC moves forward to a single currency.

1. Firstly, political tensions have a bearing on integration as whole and its incumbent on Partner States to ensure this to facilitate trade. The current non-tariff barriers and trade restrictions amongst Partner States stemming from such tensions, for example, Uganda and Rwanda can only undermine the essence of the proposed monetary union.
2. Secondly, the establishment of EAMI is in the works as a transitional structure to the East African Central Bank. Nonetheless, the set-up of the East African Central Bank must ensure independence at all costs from Partner State governments and from pressures to finance them directly or indirectly for the EAMU to thrive. In turn, the central banks in Partner States must cooperate with the East African Central Bank to harmonise fiscal policies, interest rates and related matters. There should be in place supervision of national central banks in this respect accompanied by effective sanctions.[9]
3. Thirdly, efforts must be put in place to assess which international currency is best placed, stable, and tailor-made to suit the region's needs and act as a peg in the same way, for example, WAEMU and CAEMC (Central African Economic and Monetary Community) is a peg to the French franc.[10] Such affiliations to international currencies ought to be looked out with a temporary view until the EAMU has a strong standing on its own in the world markets.
4. Fourthly, effective mechanisms ought to be put in place to deal with the issues of sovereign defaults by Partner States to maintain the tranquillity and stability of the currency area.

Conclusion

The implementation of this stage of EAC integration calls for a higher level of cooperation more than ever. There are a number of lessons to be learnt from economic Unions that are already in existence as the EAC paves way for its own Monetary Union. The benefits that come with economic integration cannot be over emphasised right from economies of Partner States to the entire bloc. What cannot be overlooked is that the progression towards a single currency automatically means progression to a single political federation. The looming question is: are the EAC Partner States ready for this or will this stage of integration be the pinnacle of the integration vision in the East African Community?

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[9] Pattillo, C.A. & P.R. Masson, *Monetary Union in West Africa (ECOWAS)*, IMF Occasional Papers (2001) at 17.
[10] Ibid, at 18.