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REGIONAL INTEGRATION AND DEBT

IN

EAST AFRICA

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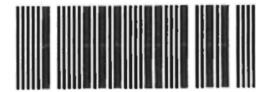
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List of Abbreviations and Acronyms

ADB	African Development Bank
ATIA	Africa Trade Insurance Agency
AFRODAD	African Forum and Network on Debt and Development
BOO	Build-Own-Operate
BOT	Build-Operate-Transfer
BWI	Breton Woods Institution
CBI	Cross Border Initiative
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
COMTEL	COMESA Telecommunications
CU	Customs Union
EAC	East African Community
EADB	East African Development Bank
EADTP	East African Digital Transmission Project
ECA	Economic Commission for Africa
EIB	European Investment Bank
ESAF	Extended Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
ICAO	International Civil Aviation Organisation
IGAD	Inter Governmental Authority on Development
IMF	International Monetary Fund
IMO	International Maritime Organisation
IUCEA	Inter-University Council for East Africa
K£	Kenya Pound (= 20 KSh)
KfW	German Development Bank
KSh	Kenya Shilling (KSh78 = US$ 1)
LVFO	Lake Victoria Fisheries Organisation

MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
NTB	Non Trade Barrier
ODA	Official Development Assistance
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
REC	Regional Economic Community
RIFF	Regional Integration Facilitation Forum
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SDR	Special Drawing Rights
UNDP	United Nations Development Programme
VAT	Value Added Tax
WTO	World Trade Organisation

Executive Summary

The history of East African cooperation is one of rise (1900 to 1977), fall (1977 to 1993) and recovery (1993 to the present); from a full common market to nothing and, now, to the teething problems of a customs union.

The current EAC development strategy envisions the conclusion of a Customs Union (CU) Protocol by 2003 so as to have the CU operational by December 2004. There has been some progress in freeing the EAC trade regime, yet disputes are frequent on tariffs and other trade levies, and agreement on a common external tariff regime is yet to materialise. Progress is slow in the area of elimination of non-tariff barriers (NTBs) to trade, such as bureaucratic procedures, prevalence of police roadblocks, and customs clearance delays.

However, fast progress is seen in harmonisation of monetary and fiscal policies, viz:

- Convertibility of EAC currencies;
- Standardisation of corporate tax rates, currently at 30 percent;
- Harmonisation of value added tax (VAT) rates; and
- Institutionalisation of Finance Ministers' pre-budget and post budget consultations and regular sharing of information on budgets, tax proposals, trade and economic performance.

There has also been considerable success on the identification of regional projects in infrastructure (roads, telecommunications, power, railways and waterways).

Debt levels in East Africa have exploded in the course of the last twenty years or so. Most of the debt is long term and is either public/government or publicly guaranteed, and the greatest portion is owed to multilateral organisations. Debts have to be repaid in the designated currencies or in a universally convertible currency. This has pushed countries to insist on being paid for their exports in those currencies instead of local ones, thus inhibiting the use of local currencies and acting as a brake to regional trade. In this way, external debt can be inimical to regional integration.

The EAC treaty enjoins partner states to work towards closer macroeconomic convergence. To operationalise this, the 2001-2005 EAC Development Strategy has urged member states to maintain market determined exchange rates and pursue policies that will achieve monetary stability and growth in order to lay the foundation for introducing a single currency. The current convertibility of the three currencies enhances their acceptability in each of the countries, obviating the use of scarce foreign exchange and releasing foreign exchange resources that could be utilised for debt liquidation.

It is generally felt that the benefit-cost ratio of East African integration is positive, even for less advantaged members. Fear of an immediate loss of tax revenue looms in many a policy maker's mind but a close examination of this 'cost' shows that it is minuscule because of the very low levels of tariff revenue from EAC trade. In addition, given the differing initial conditions in the three countries, the principle of asymmetry has been recognised by the EAC Treaty to address variances in the implementation of measures in an economic integration process.

The terms of external borrowing do seem to have improved, with the coming of regional integration, having a positive impact on debt. To augment this gain, there should be a debt forum set up which could serve as a collective bargaining agent with international creditors on debt, unlike the current situation whereby a debtor country faces a barrage of creditors at the London and Paris 'Clubs'.

The formalisation of regional integration of the three countries saw a marked decline in debt stress, but there are no significant corollary changes in the observed human development trends. Although direct effects on debt can be achieved by regional collective bargaining with donors, the effects of greater integration on socio-economic phenomena and the debt are likely to be indirect. While more productive, efficient and competitive economies earn more foreign exchange to ease the burden of debt servicing, it is prosperity arising from a larger market that will ensure countries have more resources to allocate to social sectors like education and health.

Progress in regional integration is slow and seems to be haunted by the spectre of past failure that needs to be overcome. East Africa's macroeconomic convergence programme is on course. The findings of this study suggest that regional integration can be a means of achieving development, fighting indebtedness and enhancing the standard of life.

Introduction

Between 1900 and 1967, the East African countries of Kenya, Uganda and Tanzania were able to establish an East African Community with a shared currency; common external tariffs; harmonised excise duties; common services in taxation, railways, harbours, posts, telecommunications, airline, research, examinations, certification, meteorology and statistics, and an appeal court. There was also free mobility of capital, goods, labour, persons and services. This arrangement collapsed acrimoniously in 1977, in part, due to Tanzania's consistent refusal to recognise the Idi Amin military regime of Uganda in place since 1971, making it impossible for the Authority/Summit to give the required leadership, but also due to incessant squabbles over the physical location of assets. These and other problems were driven largely by ideological differences that undermined the political will for regional cooperation.

Nevertheless, a few institutions, namely the East African Development Bank (EADB), the Lake Victoria Fisheries Organisation (LVFO) and the Inter-University Council for East Africa (IUCEA), survived the trauma. These buttressed the lingering good will to come up with the Mediation Agreement of 1984 that, while finalising the division of the assets and liabilities of the defunct East African Community, provided for the exploration of ways and means of strengthening regional cooperation. This led to the 1993 agreement to establish the Permanent Tripartite Commission for East African Cooperation whose Secretariat was set up in Arusha, Tanzania, in 1996. This Commission evolved into the new EAC with the signing of the Treaty for the Establishment of the East African Community (EAC) on 30 November 1999. The Treaty came into force on 7 July 2000 and the Community was officially inaugurated on 15 January 2001, covering an area of 1.8 million square kilometres and a population of some 86 million.

This paper seeks to establish the impact of regional integration on the debt crisis. The specific objectives are to:

- Enhance the understanding of integration and debt in East African countries;
- Study the relationship between integration, debt and human development generally;
- Assess the responsiveness of the debt crisis to regional integration;
- Document costs and benefits of regional integration; and
- Appraise the institutional preparedness to undertake the tasks at hand.

The Current State of Sub-Regional Integration

1.1 The State of Integration

The EAC development strategy envisions the conclusion of a Customs Union (CU) protocol by 2003[1] so that the CU will be operational by December 2004.

