

# THE POLITICAL ECONOMY OF REGIONAL INTEGRATION IN AFRICA

## THE EAST AFRICAN COMMUNITY (EAC)

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EXECUTIVE  
SUMMARY

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## Executive Summary

This study presents a political economy analysis of the East African Community (EAC), focusing on what drives and constrains this regional organisation in promoting economic integration. In particular it looks at transport infrastructure, and at trade policy monitoring, particularly the system for monitoring regional integration implementation. The report is part of a broader study that also includes the African Union and four other Regional Economic Communities in Africa.

### Why a PEA of the EAC?

The EAC was originally founded in 1967 with Kenya, Tanzania and Uganda as members. This built on, and superseded, a range of other regional communities between the colonial governments of the three countries dating back to the early 20<sup>th</sup> century. Despite the history of cooperation, the EAC collapsed in 1977 as a result of Kenyan dominance and divergent political positions and ideologies. It was only in 2000 that the EAC was revived.

Since its revival the EAC has progressed fairly rapidly and integration is now proceeding at a faster rate than any other REC in Sub-Saharan Africa. With the formal objective of creating a common currency and eventually a political federation, the EAC has achieved a number of notable objectives since reforming. This includes the signing of a customs union in 2004 and the launch of a common market for goods, labour and capital in 2010. Notable progress has also been seen recently in the area of cooperation between EAC countries over regional railway infrastructure development and efficiency improvements of the Northern transport corridor.

The progress realised by the EAC around trade related system reforms and infrastructure development can be seen as a response to the coalescing of a number of shared interests among EAC member states, particularly Kenya, Uganda and Rwanda. This includes the emergence of shared economic interests whereby Kenya has an interest in ensuring an export market in the region and establishing Mombasa as the region's dominant port, and Uganda and Rwanda have an interest in securing import channels and improving the cost and time involved in transport imports from the coast. While the Government of Tanzania has been reluctant to participate in this accelerated integration, it has not been able to constrain the efforts of Kenya, Uganda and Rwanda.

However, the role of the EAC in these developments is mixed. In the area of trade the EAC has harnessed member state interests and provided critical platforms, systems and mechanisms for formalising cooperation in the form of the required trade treaties. Yet, in areas such as transport many recent successes have been the result of national level decision making and interstate coordination that have occurred independently of the EAC transport sector policies. Consequently, the formal commitment of the EAC Treaty to 'harmonise' and 'co-ordinate' transport policy has not been realised.

The major parallel interstate initiative has been the Northern Corridor Countries Initiative, driven by Kenya but also involving Uganda and Rwanda. This initiative is a mechanism for the three countries to realise rapid progress on selected issues. This would not be possible through the EAC as a result of the often divergent interests of Tanzania and Burundi.

However, such initiatives occur with no oversight or control from the EAC Secretariat and could be seen to undermine the EAC's role.

Despite the progress outlined above, policies have encountered implementation challenges at member state level. For example, the Common Market has been constrained by exemptions, bans and non-tariff barriers. With the exception of Rwanda, political elites in EAC states lack centralised control over rents and the powers to effectively coordinate reforms, including those related to EAC integration for which there can be limited domestic constituency. As such, a number of EAC policies have been prone to lengthy delays and blockages to implementation by divergent interests within member states. This is most evident in the implementation deficit of the customs union. Partner states have brought in various restrictions on the free movement of goods, in particular sectors which some allege are tied to vested interests.

EAC has limited capacity and authority to monitor these implementation challenges and support member states to address them. EAC institutional capacity is low and EAC institutional arrangements have not been updated to take into consideration the increasing scope of the EAC's goals. Further, it appears that member states are not in agreement over proposed institutional arrangements which would provide more capacity but also give the EAC more supranational authority, something which the EAC Secretariat is striving for but which some member states governments appear to be against. Debate over the EAC's role continues to delay much needed institutional reforms.

### Key findings of this study

Structural factors such as geography and shared historical experiences continue to have an on-going influence on EAC policy choices and the effectiveness of EAC policy implementation. For example a collective threat of water shortages and the consequent power constraints fosters collective action to address dated policy documents that disadvantage EAC member states and privilege Egypt and Sudan; a shared identity and history contributes to the prioritisation of policies that enable the free movement of people; a shared infrastructure deficit contributes to collective action to initiate regional infrastructure projects; and instability in Somalia and South Sudan has led to cooperation over regional security policy and initiatives.

Analysing EAC policy from the perspective of institutions (formal and informal rules of the game) highlights a number of areas where policy implementation is affected by weak or absent formal institutions, as well as strong emerging informal institutions. For example, a large number of formal rules to provide checks and balances on policy implementation have not been institutionalised. This includes the power provided to the Summit (on the recommendation of the Council) to sanction member states over non-compliance with the Treaty, which has not been exercised to date; powers formally accorded to the East African Court of Justice to adjudicate over disputes in the interpretation of the treaty or cases of non-compliance when brought forward to it (only 44 concluded cases in the first decade of the Court's existence); and lastly, the monitoring responsibilities accorded to the EAC Secretariat in the EAC Development Strategy 2011/12-15/16, which have not resulted in the specified monitoring and evaluation unit being established. Further, in formal terms power should be distributed between the Summit, Council and the East African Legislative Assembly (AEALA). In reality, however, power is vested in the Summit and Council, which are both composed of

national politicians, rather than the member state representatives found in EALA.<sup>1</sup> The Council in particular, uses technicalities and informal practices to maximise its power and constrain EALA.

