

# Understanding the East African Community and its transport agenda

*Informal adaptation in regional trade and  
transport cooperation*

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This background paper is part of a series on the Political Economy Dynamics of Regional Organisations (PEDRO) and builds on an earlier paper conducted under the Political Economy of Regional Integration in Africa ([PERIA](#)) project. It was prepared in March 2017. In line with ECDPM's mission to inform and facilitate EU-Africa policy dialogue, and financed by the Federal Ministry for Economic Cooperation and Development, BMZ, the studies analyse key policy areas of seventeen regional organisations in Sub-Saharan Africa. In doing so they address three broad questions: What is the political traction of the organisations around different policy areas? What are the key member state interests in the regional agenda? What are the areas with most future traction for regional organisations to promote cooperation and integration around specific areas? The studies aim to advance thinking on how regional policies play out in practice, and ways to promote politically feasible and adaptive approaches to regional cooperation and integration. Further information can be found at [www.ecdpm.org/pedro](http://www.ecdpm.org/pedro).

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# 1. Introduction/broad context

The East African Community (EAC) was originally founded in 1967 by Kenya, Tanzania and Uganda, a post-independence evolution of the colonial era East African Common Services Organisation. Although resentments and tensions between states led to its collapse in 1977, the project was revived in 2001. Since then the EAC has progressed fairly rapidly and integration is widely agreed to be proceeding at a faster rate than any other REC in Sub-Saharan Africa. That said, challenges remain.

This report presents a political economy analysis of the EAC, focusing on what drives and constrains this regional organisation in promoting economic integration<sup>1</sup>. In particular it looks at its role in promoting i) trade and ii) regional transport in East Africa. Both areas are key priorities of the EAC. In the case of transport, progress is most visible in cooperation to reduce non-tariff barriers (NTBs) on the Northern Corridor, the construction of Standard Gauge Railway (SGR) and port efficiency improvements. In the area of trade, a central component of the overall integration agenda, assessing progress towards implementation of the regional agenda has been of greater concern. The study focuses on the monitoring of trade integration, and how this can affect the implementation dynamics.

The paper addresses three main questions. The first section investigates the political traction of the EAC, focusing in particular on the areas of trade and transport. In doing so, it provides a first assessment of the EAC as an institution. A second section highlights the main incentives and interests that influence member state engagement in the EAC and its regional agenda. A third section then defines the areas with most traction for regional cooperation.

## 2. The political traction of the EAC

### 2.1. Origins and governance of the EAC

The EAC was originally founded in 1967 with Kenya, Tanzania and Uganda as members. It built on, and superseded, a range of other regional cooperation communities between the colonial governments of the three countries, dating back to the early 20th century. The initial post-independence project of East African integration therefore explicitly took inspiration from Pan-Africanist thinking and often identified itself as an intermediate step in a wider process of continent wide integration (Shivji, 2009).

Despite the history of close cooperation, the EAC collapsed in 1977. This came as a result of perceived Kenyan dominance but also diverging political positions and ideologies between Julius Nyerere's African socialism or 'Ujumaa' in Tanzania, Jomo Kenyatta's Kenyan capitalism and the despotic rule of Idi Amin in Uganda. More than twenty years later, and following considerable political change, the EAC was revived in 1999 with the Treaty for the Establishment of the East African Community. Burundi and Rwanda became members in 2007, while South Sudan joined in April 2016<sup>2</sup>.

The stated objective of the EAC is to establish among its member states a customs union, a common market, a monetary union and ultimately a political federation. The Treaty provides a legal basis for regional cooperation in the political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs (EAC, 2007).

The EAC Treaty establishes six institutions. The *Summit* consists of the Heads of States of the EAC member countries and is responsible for giving directions and impetus to the EAC. The *Council*

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<sup>1</sup> This study draws on a larger study carried out for the ECDPM PERIA project on the *Political Economy of Regional Integration in Africa*. For more information see <http://www.ecdpm.org/peria>.