According to the EAC Treaty, the broad objective of the Community is, to develop policies and programmes aimed at widening and deepening co-operation among the Partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs, for their mutual benefit.[2]

In order to reach this goal, the treaty envisages "the establishment of a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation"[3] Hence, a Customs Union (CU) is "the entry point of the Community".[4]

Success indicators for a CU are abolition of interstate tariffs, that is a Free Trade Area (FTA) and a common external tariff. Performance in these respects will be assessed and, in particular, trade accomplishment in the EAC will be examined, since it is at the core of economic integration. Such integration can be defined as a process and a means by which a group of countries strives to develop and increase its welfare levels, encompassing reduction of poverty, indebtedness and economic malaise. It recognises that partnership between countries can achieve these goals in a more efficient way than unilateral or independent pursuance of policy in each country. It can be postulated that meaningful regional cooperation and integration will help arrest poverty and the external debt crisis in these partner nations.

There has been little progress in freeing the EAC trade regime. Considered to be more developed, Kenya offers a 90 percent tariff reduction of general duty rates on goods emanating from Uganda and Tanzania, while the other two give 80 percent reduction on Kenyan goods. Disputes are frequent, though sometimes mute. For example, in November 2001, Kenyan textile exporters complained of the 25 percent duty imposed by Tanzania at a time when Kenya levied only 3.5 percent. Another case is of Uganda imposing what is in reality a 10 percent excise duty over and above the normal duty, arguing that it was a withholding tax to ensure tax compliance.

Progress in the sphere of common external tariff (CET), to level the playing field and discourage trans-shipment of goods, has not been spectacular either. Currently, Kenya's top tariff is 35 percent and that of both Tanzania and Uganda is 25 percent. For CET, Kenya and Tanzania proposed a tariff band of 25 percent but Uganda suggested 15 percent to comply with its commitment to the International Monetary Fund (IMF), arguing that a higher rate would lower compliance, impair competitiveness and induce smuggling. A compromise of 20 percent seems likely.[5]

1.2 Sectoral Progress

As discussed above, progress in the area of liberalisation of intra-EAC trade and agreement on common external tariff has been slow and agonising. Slow progress is evident also in the harmonisation of various codes, such as competition policies, customs, and investment codes. Rapid progress, though, has been achieved in the adoption of a standardised single entry customs document.

Negligible progress has been made in the elimination of non tariff barriers (NTBs) to trade, such as bureaucratic procedures, prevalence of police roadblocks, customs clearance delays, export duties, licensing requirements, strict interpretation of health and security concerns and application of rules of origin, pre-shipment requirements, double taxation, etc.

The EAC Development Strategy for the period 1997 to 2000 aimed at the development of closer cooperation between the member countries in the fiscal, monetary, immigration, infrastructure and service fields.[6] Significantly rapid progress has been made in the area of the establishment of standards for locally manufactured products, with 91 out of 207 East African standards already agreed upon and notified to the World Trade Organisation (WTO).[7] Other policies being implemented include enhancement of the free movement of people by the introduction of a passport valid throughout East Africa.
Fast progress is seen in the harmonisation of monetary and fiscal policies, viz:

- Advances in the development of a macroeconomic framework for the region to guide towards economic convergence and macroeconomic stability;
- Convertibility of EAC currencies;
- Standardisation of corporate tax rates, currently at 30 percent;
- Harmonisation of value added tax (VAT) rates, which are now 17 percent in Uganda, 18 percent in Kenya and 20 percent in Tanzania; and
- Institutionalisation of Finance Ministers' pre-budget and post budget consultations and regular sharing of information on budgets, tax proposals, trade and economic performance.

There has been considerable success in the identification of regional projects in infrastructure, including East African Digital Transmission, Power Master Plan, Postal Automation, Road Network, etc. Similarly, effort has paid off in the involvement of the private sector and the civil society through such bodies as the East African Business Council, East African Trade Union Council, East Africa Law Society, and the East African Youth Council; as well as parastatals and corporate organisations, such as the East African Investment Promotion Authorities Organisation, the Joint Research Council for East Africa, the East African Tourism Council, the East African Communications Regulators, and the Postal and Telecommunications Companies Organisation.

These bodies act as lobbyists and facilitators of the involvement of major stakeholders. They are also targets for sensitisation on the salutary nature of regional cooperation and integration. They are, first and foremost, activists and protagonists in policy harmonisation and the development of regional infrastructure. For the latter, there are completed, ongoing and planned regional projects, as detailed in Table 1.

Table 1: Regional Infrastructure Development Projects

PROJECT	ACTIVITY	STATUS	FUNDING	FUNDING SOURCES
East African Digital Transmission (EAD TP)	Providing wide band network/backbone capacities	Progress in the Kenya and Uganda commponents; negotiations stage for the Tanzania component	US $ 65 million	Patner states, EIB, EADB,World Bank,
Cross Border Telecomm Connectivity	Directly connect East African Boarder towns by telephone links	Five boarder towns covered evaluation of the completed phase		-
East African Road Network	Studies, design and prioritisation	Five road corridors ready for implementation, one quarter of funding secured	US $4 Billion	Patner States, World Bank, EU, ADB, KFW
East African Postal Automation	Tendering	Suppliers identified		EADB
Railway Sub-Sector	Studies	Terms of reference approaved		-
Civil Aviation Safety	Studies	Selection of experts	US $ 1 090 000	Member states, EIB, ICAO,
Inland Waterways	Study on state of Lake Victoria ports	Awaiting confirmation of funding	-	IMO and France
Energy	Preparation of East African Energy Master Plan	Tendering for the study	-	World Bank

Source: EAC, **EAC Annual Report 1899/2000** and idem, The EAC Development - means information not available

It should be noted that most of the regional projects are at the advanced planning/preparation stage and that about 50 percent of them are being implemented. All have immediate capacity to increase external debt since they are, at least partly, denominated in foreign currency, are public, and are largely donor funded. Each project's budget is "split amongst Member States" so that such debts are "portions" or "components" which are the individual country's own,[8] with each left to sort out "outstanding issues" with the donor.[9] This may give the impression of disjointed projects in pursuit of a donor driven agenda.

Slow progress in the elimination of non tariff barriers (NTBs) to trade and harmonisation of competition policies, customs, and investment codes act as restraints to intra-community trade to the extent that they inhibit regional independence and exacerbate external dependence, including external debt. On the other hand, improvement in infrastructure has an ameliorating effect on debt.

1.3 Funding Sources

The financing of the institutions of the EAC is done largely through equal budgetary contributions of the member states. The current budget is US$ 4.2 million.

As a body corporate with perpetual succession, the Community has power to acquire, hold, manage and dispose of land and to perform any of the functions conferred upon it by the EAC Treaty that are necessary or desirable for the performance of those functions. In this regard, the Community has technical assistance and donations by some development partners such as the German Agency for Technical Cooperation (GTZ).

