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# EALA priority questions for oral answers

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## Annex 1



### **EAST AFRICAN COMMUNITY EAST AFRICAN LEGISLATIVE ASSEMBLY**

#### **PRIORITY QUESTIONS FOR ORAL ANSWERS**

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The Hon. **RWIGEMA Pierre Celestin** to ask the Chairperson of the Council of Ministers of the EAC;

***QUESTION: EALA/PQ/OA/4/08/2018***

In November, 2013, at the 15<sup>th</sup> Ordinary Summit of Heads of State; the Heads of State signed the Protocol on the Establishment of the East African Monetary Union (the EAMU Protocol) and directed that the Partner States should ratify the EAMU Protocol by July, 2014.

To support the EAMU process, there is a need of the establishment of the four institutions among others:

- I. The East African Monetary Institute;
- II. The East African Statistics Bureau;
- III. The East African Surveillance, Compliance and Enforcement Commission; and
- IV. The East African Financial Services Commission.

**1) What are the steps necessary for the implementation of the EAMU Protocol?**

**Mr. Speaker,** according to the protocol, the transition to the East African Monetary Union is conceptualized as a two-phase process. In the initial convergence phase, the Partner States are to work towards achieving preconditions designed to limit the union's exposure to internal economic strains.

**Mr. Speaker,** these preconditions include macroeconomic convergence criteria, full implementation of the Common Market protocol, establishment of institutions to support the Monetary Union and harmonization of policies and practices. When these preconditions have been satisfied, the partners will enter the final, conversion phase, marked by the announcement of a predetermined date for formation of the union.

**2) Could the Chairperson of the Council of Ministers table a progress report on the establishment of those four institutions; including the timeframe of developing draft bills for these institutions.**

**Mr. Speaker,** the EAC Partner States recognize that the establishment of a strong Monetary Union will require a robust institutional framework to ensure compliance and safeguard the convergence process. To this effect, the EAMU Protocol provides for the establishment of four support institutions namely:

- (i) the East African Monetary Institute—to be set up as a precursor to the East African Central Bank;
- (ii) the East African Statistics Bureau;
- (iii) the East African Surveillance, Compliance and Enforcement Commission, and;

(iv) the East African Financial Services Commission.

**Mr. Speaker,** establishment of each of these four institutions will among others require legal instruments in the form of a Bill. The EAC Secretariat is currently working with Partner States and other stakeholders to develop legal instruments for the establishment of these institutions.

The Bill for the establishment of the EAC Monetary Institute was passed by the East Africa Legislative Assembly (EALA) in April 2018 and awaits assent by the Summit in November 2018. Thereafter, the host Partner State will be identified. The Bill for the establishment of the EAC Bureau of Statistics has so far been developed and cleared by the Council of Ministers and forwarded to Legislative Assembly (EALA) for consideration during this session.

**Mr. Speaker,** the Bill for the establishment of EAC Surveillance, Compliance and Enforcement Commission has been negotiated by the EAMU Task Force and cleared by the Sectoral Council on Finance and Economic Affairs and was forwarded to the Sectoral Council on Legal and Judicial Affairs for legal input.

Meanwhile, the Bill for the establishment of EAC Financial Services Commission is currently being negotiated by the Taskforce on EAMU institutions, and is expected to be forwarded to the Sectoral Council on Finance and Economic Affairs in November 2018 for consideration.



3) **Could the Chairperson of the Council of Ministers inform this August Assembly on the deposit by the Partner States of the instruments of ratification of the EAMU Protocol with the Secretary General?**

**Mr. Speaker,** we can confirm that all EAC Partner States have deposited their instruments of ratification of the EAMU Protocol with the Secretary General.

4) **Could the Chairperson of the Council of the Ministers inform this August Assembly of the development of the Medium Term Convergence path that each Partner State will follow in order to achieve the macroeconomic convergence targets by 2021 as stipulated in the EAMU Protocol?**

**Mr. Speaker,** the EAC Macroeconomic Convergence criteria includes the following:

- A ceiling on headline inflation of 8 percent,
- reserve cover of 4.5 months of import;
- A ceiling on the overall deficit of 3 percent of GDP (including grants); and
- A ceiling on Gross Public Debt of 50 per cent of GDP in net present value terms.