<sup>2</sup> See <http://www.uneca.org/oria/pages/eac-%E2%80%93-east-african-community>.

consists of the ministers responsible from each of the member states. It is the main policy organ of the EAC and is to promote, monitor and review the implementation of EAC programmes. It initiates and submits regulations, directives, decisions and recommendations<sup>3</sup>. The *Co-ordination Committee* consists of member states' permanent secretaries responsible for EAC affairs who submit reports and recommendations to the Council and implement Council decisions. It can also establish *Sectoral Committees*, responsible for the preparation and monitoring of implementation programmes for their sector. The judicial body of the EAC is the *Court of Justice* (see separate PEDRO study). Appointed by the Summit, the Court is responsible for the interpretation and application of the EAC Treaty. Lastly, the *East African Legislative Assembly* (EALA) is the EAC's legislative organ. It is responsible for, amongst others, approving the budget. According to the Treaty, it serves as a liaison with national assemblies, follows up on EAC matters and can make recommendations to the Council (EAC, 2007).

## 2.2. Agenda and agenda implementation

Although the EAC Treaty allows for cooperation in a several areas, EAC policies have prioritised strategies related to the facilitation of economic growth. The EAC Development Strategy 2011/12-2015/16 focuses on trade, infrastructure development and economic growth (EAC Secretariat, 2011a). Likewise, the EAC budget prioritises market integration and the enhancement of productivity and value addition<sup>4</sup>.

### Trade

Trade is a central component of the EAC integration agenda. At the forefront of the ambitious EAC market integration agenda is the EAC Customs Union Protocol (the Protocol) launched on 2 March 2004. It provides the political vision as well as legal basis for the establishment and implementation of the EAC Customs Union. The Protocol aims to eliminate charges imposed on imports (including customs duties), provide common rules of origin, remove NTBs, and establish a common external tariff, in an effort to deepen integration and stimulate economic prosperity in the region (Khorana et al, 2009). The Common Market Protocol was adopted in 2010, which led to the introduction of the Single Customs Territory in 2014. In March 2015, the East African Legislative Assembly passed the Elimination of NonTariff Barriers Act, providing a legal framework for the removal of NTBs under the Common Market Protocol (see Box 1). This got the assent of the region's heads of state in July 2015 paving way for the implementation of the EAC Common Market Protocol. A protocol was adopted in 2013 which outlined a plan to launch a monetary union within ten years.

EAC policies have been implemented successfully when compared to other Sub-Saharan African RECs with regional trade proceeding at a faster rate than any other REC in Sub-Saharan Africa. A recent AfDB report stated that the "EAC has made the most linear progress toward economic union and the highest ambition of the eight RECs" (AfDB, 2014). The Africa Regional Integration Index Report 2016 also ranked the EAC first among all African regional economic communities (RECs) in terms of progress on regional integration.<sup>5</sup> The EAC is implementing a free trade agreement (FTA), which contains significant exclusions, but is operational. Similarly, despite significant exclusions and exemptions and continued challenges, the customs union is functioning more comprehensively since Rwanda and Burundi joined in July 2009.

However, challenges to the implementation of EAC policies by member states remain. As is reflected in Table 1, the 2014 EAC common market scorecard indicates that barriers to the movement of goods, services and capital still remain as a result of member state laws, regulations and capital

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<sup>3</sup> In theory, regulations, directives and decisions are binding on the member states and on all organs and institutions of the Community other than the Summit, the Court and the Assembly.

<sup>4</sup> See <http://www.eala.org/media/view/eac-tables-usd-100-m-budget-to-eala> for 2016-2017 budget.

<sup>5</sup> This report was produced by the African Union Commission (AUC), the African Development Bank (AfDB) and the United Nations Economic Commission for Africa (ECA).

controls, as well as membership in different RECs (EAC, 2014a). Implementation of the Common Market has been constrained by exemptions, bans and non-tariff equivalent measures (AfDB, 2014). These include discretionary taxes and charges equivalent to tariffs and the non-recognition of Rules of Origin laws based on disputes over local content. For instance, in contravention to Customs Union regulation, Kenyan cigarette exports have faced duties in export to Tanzania on the grounds that they contain less than 75% local content and they have sporadically been banned for import into Uganda on the grounds of trademark disputes with local producers. In a similar vein, Kenya banned and later placed cash bonds on Ugandan sugar imports based on allegations of dumping duty free imports.