For the future, some money could be raised under self-financing mechanisms from:

- Activities undertaken by the Community such as the sale its publications;
- Rental of extra office space in the headquarters building now under construction in Arusha, Tanzania;
- Bequests, grants and gifts by well wishers;
- A Community tax (0.05 percent) of value of international trade by partner states;
- A Community tax imposed on a major common resource, such as Lake Victoria's fish; and
- Acquisition of shares in such COMESA initiated corporations as Africa Trade Insurance Agency (ATIA) and COMESA Telecommunications (COMTEL).

With proper management, regional integration need not generate new forms of indebtedness within or among member states.

1.4 The Infrastructure Development-Debt Nexus

While public infrastructural investment incurs debt, it also makes for efficient trade, thus enhancing value addition in exports and reduction in import cost. The macro effect is reduction in overall national debt. Thus a way out of debt creation that would highlight the positive, while avoiding the negative, debt related effects of infrastructure development, is the involvement of the private sector by way of equity and portfolio investment in infrastructure through mechanisms such as build-operate-transfer (BOT) and build-own-operate (BOO).

Economic Integration In The EAC

Despite signing the EAC trade protocol member states' performance with respect to the quantitative indicators and prescribed standards, movement towards economic convergence and debt reduction seems to be slow. Member states are still grappling with unsustainable debt, inflation rates, budget deficits and adoption of a market oriented approach to monetary policy.

2.1 Economic Convergence and Debt within EAC

Economic integration efforts in East Africa date back to 1900 and collapsed for a while between 1977 and 1999. The member states have tried to improve trading relations among themselves through the elimination of tariffs and non-tariff barriers to trade. This relationship has been complemented by monetary development including a convertibility of currencies. This has helped in the reduction of financial transaction costs, elimination of exchange control and exchange rate risks, and stimulation of regional trade and economic development.

However, the debt burden of the EAC has not been addressed through an explicit regional policy. Member states have individually negotiated with the creditors in terms of loan procurement and debt repayments. Uganda and Tanzania were among the first few qualifiers for the Structural Adjustment Programmes (SAPs) and the Heavily Indebted Poor Country (HIPC) initiative and are also among the first to have their completed Poverty Reduction Strategy Papers (PRSPs) approved by the Bretton Woods Institutions. A number of internal and external factors have contributed to the inability of the region to meet the convergence criteria for monetary integration as a solution to the current debt crisis.

2.2 Common Currency

The ideal is a common currency for a common market since this reduces transaction costs. But, the experience in East Africa is that it was easier to destroy the common East African Shilling than to rebuild it. The EAC Treaty enjoins partner states to work towards closer macroeconomic convergence.[10] To operationalise this, the 2001 to 2005 EAC Development Strategy has urged Member States to "maintain market determined exchange rates...[and] pursue policies that will achieve monetary stability and growth...[in order to] lay the foundation for introducing a single currency"[11]

A good sign is the complete convertibility of the East African currencies. But a modicum of stability in such exchange rates is necessary for a non-disruptive move to a single currency. For the time being, the exchange rate regime shows signs of volatility in that the real exchange rate of the Uganda Shilling has recently been appreciating at some 6 percent per annum, while the Kenya Shilling has been appreciating at about 1 percent and the Tanzania Shilling has been depreciating at around 1 percent.[12] This realignment of the currencies will enable them seek their equilibrium levels, smoothing the path to a formal exchange rate mechanism and the ultimate establishment of a common currency by 2010. The current convertibility of the three currencies enhances their acceptability in each of the countries, encouraging traders and others to quote their wares in local currencies and obviating the use of scarce foreign exchange. This has the immediate effect of releasing foreign exchange resources that could be utilised for debt liquidation. Due to its convenience, use of local currency facilitates intra-EAC trade thus ameliorating the debt crisis.

2.3 Intra-EAC Trade

Table 2: Intra-EAC Exports, 2000 (US$ millions)

Exports to / Exports from	KENYA	TANZANIA	UGANDA	TOTAL EXPORTS FROM
Kenya		85	350	435
Tanzania	38		25	63
Uganda	1	5		6
TOTAL EXPORTS TO	**39**	**90**	**375**	

Source: IMF (2001), Direction of Trade Statistics Yearbook, Washington, D.C.,

Kenya is the dominant player, exporting some US$ 435 million (most of it to Uganda) and importing US$ 39 million. Uganda and Tanzania have imports many times in excess of their exports. Kenya enjoys a favourable intra-EAC balance of trade, Tanzania a moderate deficit and Uganda a considerable deficit. Yet, intra-EAC trade is a low proportion of the member countries total trade. For example, most of Uganda's trade is with the European Union, Kenya being the destination for only 4.6 percent of Uganda's exports and origin of only 12.4 percent of imports. Similarly, Tanzania's exports to Kenya account for less than 3 percent and Tanzania takes about 10.2 percent of her total imports from Kenya. Uganda's share of Kenyan exports is around 16.1 percent and Tanzania takes 9.9 percent.[13] The trade canvas for East Africa is such that intra-EAC trade (exports plus imports) accounts for only 3.2 percent of Uganda's international trade and 7.6 percent of Kenya's and Tanzania's.[14] So, there is a lot of potential for trade expansion by way of intra-EAC production of goods that can compete with those coming from outside the region.

The dominance of Kenya is due to a relatively large and diversified economy - with a GDP of over US$ 9.7 billion as compared to Tanzania's US$ 7.8 billion and Uganda's US$ 7.5 billion. However, the degree of regional integration, as indicated by the share of intra-EAC trade to each country's total external trade, does not confirm this economic dominance since Kenya ties with Tanzania at 7.6 percent.

One would expect that the debt crisis (debt service as a proportion of exports) would be negatively related to the degree of integration. With respect to the EAC, this is true in the case of Tanzania, where the degree of integration is relatively high and the debt service ratio is relatively low (15.5 percent). It also holds true for Uganda where the degree of integration is low and the debt service ratio is high (23.7 percent). This is in spite of Uganda's HIPC status, suggesting that HIPC mechanisms are having minimal impact on debt relief. For Kenya, however, the debt service ratio is high (26.7 percent) just as the degree of integration is relatively high. The impact of regional integration on the debt crisis can, therefore, be judged to be ameliorative, on the balance of probabilities.

Debt, Trade and Monetary and Fiscal Harmonisation

3.1 The Region's Economic Indicators

The record indicates an improvement in roughly 80 percent of the indicators since 1996, the year of operationalisation of the EAC. Some economic indicators are presented in Table 3.