**Mr. Speaker,** the Republic of Kenya, the Republic of Uganda, the Republic of Rwanda and the United Republic of Tanzania have developed their Medium Term Convergence Programmes (MTCPs) as part of the fiscal policy surveillance to guide the attainment of the Macroeconomic Convergence target by 2021, which is a prerequisite for the establishment of the EAC Monetary Union.

**Mr. Speaker,** The Republic of Burundi is in the process of finalizing her MTCP and the Republic of South Sudan is yet to start the development of her MTCP. The EAC secretariat is planning to provide technical Assistance (TA) to the Republic of South Sudan in this regard.

**Mr. Speaker,** the four EAC Partner States who have developed their MTCPs indicate that they are on track towards attainment of the EAMU Convergence criteria by FY 2020/21 especially on headline inflation, reserve cover in months of imports as well as Net Present Value of Debt to GDP. The following table tracks the performance against the criteria.

	2016/17	2017/18	2018/19	2019/20	2020/2021
<i>Headline Inflation( average): Threshold of 8 percent</i>					
Burundi	-	-	-	-	-
Kenya	6.3	8.0	5.0	5.0	5.0
*Rwanda	5.7	4.8	2.8	5.0	5.0
South Sudan	-	-	-	-	-
*Tanzania	5.9	4.9	4.8	4.8	4.7
Uganda	5.7	4.5	4.3	4.8	5.3
<i>International Reserves (months of future imports): Threshold of 4.5</i>					
Burundi	-	-	-	-	-
Kenya	4.7	5.8	5.9	6.3	6.3
*Rwanda	4.1	4.2	4.1	4.0	4.1
South Sudan	-	-	-	-	-
*Tanzania	6.2	6.2	5.1	4.6	4.5
Uganda	5.1	4.5	4.4	4.4	4.5
<i>Fiscal deficit including grants: Threshold of 3 percent</i>					
Burundi	-	-	-	-	-
Kenya	9.1	7.2	5.7	4.3	3.3
Rwanda	4.9	3.8	4.6	4.4	4.2
South Sudan	-	-	-	-	-
*Tanzania	1.5	3.8	5.4	4.5	4.2
Uganda	3.9	4.9	5.5	5.7	3.0
<i>NPV of Public Debt (%GDP): Threshold of 50 percent</i>					
Burundi	-	-	-	-	-
Kenya	48.7	49.0	48.6	47.1	45.3
*Rwanda	23	25.6	27.7	30.5	29.4
South Sudan	-	-	-	-	-

*Tanzania	34.2	32.5	31.5	30.8	29.7
Uganda	28.0	31.2	32.8	33.8	33.1

\* Figures in calendar years from 2016-2020

**Mr. Speaker,** however, there is a general challenge on the attainment of the criteria on fiscal deficit including grants with most of the Partner States less likely to meet the threshold of 3.0% on the fiscal deficit including grants. It should be noted that most EAC Partner States are undertaking significant infrastructure projects in order to close the existing infrastructure gap that most Partner States face. It will therefore be very challenging to simultaneously attain the target of 3 percent of GDP fiscal deficit (including grants) by the year 2021. It is also worth noting that the East African Monetary Union Protocol<sup>1</sup> provides an escape clause which allows Partner States that have not yet reached the debt limit as set out in the convergence criteria, to exceed the fiscal deficit target.

**5) Could the Chairperson of the Council of Ministers inform this House the status of harmonizing the different frameworks in the different macro-economic areas necessary for the transition to single currency by 2024? This includes harmonization of frameworks on monetary policy, exchange rate policy, fiscal policy, Capital Markets, insurance and pensions sectors and production of reliable statistics.**

**Mr. Speaker,** the transition to a monetary union requires a substantial degree of coordination and harmonization of policies, laws and practices in the run-up to a single currency. In essence, this implies that, over time, EAC Partner States will

<sup>1</sup> Article 10(4) of the EAMU protocol

need to reform and integrate various policies and laws in order to allow smooth implementation of the EAMU protocol.