**Table 1:** EAC scorecard 2014: Main liberalisation restrictions<sup>6</sup>

	Trade in goods			Trade in services <sup>4</sup>	Movement of Capital <sup>5</sup>
	Tariff <sup>1</sup>	Reported NTBs <sup>2</sup>	CET exemptions <sup>3</sup>		
<b>Burundi</b>	10%	3	29	9	16
<b>Kenya</b>	15%	16	41	16	3
<b>Rwanda</b>	9%	5	56	11	5
<b>Tanzania</b>	34%	18	11	17	16
<b>Uganda</b>	28%	9	35	10	5
<b>EAC</b>		51		63	

Source: Compiled and adapted from EAC Secretariat (2014b).

## Transport

In addition to trade, transport has increasingly gained importance in the EAC agenda. This trend can be seen in the focus on infrastructure at the EAC Ordinary Summits in recent years. In spite of a *de facto* focus on road construction and maintenance among EAC member states - primarily due to the rise of politically connected trucking lobbies in Kenya and Tanzania - the current EAC agenda focuses mainly on railways, not roads. In order to revive the railway sector, the Summit of Heads of State directed in 2004 the preparation of a Railway Master Plan, which led to a feasibility study in 2009 (CPSC, 2011)<sup>7</sup>. The Master Plan is centred on Kenya's new standard gauge railway, which is envisioned to extend to Uganda, Rwanda, Burundi, the DRC, Tanzania and South Sudan<sup>8</sup>. In addition to the Railway Master Plan, an EAC Transport strategy was adopted for the period 2010-15. The existing focus on railways was carried over into the 2010-15 Strategy, which identifies a number of general obstacles to trade integration and specific obstacles to joint EAC action in the railway sector, namely, differences in laws, regulatory frameworks and licensing systems (EAC Secretariat, 2011b).

EAC transport policies have faced a complex implementation record. While progress on the EAC Railways Master Plan has been good in Kenya, plans to develop the regional standard gauge line in Kenya and Uganda have faced lengthy delays and disruption in each country due to wrangles and competition over contracts between Chinese contractors, brokers, and different arms of government. A major challenge has been the cost of the railways and in particular its opportunity cost (related to its economic and financial rate of return).

In general, recent years have seen a notable improvement in the implementation of EAC infrastructure policy. After a number of years of slow progress in improving East Africa's railways,

<sup>6</sup> Notes: 1) Percentage indicates trends towards non-compliance in elimination of tariffs and equivalent measures within EAC: a higher percentage indicates higher worse score, 2008-2013; 2) Number of reported NTBs, 2008-2013; 3) Numbers of granted requests for temporary exemptions (stays) of application of the Common External Tariff (CET), 2011-2013; 4) Number of measures inconsistent to commitments to liberalise services trade within EAC, out of over 500 sectoral laws reviewed; 5) Number of capital operations that are restricted, out of the 20 operations covered by the EAC Common Market Protocol (as at January 2014).

<sup>7</sup> See <http://allafrica.com/stories/200904200007.html>.

<sup>8</sup> See <http://www.railwaysafrica.com/news/east-african-railway-master-plan-1>.

2014 saw significant progress in implementing the EAC Railways Master Plan. Additionally, strides forward have been made with regards to road interconnections and ports, as well as in overarching regulatory frameworks. Increasing attention is also paid to the concept of intermodal transport through transport corridors. These achievements have in turn led to declining travel time and costs (Hoffman and Kidenda, 2014).

However, many of the recent successes in the area of transport have been the result of national level decision making and interstate coordination that have occurred independently of the EAC transport sector policies. One major parallel interstate initiative has been the Northern Corridor Integration Project, driven by Kenya but also involving Uganda and Rwanda. This initiative allows for rapid progress that, given the divergent interests of Tanzania and Burundi, would not have been possible at EAC level (see Section 3). However, as such initiatives occur with no oversight or control from the EAC Secretariat, they potentially undermine the EAC's role. Another example is the Standard Gauge Railway. While it is in line with the EAC Railways Masterplan, it seems to have been added to the Masterplan only after its completion.