Table 3: EAC Countries' Economic Indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
KENYA											
Inflation (%)	14.1	14.4	20.9	46.0	28.8	1.6	9.0	11.2	6.6	3.5	6.2
Fiscal Deficit (% GDP)	-6.8	-1.7	-5.8	-3.9	-1.1	0.1	-3.2	-1.7	0.0	0.0	0.2
Reserves (months of imports)	0.9			2.1	2.5	1.2	2.5	2.4	2.4	2.8	
Domestic Savings	19.9	19.9	13.4	19.3	19.5	18.1	19.7	15.0	13.1	13.4	11.6
Real GDP Growth	4.2	2.1	0.5	0.2	3.0	4.8	4.6	2.4	1.8	1.4	-0.3
TANZANIA											
Inflation (%)		22.2	23.1	25.3	35.0	27.7	21.1	16.1	8.9	7.2	7.8
Fiscal Deficit (% GDP)	-3.2	-1.9	-2.2	-3.5	-3.1	-3.3	0.2	0.2	-1.0	-3.8	-0.4
Reserves (months of imports)	1.4			1.1	2.0	1.4	2.3	3.5	2.9	3.5	
Domestic Savings	20.9	21.0	22.2	17.9	15.2	1.9	3.0	2.1	2.3	0.2	0.3
Real GDP Growth	6.2	2.8	1.8	0.4	1.4	3.6	4.2	4.0	4.0	4.8	4.7
UGANDA											
Inflation (%)	26.9	27.7	54.5	5.1	10.0	6.6	5.4	10.4	3.4	3.8	5.5
Fiscal Deficit (% GDP)	-4.3	-4.5	-6.3	-2.6	-2.9	-2.7	-2.0	-1.5	-0.5	-1.3	-3.7
Reserves (months of imports)	0.7			2.4	4.2	3.8	3.8	4.5	4.5	4.8	
Domestic Savings	6.2	10.2	10.5	12.4	14.6	15.6	15.8	17.3	14.6	14.4	13.5
Real GDP Growth	5.5	5.2	4.5	6.3	10.4	8.4	4.7	5.3	7.5	5.0	4.6

Sources: EAC Secretariat (January 2002); and ADB, **African Development Report 2001**

Though direct effects on debt can be achieved by regional collective bargaining with the donors, the effects of greater integration on socio-economic phenomena and the debt are likely to be indirect, rather than direct. By making the economies more productive, efficient and competitive, countries earn more foreign exchange to ease the burden of debt servicing. If they become prosperous due to a larger market, countries have more resources to allocate to social sectors like education and health. Therefore, regional integration is an important step towards prosperity, including being a tool to solve indebtedness in Eastern Africa.

3.2 East Africa's Debt Profiles

Despite being early qualifiers for the HIPC and PRSPs, both Uganda and Tanzania continue to have unsustainable debt burdens. Kenya is also a poor and heavily indebted country though it hasn't received HIPC debt relief or completed a PRSP.

Tanzania has recently enforced health care user fees against a background of HIV/AIDS accounting for almost 50 percent of hospitalisation and estimates suggest that it will have an unsustainable debt burden until 2007. Although, Uganda received an unusually high rate of debt reduction from the World Bank and was able to double its primary school enrolments, it is yet to attain quality education and health in a context of high external debt service costs.

Table 4: Debt Profiles for EAC countries (US$ million, unless indicated otherwise)

	1970	1980	1990	1993	1994	1995	1996	1997	1998	1999
KENYA										
Total Debt Stock	478	3 387	7 058	7 111	7 202	7 412	6 931	6 603	6 943	6 562
Long Term debt (LDOD)	409	2 493	5 642	5 846	6 119	6 405	6 060	5 550	5 888	5 604
Public and Publicly Guaranteed	321	2 056	4 762	5 246	5 589	5 960	5 685	5 225	5 608	5 385
Concessional/EDT (%)	35.6	20.2	33.7	43.5	47.1	52.3	56.8	57.0	59.4	63.1
Multilateral/EDT (%)	8.0	18.7	35.3	36.8	38.4	39.4	42.5	43.2	43.2	44.0
TANZANIA										
Total Debt Stock (EDT)	212	5 322	6 451	6 791	7 235	7 406	7 362	7 129	7 633	7 968
Long Term Debt (LDOD)	188	3 381	5 793	5 820	6 140	6 247	6 127	6 056	6 465	6 628
Public and Publicly Guaranteed	173	3 297	5 782	5 808	6 128	6 204	6 082	6 015	6 428	6 595
Concessional/EDT (%)	76.8	50.6	53.6	59.1	60.4	60.1	60.9	71.5	72.4	72.5
Multilateral/EDT (%)	18.0	10.6	30.7	35.5	36.8	37.8	39.1	41.0	41.2	41.1
UGANDA										
Total Debt Stock (EDT)	152	689	2 583	3 029	3 372	3 573	3 675	3 913	4 016	4 077
Long Term debt (LDOD)	152	537	2 161	2 599	2 869	3 062	3 151	3 404	3 482	3 564
Public and Publicly Guaranteed	152	537	2 161	2 599	2 869	3 062	3 151	3 404	3 482	3 564
Concessional/EDT (%)	71.3	36.9	56.2	70.3	72.9	77.5	78.3	76.1	79.5	80.4
Multilateral/EDT (%)	12.6	11.5	49.2	57.0	59.7	61.8	62.2	61.6	60.9	62.8

Source: World Bank (2001), *Global Development Finance*, Washington DC, pp 312-315, 532-535, 564-567.

In 1999 Tanzania had the largest stock of total debt (US$ 8 billion), followed by Kenya (US$ 7 billion) and Uganda (US$ 4 billion). In all cases the value of debt has exploded in the course of the last twenty years or so, although seeming to level off for Kenya from a peak in 1995. Most of the debt is long term (maturity of one year or more) and is either public/government or publicly guaranteed. Over 40 percent of this debt is owed to multilateral organisations, 60 percent in the case of Uganda. Concessional debts (loans with an original grant element of 25 percent or more) account for around 50 percent of Kenya's total, 70 percent of Tanzania's and 80 percent of Uganda's.

Some of the long-term debts are owed by one EAC member country to another. Two known examples are given. The first arose from the break up of the jointly owned common services organisations, with assets left in the country where they were in 1977. The Mediation Agreement of 1984 established that Kenya had positive net community assets and, therefore, owed Tanzania and Uganda. That debt stood at K£ 63.1 million in 1994 and had declined to K£ 42.3 million (US$ 10.8 million) by 1999.[15] This amounts to about 0.2 percent of Kenya's debt or some 0.1 percent of the combined Tanzania and Uganda debt. There is no evidence that these EAC related debts are having a perceptible effect on the external debt of the three countries.

The second interstate debt came about due to the war liberating Uganda from the Amin dictatorship in 1979.[16] Tanzania spent some US$ 123 million on its army and equipment and also on training the various Ugandan groups opposed to the Amin regime. By a 1998 agreement, this was adjusted to US$ 95 million. To date, Uganda has paid US$ 64 million, leaving an outstanding debt of US$ 31 million. Negotiation is underway to have this debt written off

The currency composition of East African debt is given in Table 5. Comparing, say, 1990 with 1999, one notes an evolution in the debt portfolio.