Strong informal institutions that have affected EAC policy implementation include patronage and a per diems culture in the EAC, which fosters incentives for EAC officials and member state representatives that are detrimental to the organisation's effectiveness. Disputes over the distribution of these allowances have caused considerable tension in the Assembly, contributed to a protracted conflict between some assembly members and the Speaker last year, and culminated in her impeachment.

EAC policy is affected by actors and agency at three levels: within the EAC structures, within member states more broadly, and through external actors. Within the EAC and its members there appears to be conflicting opinions on the issue whether the EAC should have supranational authority. This divergence in views has delayed much needed institutional reforms within the EAC aimed at increasing the capacity of the organisation.

At the member state level, continued sustained progress towards EAC integration largely depends on Kenya as a regional hegemon and the continued interest that the Kenyan government and private sector have in deeper integration. However, one of the reasons the original East African Community (EAC) collapsed in 1977 was Kenya's dominance. As such there is an important balance between driving and dominating EAC integration. Further, private sector actors can both support and constrain EAC integration but remain a key driver of effective implementation and deeper integration. In particular, the Kenyan private sector's regional expansion in the finance, telecommunications, and retail sectors is contributing to a stronger and better-connected regional economy.

Lastly, in terms of external actors, donor support to the EAC is important but carries risks. In 2013/14 traditional donors contributed over 65 per cent of the budget of the EAC. This strong dependency can lead to policies that reflect donor agenda's but have limited domestic constituency in the EAC, and thus, are not implemented. Further, China's increasing role in the region has facilitated the focus on mega projects in the transport sector, despite many of them lacking a demonstrable economic rationale. However, given the primacy of national level infrastructure investment decisions, China is primarily engaging with national governments rather than the EAC.

Sectoral characteristics have had an impact on EAC policies related to both trade monitoring and transport infrastructure. Trade monitoring is a formal obligation under the EAC Treaty and Protocols. By its nature, it requires the compliance of member states to provide the required information. As such, monitoring issues only gained greater attention with the increased interest by some EAC member states for effective EAC trade integration. These interests were driven by political motives (like in Burundi) or more private sector interests (like in Kenya). Further, as trade monitoring demands capacity within the EAC Secretariat, the support from TradeMark East Africa in this area was critical.

The political influence of trucking firms in EAC member states led to a historic focus on roads, but this has increasingly given way to an emphasis on railway development. Key drivers of

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<sup>1</sup> The EALA is the legislative arm of the EAC. Each country provides nine elected members and seven ex officio members. Members are sworn into five year terms.

these new priorities include an increased focus on private sector development in Kenya and Uganda, large-scale patronage opportunities from railway tenders, and Chinese financing to facilitate these trends. This creates an opportunity for the EAC to facilitate railway development given its regional nature.

## Implications

The analysis highlights the importance of setting appropriate levels of ambition in regional processes and the challenge of trying to alter incentives rather than adapting to existing interests, perhaps illustrated best by the accelerated integration efforts of the sub-group of Northern corridor countries. But this initiative represents both an opportunity to drive integration, as well as a risk that it could result in divisions within the EAC. This suggests a need for policymakers to strike a balance between accelerated coordination, which can be driven by a limited number of states, and ensuring cohesion in the wider group of EAC states. It also suggests an opportunity for support strategies to back accelerated coordination efforts by regional sub-groups on the basis that adapting policy to such informal groupings can create real progress towards regional integration. However, this also requires a deep understanding of the underlying interests, incentives and relationship dynamics between states to avoid fostering tensions.

Interests have most clearly aligned among EAC countries around new large-scale regional infrastructure, with Chinese financing. However, it was also highlighted that much of such large-scale infrastructure development happens outside EAC structures and plans. This suggests a potential role for regional policy-makers and their supporters in regionally coordinating investment decisions with national governments and other actors where political interest is strong, and brokering joint arrangements with financiers such as Chinese banks where appropriate. For example, the EAC could play a role in coordinating the concessions on the Standard Gauge Railway when it is put in place.

Growing private sector interest in EAC integration, particularly within the Kenyan private sector might be built upon by working to strengthen the private sector consultation processes. While general levels of formal private sector engagement in EAC processes are low, the EABC appears to have achieved a range of results which could be built upon for further progress in regionalisation. This would require the EAC and traditional donors to adapt approaches to private sector engagement, being cognisant of opposing interests which may emerge both within and between countries, e.g. from the Tanzanian private sector.

The study pointed to an apparent contradiction between formal EAC policy documents which describe the EAC Secretariat as a coordination, support, implementation and monitoring body, and others which describe the EAC's role solely in terms of support and coordination. This is linked to the protracted discussions over EAC institutional arrangements where there is a debate over whether the organisation should have more authority. Noting that institutional form often does not translate into genuine functions, policy-makers should be cautious about supporting institutional capacity building initiatives before being clear on where it has a clear functional added value.

Beyond this, donor support may create incentives for signalling intent, but encouraging informal practices that potentially undermine the ability of the EAC to undertake its mandate. These include the risk that donor funding to the EAC creates a dependency on such funds

and disincentivises member state financial contributions, and the risk that donor funding feeds 'the per diems culture'. This suggests the need for this to be taken explicit account of in policy design to avoid further dependency on donor funds within the EAC. Current incentive structures might be 'avoided' by working to improve revenue generation from member states to address potential dependencies on donor funding, though again this would need to build on an in-depth understanding of existing interests and incentives.

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