**Mr. Speaker,** EAC Partner States in collaboration with the EAC Secretariat and other stakeholders are currently working towards harmonization of their policies, laws and practices. For example, the EAC central banks have so far agreed to converge in terms of monetary policy regimes and exchange rate policies by moving from reserve money based framework to a forward-looking price based monetary policy framework by December 2018. The Bank of Uganda has taken bold steps towards this direction with the introduction of Inflation Targeting Lite (ITL) in July 2011 and replacing reserve money with interest rate as operating target. Kenya has also taken steps to adopt a more forward-looking approach to monetary policy, with a view to moving towards inflation targeting.

**Mr. Speaker,** although reserve money targeting remains the monetary policy framework in Kenya, the Central Bank of Kenya places much greater importance on the policy rate to signal its monetary policy stance. Viewed from the perspective of preparing the basis for entry to a monetary union, monetary policy framework and operations in other Partner States will need to be aligned with those of Kenya and Uganda. Also the EAC Partner States' Central Banks are currently in the process of implementing legal, regulatory and supervisory amendments in their national legal instruments in order to harmonize banking supervision and regulatory frameworks in the region.

**Mr. Speaker,** regarding the harmonization of fiscal policies, some marked achievements have been made. So far two policy documents have been developed to guide the process of tax harmonization.



**Mr. Speaker,** first is the EAC Tax Treaty Policy, which was developed to provide a policy framework for guiding future treaty negotiations by the EAC Partner States; and second is the EAC Model Tax Treaty which is expected to further develop Partner States' economic relationship and to enhance cooperation in tax matters in order to eliminate double taxation without creating opportunities for tax evasion or avoidance.

**Mr. Speaker,** in addition, the Partner States have developed a draft Policy for Domestic Tax harmonization, which identifies possible areas for harmonization, coordination and the approach for coordination.

**Mr. Speaker,** the EAC Partner States have also recently established a Regional Technical Working Group (RTWG) on harmonization of national laws. This working group is expected to review and recommend the necessary reforms on the national laws to allow smooth implementation of the EAMU protocol.

The Hon. **RWIGEMA Pierre Celestin** to ask the Chairperson of the Council of Ministers of the EAC;

**QUESTION: EALA/PQ/4/09/2018**

Roaming within the Community is the crucial to investment and business operations in the EAC region. Since 2004 mobile phone operators within the EAC region, on their own initiative, implemented arrangements that ensured that roaming charges would be affordable.

The arrangements put in place by the operators collapsed in 2010, leading to a costly rise in roaming charges. However, under the Northern Corridor initiative, the

Republics of Rwanda, Kenya and Uganda decided to establish between themselves a one area network for communication by the end of September, 2014.

**1) Is the Chairperson aware that the roaming costs of the various networks are harmful and damaging the integration process?**

**Mr. Speaker,** yes, the Chairperson is aware that high mobile roaming charges are harmful to the integration process. It is for this reason that, under the initiative of the Council, the EAC Roaming Framework ('the Framework') was developed and consequently approved by the Council in November 2014. The Framework was also adopted by the Summit in February 2015. Both the Council and the Summit directed Partner States to fully implement the Framework by 31<sup>st</sup> July 2015.

Mr. Speaker, the Framework imposes tariff caps on telecommunications traffic originating and terminating in EAC Partner States as follows:

- (i) Mobile originating (i.e. making a mobile roaming call), wholesale: maximum US 7 cents;
- (ii) Mobile originating (i.e. making a mobile roaming call), retail: maximum US 10 cents;
- (iii) Mobile terminating (i.e. receiving a mobile call while roaming): maximum US 0 cents; and
- (iv) No surcharges (i.e. government levies/taxes) on telecommunications traffic originating/terminating within EAC Partner States.

**Mr. Speaker,** as of today (i.e. end of August 2018), the Republics of Kenya, Rwanda, Uganda and South Sudan have fully implemented the Framework, on a reciprocal basis. The Republic of Burundi and the United Republic of Tanzania have not implemented the Framework.

- 2) Could the Chairperson table in this August Assembly a proposed plan of harmonized charges for EAC one area network for communication by end of December 2018?**

**Mr. Speaker,** the proposed plan is to ensure that all Partner States, including the Republic of Burundi and the United Republic of Tanzania, fully implement the EAC Roaming Framework. The Council will be ready to table such a plan once all Partner States are on board.