Table 5: Leading Four Debt Currencies (in order of weight in the basket)

	1990	1999
Kenya	• US Dollar • Multiple Currency • Pound Sterling • Japanese Yen	• US Dollar • Japanese Yen • Multiple Currency • French Franc
Tanzania	• US Dollar • Pound Sterling • Japanese Yen • Multiple Currency	• US Dollar • Japanese Yen • Multiple Currency • Special Drawing rights
Uganda	• US Dollar • Multiple Currency • Pounding Sterling • French Franc	• US Dollar • Multiple Currency • Special Drawing Rights • Other Currencies

Source: World Bank, Global Development Finance 2001

In all countries, the dominance of the US Dollar is maintained throughout the decade 1990 to 1999. It is noteworthy that, while the British Pound was a key currency in contracting the external debts of Kenya, Tanzania and Uganda in the earlier years, it is no longer among the big four. Its position seems to have been taken by the Japanese Yen in the case of Kenya and Tanzania and by debt repayable in multiple currencies in the case of Uganda. IMF Special Drawing Rights (SDR) has been significant for Kenya during the whole period and has also begun to creep into the portfolios of Tanzania and Uganda. The French Franc, which was insignificant in the 1970s has been edging into the fold and now ranks fourth in the case of Kenya.

The evolution of the currency composition of East African debt shows a tendency towards diversification to avoid dependency on one donor. It also shows attempts to tap non-traditional sources of external financing, the French Franc being a case in point as it is usually associated mostly with France's former colonies in West and Central Africa. The move to multiple currencies and the SDR is a move to make debt portfolio management more flexible but this has its price in that Bretton Woods institutions are reluctant to grant debt relief. Another price is that the debts have to be repaid in the designated currencies or in a universally convertible currency. This may encourage countries to insist on being paid for their exports in those currencies instead of local ones, thus inhibiting the use of local currencies and acting as a brake to regional trade. Thus, external debt can be inimical to regional integration.

The EAC and Debt Management

The new EAC can be said to have become operational with the setting up of the Secretariat in 1996 to oversee the integration initiative. Therefore, this is the cut off date for the 'before' and 'after' in our attempt to assess whether the EAC has made a difference in the debt crisis and other outcomes. Such an analysis is casual empiricism in an attempt to compare the situation 'with' and the situation 'without' the institution. Although the thing that comes before does not necessarily cause the thing that comes after, such an indication of sequence is instructive.

Total debt has declined in the case of Kenya since the coming of the Community, but has risen in the cases of Tanzania and Uganda, giving a one third impact. Concessional debt ratio, i.e. loans with an original grant element of 25 percent or more.[17] has increased in all three countries, indicating winning at the borrowing stakes. So, all in all, the terms of external borrowing seem to have improved after the coming of regional integration, having a positive impact on debt.

So far, external debt issues have been a purely national affair with no coordination at the regional level. For now, the regional institution that has a mandate on some aspects of debt management is the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). Formed in 1997, MEFMI's mandate is to improve sustainable human and institutional capacity in these areas for central banks and Ministries of Finance and Planning in its ten member countries - Angola, Botswana, Lesotho, Malawi, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Since Kenya is currently not a member of MEFMI, the institute does not cover the EAC as a whole.

The closest the EAC Secretariat has come to such coordination is its prescription on a convergence criterion for debt service, namely "Undertake debt reduction initiatives and maintaining the fiscal burden of servicing the external obligations to less than 15%."[18] The actual debt service takes about 14 percent of government revenue in Kenya and 23 percent in Tanzania.[19] The EAC initiative is a step in the right direction. At this stage, each of the three countries has the basic institutions and the legal framework in place for sound debt management i.e. aid coordination departments in their ministries of finance, external debt management divisions in their central banks and parliamentary oversight.

Now that the Community has been constituted, maybe a debt forum under the monetary and financial cooperation arrangement should be set up. This could serve as a collective bargaining agent with international creditors on debt, unlike the current situation in which a debtor country faces a barrage of creditors at the London and Paris 'Clubs'. For a start, the forum could classify the sovereign external debts into:

1. Genuine developmental ones;
2. Fraudulent ones given for political purposes (e.g. for buying support during the cold war era); and
3. Odious ones used by hard line regimes to suppress basic freedoms of expression, assembly, etc, that is, "debt incurred for private rather than public gain and without the consent of the poor"[20]

This clarification would inform negotiation for arbitration, rescheduling, cancellation, and debt reduction initiatives. It would also assist in the monitoring and observance of statutory borrowing limits as well as strengthening debt management systems. In this way, regional integration could serve as an instrument for collective self reliance for external debt reduction.

External debt is not harmful per se because, after all, it is a source of financing to fill resource gaps. The problem is the inability to service it due to liquidity or management constraints. There is a good understanding of the obligations by the East African countries due to skilful monitoring, accounting and auditing. What is deficient is the adoption of a consistent strategy to approach creditors and donors to get the best deals in terms of grace period, maturity and interest charged. There is a need for capacity building to enable the East African countries to navigate the sphere of 'aidocracy' wisely, be proactive and, hence, minimise the incidences in which "many initiatives originate from donors with limited policy guidance from the government"[21] External borrowings should be put to productive use with returns at least equal to the cost of borrowing, so as to ensure debt sustainability. Boosting domestic savings and attracting non debt-creating flows, such as foreign direct Investment (FDI) and equity funds are ways out of reliance on borrowing. Such investments could be stimulated by:

- Social, political and economic stability;
- Regional development banks, such as the EADB; and
- Cross listing of shares and stocks on the Dar es Salaam, Kampala and Nairobi exchanges.

As one sage prudently put it, this would let us "be happy and live within our means, even if we have to borrow to do it with"[22]

4.1 Intraregional Payment Mechanisms

On the payment mechanism in intra-EAC trade, traders in Uganda indicated first preference for cash on delivery (54.5 percent), then letters of credit (43.8 percent), suppliers/trade credit (33.3 percent), and inter-company account transfers (19.4 percent).[23] About 65.4 percent of the surveyed firms in Kenya are paid, or pay, cash on delivery for intra-EAC trade, although letters of credit and suppliers/trade credit are also important modes of payments.[24] Trade with Kenya and Tanzania was reported by about 60 percent of the Ugandan respondents as being billed in US Dollars as the preferred currency, while some 15 percent preference was indicated for either Ugandan or Tanzanian Shillings. Kenyan firms, however, prefer billing in US Dollars and Kenya Shillings only.

The main problems reported by all firms were exchange rate risks, delay in transfer of funds and difficulties in obtaining confirmation of letters of credit.[25] Therefore, the way forward for the EAC is to:

1. Insist on more efficient banking transactions, particularly in these days of information and communication technology;
2. Move fast towards the establishment of a common East African Shilling to eliminate local exchange rate risk; and
3. Ensure the stability and convertibility of the common currency in order to guarantee confidence in it and forestall dollar preference.

So long as there is dollar preference, there will be external dependence and debt accumulation. The creation of a regional currency will go a long way towards breaking this vicious cycle. As of now, the intra-trade payment mechanism is not particularly helpful in resolving the issue of external debt.

4.2 Monetary Policy and Budget Deficit

It should be noted that large budgetary deficits lead to rising interest rates and inflation due to government borrowing to finance the deficit. This impacts negatively on balance of payments due to people preferring cheaper imports. It also discourages foreign investments due to the inherent macroeconomic instability the inflation creates. All these are factors that put pressure for external aid and borrowing and could lead to a debt crisis. Hence, macroeconomic stability is at a premium in any strategy of tackling the debt problem and peer pressure arising from a regional integration scheme is salutary.

The Impact of External Arrangements

5.1 The EAC and other RECS

One of the greatest challenges to the East African Community is the fact that its members are also committed to other, broader subregional arrangements. Table 5 gives the regional economic communities (RECs) to which Kenya, Tanzania and Uganda belong, aside from the EAC.

Table 6: Regional Economic Community Memberships of EAC Countries

	COMESA	COMESA FTA	IGAD	SADC
Kenya	-	-		-
Tanzania				
Uganda	-	-		

COMESA :: Common Market for Eastern and Southern Africa
FTA :: Free Trade Area
IGAD :: Intergovernmental Authority on Development
SADC :: Southern African Development Community.

As noted earlier, the EAC aims to have a customs union operational by December 2004 but, in the meantime, Kenya is a member of the free trade area (FTA) of the Common Market for Eastern and Southern Africa (COMESA). Launched on 31 October 2000, the COMESA FTA comprises nine countries - Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe - which practice duty free trade amongst them, i.e. no duties or charges of equivalent effect on goods originating from these countries. This is a typical case of variable geometry with varying speed tracks towards regional integration. Non FTA COMESA members are Angola, Burundi, Comoros, Democratic Republic of the Congo, Eritrea, Ethiopia, Lesotho, Mozambique, Namibia, Rwanda, Swaziland, and Uganda.

Such multiple REC membership has some intrinsic problems. It may allow a country to gain by 'playing' on the differentials of timing; commitment and tariffs among various RECs and it could be a source of divided loyalty and policy reversals due to juggling with non-harmonised schedules of tariff reduction and membership contributions. The Southern Africa Development Community (SADC) proposes to establish a CU in 2008, four years after the EAC and COMESA, while IGAD typically follows the COMESA trade liberalisation and facilitation programme.[26] The Regional Integration Facilitation Forum (RIFF) - successor to the Cross Border Initiative (CBI) of Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe - remains a credible framework for harmonised policies to facilitate a market driven concept of integration in East and Southern Africa. Otherwise, overlapping membership of RECs "reduces the potential trading gains from regionalism and undermines the improved investment climate that arises from larger markets"[27]

5.2 Multilateral Institutions, SAPs and the EAC

The World Bank SAPs, Special Programme of Assistance, IMF Enhanced Structural Adjustment Facility and stabilisation projects and Structural Adjustment Facility (SAF) are aimed at reducing

the actual debt burden mainly by reducing interest and providing new loans and credits. This occurs under the condition that the countries concerned execute the SAPs and austerity measures. It is commonly understood that the structural adjustments in East Africa were necessitated by unsustainable balance of payments and high budget deficits experienced by some EAC countries, mainly Tanzania and Uganda.

Mkandawire and Soludo (1999 p88) concluded that the external debt of sub Saharan Africa, especially Uganda and Tanzania, has more than doubled over the adjustment period, without any increase in economic growth to sustain its servicing in the future. Africa's structural base and human capital formation, which were deemed to be fragile even at the beginning of adjustment, have deteriorated even further. The problems of structural adjustment are seen in that in the EAC, Uganda and Tanzania receive some preferential treatment from Kenya because it seems less indebted and more economically sound than its integration partners. The debt incurred under SAPs strongly and negatively affects economic growth, threatens the sustainability of reforms, and prevents the development of a capable and functioning state due to the fiscal crisis that it engenders.

Tanzania's debt increased rapidly from US$ 2 257 million in 1980 to more than US$ 5 billion at the beginning of the 1990s. Tanzania's foreign debt stands at about US$ 7 billion. This makes it difficult to pursue regional economic convergence criteria for such a country in terms of lowering inflation levels and, controlling budget deficits and interest rates. It even compels governments to spend a third of their monthly revenue in debt service, while another third goes to civil servants payments and the balance is thinly spread over public operations and social services. Obviously, this leaves almost nothing for regional commitments.

In spite of the adverse social dimensions accompanying the structural adjustment programmes (SAPs) that were forced down the throats of many African countries in the 1980s, some analysts have argued that the end result of price stabilisation, payments balance, democratisation, trimming of state apparatus, etc was conducive to a move towards convergence. Inadvertently, therefore, SAPs in Kenya, Tanzania and Uganda made regional integration less difficult.[28]

5.3 The HIPC Initiative and the EAC

The EAC member countries have been identified among the 41 effectively insolvent, Heavily Indebted Poor Countries to benefit from the Bretton Woods Institutions' halfhearted attempt at debt cancellation – the HIPC initiative.

Some debt relief initiatives have been undertaken for East Africa at various times. These include Official Development Assistance (ODA) debt cancellations, Paris Club rescheduling, and multilateral arrangements such as the concessional Extended Structural Adjustment Facility (ESAF) and the Heavily Indebted Poor Countries (HIPC) Initiative. To date, Uganda and Tanzania have qualified for HIPC assistance, the objective of which is to accommodate debt servicing within a country's ability to pay by providing debt relief. For instance, in 1998, Uganda was granted debt relief amounting to US$ 650 million, saving the country up to US$ 40 million per year up to 2003. Having qualified in January 2002 as a HIPC, Tanzania was granted debt cancellation of $ 190.75 million from the African Development Bank (AfDB). However, it should be noted that the implementation of the existing debt relief mechanisms is slow and sometimes hesitant.

Table 7: Debt Service for Individual HIPC Countires in EAC (US$ million)

	1998	1999	2000	2001	2002	2003	2004	2005
Tanzania								
Debt Service Paid	224	193						
Debt Service due after EHIPC			154	142	144	148	152	158
Debt Service/Exports (%)	21	16	12	10	8	8	7	7
Debt/Service/Government Revenue(%)	29	20	15	12	11	11	10	9
Debt Service/GDP (%)	3	2	2	1	1	1	1	1
Uganda								
Debt Service Paid	110	98						
Debt Service due after EHIPC			48	51	56	68	94	103
Debt Service/Exports (%)	15	12	11	6	6	6	6	8
Debt/Service/Government								
Revenue(%)	16	13	11	6	5	5	5	6
Debt Service/GDP (%)	2	2	1	1	1	1	1	1

Source: World Bank (2002) African Develpoment Indicators, Washington

Although alleviated by the HIPC and other related arrangements the debt burden of countries like Uganda and Tanzania remained a serious impediment to progress and EAC economic integration. There is still an urgent need for deeper and wider relief.