- 3) What are the inherent challenges of regulating roaming by other partner states to adhere to Northern Corridor initiative for communication?**

**Mr. Speaker,** the EAC has developed and adopted the EAC Roaming Framework; under the Treaty, this is the Framework that Partner States have to adhere to.

The challenge that has been encountered in implementing the Framework is the delay by the Republic of Burundi and the United Republic of Tanzania to complete the domestic processes precedent to implementing the Framework.

- 4) Following the collapse of the mobile operator arrangements what has been done by the Council of Ministers in order to cop the costs of roaming?**

**Mr. Speaker,** following the collapse of the mobile operator arrangements, the Council of Ministers developed and adopted the EAC Roaming Framework. The Hon. Abdikadir Omar Aden to ask the Chairperson of the Council of Ministers of the EAC;

**QUESTION: EALA/PQ/OA/4/11/2018**

The East African Development Bank (EADB) is one of the Institutions of the EAC. However, the EAC Budget Estimates for Revenue and Expenditure do not comprise the Bank's Estimates and neither is the Bank audited by the EAC Audit Commission. Could the Chairperson of the Council therefore inform this August House:-

**(i) What the current shareholding profile of the EADB is?**

**Mr. Speaker,** Currently shareholding of the EADB include four EAC Countries namely, Republic of Kenya, Republic of Rwanda, the United Republic of Tanzania and the Republic of Uganda. Republics of Burundi and South Sudan are not members of EADB, and therefore hold no shares. The EADB has other non-EAC Shareholders, including African Development Bank, Netherlands Development Finance Company, German Investment Corporation, Commercial Bank of Africa, Nordea Bank (Sweden), Barclays Bank and Standard Chartered Bank.

Shareholding (%) as at December 2016 was as show in the Table below:

<b>EAC Partner States</b>	<b>%</b>
Republic of Kenya	27.03
Republic of Tanzania	23.77
Republic of Uganda	27.03
Republic of Rwanda	9.51
<b>Total EAC</b>	<b>87.33</b>
<b>Other shareholders</b>	<b>%</b>
African development Bank	8.82
FMO Netherlands	2.67
DEG Germany	0.71
Yugoslavia Consortium	0.2
SBIC African holdings	0.17

Commercial bank of Africa	0.04
Nordea Bank -Sweden	0.04
Standard Chartered bank	0.01
Barclays Bank plc, London	0.01
<b>Total Non EAC</b>	<b>12.67</b>
<b>Total EAC &amp; Non EAC</b>	<b>100</b>

**(ii) Why the bank does not comply with the EAC Audit Commission framework?**

**Mr. Speaker,** following the dissolution of the former East African Community in 1977, the EADB was re-established, under its own charter in 1980. In the current EADB Charter, there is no mention of the East African Community because during the time of its re-establishment in 1980, the Community was not in existence.

**Mr. Speaker,** the EADB Charter gives the Bank a high level of autonomy and does not subject the Bank to the EAC Audit Commission framework.

**(iii) Whether the EADB is under the supervision or control of the EAC Secretary General and the EAC Council of Ministers; and if so, under what arrangement does it report to them?**

**Mr. Speaker,** given the fact that when the EADB was re-establishment in 1980, the East African Community was not in existence, there is a disconnect in the relationship between the EADB and the governance arrangements of the Community. The EADB only submits written reports to the Council during its meetings.

**Mr. Speaker,** the Office of the Secretary General of the EAC does not have any link to the EADB. This raises an obvious question on the extent to which the EADB is effectively linked into the overall EAC regional integration project.

**Mr. Speaker,** in order to address this anomaly, the 17th Ordinary Summit of the East African Community Heads of State directed the Council to review the East African Development Bank (EADB) Charter to streamline it into the EAC main structure. Subsequently, the 34th meeting of the Council of Ministers directed the EAC Secretariat to initiate the necessary activities and meetings aimed at implementing the above mentioned Summit Directive.

**Mr. Speaker,** following this directive, the EAC Secretariat conducted a two-day mission to the East African Development Bank (EADB) in November 2017, to discuss with EADB Management in order to develop common understanding on the above-mentioned Summit Directive and agree on the best way of implementing it. The EAC Secretariat is currently working with Partner States to develop recommendations on the best way of implementing this directive. Such recommendations will be submitted to the Council for consideration.