5.4 PRSPs and the EAC

More recently, considerations such as essential spending on basic human needs, poverty alleviation and social services have brought to the fore the Poverty Reduction Strategy Paper (PRSP) as the new financing mechanism, through Poverty Reduction Support Credit (PRSC) by the World Bank and the IMF's Poverty Reduction and Growth Facility (PRGF). Kenya, Tanzania and Uganda are busy with this instrument.

Its efficacy is yet to be seen, with many sceptics suspecting that PRSP is just a repackaged SAP/ reform conditionality of the Bretton Woods institutions.

According to the agreement between the Tanzania government and the Bretton Woods Institutions (BWIs) under the HIPC initiative arrangements, debt service relief under the enhanced HIPC Initiative from all of Tanzania's creditors will amount to approximately US 3 billion over the next 20 years. The HIPC will reduce the net present value of Tanzania's total external debt by 54 percent. Uganda was under pressure from the World Bank and IMF to produce a PRSP within three months. This was because Uganda's qualification for the enhanced HIPC hinged on its being able to produce a PRSP. The donors' interest was a result of the international concern that HIPC was not working and that only a few countries had benefited. Uganda therefore became a showpiece for donors to stem the increasing tide of criticism.[29] Thus in response both the donors and government had to work

hard to produce the first full PRSP in time for it to be presented to the Executive Boards of the BWIs at the spring meetings in April 2000.

The contents of PRSPs continue to put corporate rights before and above social, human and environmental rights. Unequal power relations between the indebted poor countries and BWIs that manage the HIPC Initiative process and determine the contents through setting of the parameters, explain this distortion. However, what matters most for governments applying for PRSP decision and completion points status is the short term but badly needed cash flow from BWIs to finance the day to day business of their states.

In a nutshell, regional integration appears to be associated with a reduction in the debt crisis. It also yields the institutional infrastructure to collectively bargain deals in the area of external debt. Some of the painful structural reforms the East African countries have undergone have facilitated a move towards convergence and hence integration, with the attendant softening of the debt crisis.

Costs and Benefits of Integration

On balance, the benefits of integrating exceed the benefits of not doing so and the benefit-cost ratio is positive.[30] The emphasis needs to be, not in cutting costs/inputs (reductionist approach), but on generating more wealth/revenue/income (incrementalist approach). The bottom line of successful regional integration is in "providing equal opportunities, however unequal the initial endowment"[31] and hence achieving together more than any one party could achieve alone, with the benefits outweighing the costs, even for the less advantaged members.

6.1 Potential Costs and Benefits as applied to East Africa

Some of the costs and benefits (shown in Table 8) are quantifiable; some are not and can only be 'felt'. Some are short term in nature, while others take time to take effect due to their dynamics. It would be useful for the EAC to commission a comprehensive study to quantify all the costs and all the benefits of its integration, taking into account the various role players such as consumers, ordinary people, transporters and traders, investors, producers of goods and services, governments, etc.

Table 8: Potential Benefits and Costs of Integration

POTENTIAL BENEFITS/AREA	POTENTIAL LOSS/ COST
• Lower priced imports from partner, higher consumer surplus • Greater variety of goods • Savings on real resources • Users of imported inputs may expand business (positive production effect) • Possible increase in exports to partners • Reduced cost of trading due to preferential access • Increased competitiveness on price and quality • Economies of scale due to larger market, lower unit costs • Spill over effects e.g transfer of know how • Pooling of investment resources for basis 'hard' and 'soft' regional infrastructure • Harmonised commercial policies, incentives, macroeconomic policies, leading to more development • Accelerated intraregional trade if comparative advantages are developed into complementarities in supply and demand • Bargaining power for bloc in global trading system • Employment generation • Increased productivity and exports to region and others	• Local producers of similar goods may be competed out or temporarily dislocated creating a negative production effect and loss of employment • Loss of tariff revenue from positive to zero tariff • Cost of enforcing rules of origin (FTA) • Higher priced imports from partner countries, loss of consumer surplus, reduced welfare • Local procucers under pressure • Loss of FDI if trade diversion arises (specific areas)

Source: W. M. Lyakurwa, G.D. Mjema, L Rutasitara (2001), "A Regional Intergration Study of East Africa: Tanzania Country Report",
Final Draft, ACEG, P.46

The above suggests a win-win situation. Yet, the perceived 'costs' are real and need to be addressed. They include:

- Loss of sovereignty through denial of state discret]*í∞in fiscal and monetary policies as rules based strategies are put in place; and

- The hustle to be competitive at the micro, meso and macro levels.

Even as lower tariffs would lead to higher levels of compliance and higher trade volumes, fear of an immediate loss of tax revenue looms in many a policy maker's mind. But a close examination of this 'cost' shows that it is minimal.

For example, in 1999/2000, "revenue from EAC trade accounted for a mere 0.4 percent of the total tariff revenue"[32] In 1998, EAC-Tanzania import duty revenue was a mere 0.8 percent of total tax revenue and 2.6 percent of all taxes on her imports.[33] As for Uganda, a few policy makers felt that there were no costs that were not already being experienced.[34] In other words, people can live with the costs. The saying that it is not good to be 'penny wise but pound foolish' aptly applies. If tariffs are eliminated, a country can compensate for the loss in revenue by expanding the tax base and enhancing tax administration capacity to reduce avoidance and evasion.

So, how are the costs and the benefits emanating from regional trade integration going to be shared among member states? Negotiations and research are afoot on this and it has been found that,

> The majority of the policy makers and implementers do not view the compensation of losers as a viable means of dealing with costs associated with the EAC...[and] the most popular mechanism suggested for compensation is surcharging of the imports causing the losses.[35]

In this connection, given the differing initial conditions in terms of level of development in the three countries, the principle of asymmetry has been recognised by the EAC Treaty to address variances in the implementation of measures in an economic integration process.[36] Consensus seems to emerge that, while the ideal remains zero EAC internal tariff, Uganda and Tanzania will be allowed a 10 percent surcharge on a small list of imports from Kenya for a limited period of time to protect their infant industries. This would definitely be less of a problem than a cumbersome and complicated compensatory mechanism.

In short, it is should be noted that regional integration should not be not undertaken at any cost, but that associated benefits exceed the costs. In any case, the beneficiaries are willing to compensate the losers. The end result is that such an arrangement is good for addressing the debt crisis.

Debt and Human Development

Using the Human Development Index (HDI) and debt crisis indicators, it is possible to determine the 'achievements' of integration in the socio economic sphere, including the debt crisis. The HDI incorporates real GDP measured using purchasing power parity (PPP), life expectancy at birth, and education at all levels. For an indicator of debt crisis, we use the debt service ratio as a gauge of the country's capacity to bear stress. If a country has to pay in excess of 25 percent of its export earnings annually to repay principal and pay interest on debt stock, that country is experiencing debt overhang and its resources are really overstretched. This is the case in Kenya, although it is noteworthy that this ratio has fallen from 28 percent in 1996 to 27 percent in 1999, as shown in Table 9.

Table 9 Debt Service Ratio (%)

	1970	1980	1990	1993	1994	1995	1996	1997	1998	1999
Kenya	-	21.0	35.4	27.1	32.9	30.3	27.8	22.3	21.2	26.7
Tanzania	-	21.2	32.9	26.9	19.0	17.9	19.1	13.2	20.9	15.5
Uganda	3.0	17.3	58.9	65.0	43.2	20.0	20.0	18.5	24.3	23.7

Source: World Bank, *Global Development Finance 2001*

For Tanzania, the debt service ratio declined from 19 percent in 1996 to 16 percent in 1999 with a spurt in 1998. This ratio increased in the case of Uganda from 20 percent in 1996 to 24 percent in 1999. In general, the debt service ratio for all countries was higher in the mid 1990s than at the end of the century. So, the formalisation of regional integration of the three had a marked decline in debt stress.

An indication of the quality of life is given in Table 10.

Table 10: Human Development Index

	1975	1980	1985	1990	1995	1999
Kenya	44.2	48.8	51.1	53.1	52.1	51.4
Tanzania				42.2	42.7	43.6
Uganda			38.4	38.6	40.2	43.5

Source: UNDP, *Human Development Report 2001*, p. 147.

Though still higher than the other two countries, human development has suffered quite some erosion in Kenya. Uganda was able to catch up with Tanzania that has more or less stagnated over the years. Overall, there are no significant distinct breaks in the observed HDI trends after the incidence of integration in 1996. This may be attributable to the fact that integration is quite recent so that there has not been enough time for it to take effect.

Recommendations

The following recommendations can be drawn from the preceding study:

- Proper management of the overlapping state memberships (EAC, COMESA, IGAD, SADC) needs to be addressed in a strategic planning fashion. It is recommended that the EAC explore self-financing mechanisms, such as a tax on trade or on a common resource, as a means of lessening dependence on outside funding.

- A debt forum should be set up within the Community to classify existing debts as a basis for renegotiation and to enable member states to deal with creditors as a bloc, rather than as weak and impoverished individuals. A genuinely transparent and accountable process for agreeing new borrowing and discipline to decision making about borrowing should be developed within the EAC. The EAC countries could then set the conditions for debt reduction, or for new loans.

- For the sake of the poor, and in the interests of democracy, the EAC should form a cartel that pushes shareholders of the IMF and World Bank to agree to creditors giving up their undisciplined monopoly over the international lending and borrowing process. The cartel should be composed of all major stakeholders in each country.

- There is a need in East Africa to continue improving the macroeconomic policy environment and governance, to promote ownership of the process of formulating macroeconomic policies, and to adopt a regional approach to macroeconomic stability and a conducive environment to accelerate regional integration.

- Any PRSPs that have been prepared with a national focus, without explicitly taking into account regional issues, external debt and regional integration should be revisited with the purpose of prioritising and ensuring that they promote debt reduction and regional harmonisation.

- Mechanisms should be put in place to ensure the democratisation of economic decision making so as to end the sad and impoverishing cycle of lending, debt, default and corruption that has continued in countries like Kenya.

Conclusion

Though external debt has not formally featured as a regional integration policy issue, the latter has been found to be a means of achieving development, fighting indebtedness and enhancing the standard of life.

In light of the potential costs and benefits of intraregional trade outlined in this paper, it is suggested that the emphasis be on wealth creation and strengthening the economies of the EAC members, rather than attempting reductionist cost cutting measures. A case in point is infrastructure development. Such developments are costly and necessitate borrowing, inevitably from outside sources. However, development of transport networks, telecommunications and the like has great potential to drag countries and regions out of poverty, enhancing their capacity to pay existing debts and lessening the need for future borrowing.

Progress in regional integration is slow and seems to be haunted by the spectre of past failure. However, the macroeconomic convergence programme is on course. The convertibility of regional currencies already achieved has been found to encourage trade between member states because it obviates the need for the use of hard currencies. This can be expected to be further enhanced by the proposed introduction of a common currency by 2010. However, to optimise the benefits of a common currency, it will be necessary to increase actual levels of intraregional trade that are currently very low as a percentage of the total trade of the member countries. Improvement of services such as intrastate banking would facilitate this process.

Proper management of the overlapping state memberships (EAC, COMESA, IGAD, SADC) needs to be addressed in a strategic planning fashion. It is recommended that the EAC explore self financing mechanisms, such as a tax on trade or on a common resource, as a means of lessening dependence on outside funding. It is further recommended that a debt forum be set up within the Community to classify existing debts as a basis for renegotiation and to enable member states to deal with creditors as a bloc, rather than as weak and impoverished individuals.

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[22] Nehemiah Ng'eno, et al, P. 61.

[23] W. M. Lyakurwa, et al, op. cit., p. 39.

[24] Michael Atingi-Ego, Marios Obwona, and Charles A. Abuka, "Regional Integration Study of East Africa: The Uganda Country Report" (ACEG: November 2001), p. 51.

[25] Nehemiah K. Ngeno, Hezron O. Nyangito, Moses M.Ikiara, Eric E. Ronge And Justus Nyamunga "Regional Integration Study Of East Africa: The Case Of Kenya" (Aceg, Final Report (November, 2001), P. 65.

[26] EAC Treaty, Chapter 1.

[27] Kenya, *Statistical Abstract 2000*, p. 253.

[28] This paragraph relies on an article titled "War Debt" written by Wairagala Wakabi in *The East African* newspaper dated June 3-9, 2002, pp. 1 & 3.

[29] For a comprehensive critique of HIPC, see www.oxfam.org, www.oneworld.org/eurodad, www.christian-aid.org or www.jubilee2000.org

[30] World Bank, *Global Development Finance 2001*, p.xviii.

[31] EAC Secretariat, *Development Strategy 2001-2005*, p. 23

[32] Kenya, *Statistical Abstract 2000*, pp. 237, 251 and calculation from this research database.

[33] IMF Survey, Vol. 31, No. 7 (8 April 2000), p. 109.

[34] Wangwe, Samuel M. (1997), "The Management of Foreign Aid in Tanzania", Economic and Social Research Foundation (ESRF) Discussion Paper No. 15, p. 5.

[35] Attributed to Artenus Ward (1727-1800).

[36] See Flora Mudeme-Musonda, Gordwin Mjema and Anders Danielson, "The Urge to Merge: The Revival of E. A. Cooperation", SIDA Report 1997:7.

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