### 2.3. Structural drivers and blockers

Structural factors have an ongoing influence on EAC policy choices and the effectiveness of EAC policy implementation. For example, shared historical experiences and ties have produced a sense of common culture between citizens of EAC member states, which, in turn, has led to a considerable popular backing for policies in most member states that enable the freedom of movement between EAC states (TMEA, 2013)<sup>9</sup>.

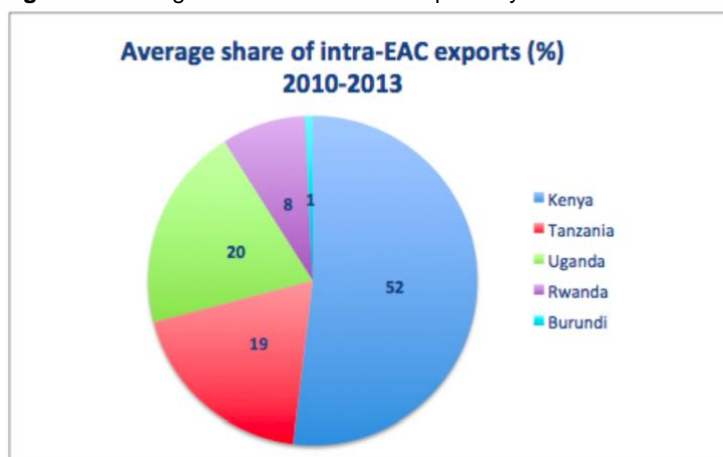
While this may be true, any resistance to integration and movement of people relates to the large disparities between EAC member states. Kenya occupies a dominant position in most aspects of inter-state relations. Its GDP is 37% of that of the whole EAC, while that of Rwanda and Burundi are only 6% and 2% (Byiers et al., 2015). Kenya also has military superiority in the region: its defence expenditure in 2013 was US\$861 million, followed by US\$465 million in Uganda (SIPRI, 2013). Additionally, Kenya has a highly strategic position in the regional transport and trade network, due to the pivotal role of the port of Mombasa in the transit network for landlocked EAC states. For instance, 80% of Uganda's transit traffic passes through Mombasa port (Nathan Associates, 2011a). Other disparities relate to population density, where Rwanda and Burundi have considerably less available land than, for example, Tanzania, arguably providing a basis for some resistance to further EAC integration in that country.

Apart from Kenya, who accounts for around half of intra-EAC trade, the majority of member states lack trade complementarities, resulting in low levels of intra-regional trade. Estimates put intra-EAC trade at just 14% of member states total trade (EAC Secretariat, 2013). While Kenya exports high levels of manufactured goods to partner states (McIntyre, 2005), most member states produce and export primary goods and import secondary and consumer goods – a trend not unique to East Africa (Venables and Collier, 2008). The lack of complementary economic structures has also contributed to a lack of political prioritisation in implementing trade liberalisation policies (see section 3). As illustrated in Figure 2, Kenya alone accounts for about half of intra-EAC trade, with Tanzania and Uganda for a fifth each.

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<sup>9</sup> Concerning the free movement of people, the EAC is the only REC in Sub Saharan Africa (SSA) that has made significant progress in recent years (AfDB, 2014). The EAC has now established an identity card system which means a passport is, in principle, not required to travel between countries.

**Figure 2:** Average share of intra-EAC exports by member state



Source: Compiled by the authors from Sandrey (2015), ITC trade data.

With regards transport, the ports of Dar es Salaam (Tanzania) and Mombasa (Kenya) are crucial in linking EAC member states and neighbouring countries with the outside world through the Southern, Central and Northern road and rail transport corridors. Eighty percent of Uganda's imports pass through Mombasa, while Rwanda and Burundi depend on both Dar and Mombasa for imports and exports (Mwangi, 2014). As such, Mombasa and Dar es Salaam ports handle the lion's share of EAC external trade. This gives landlocked Uganda, Rwanda and Burundi compelling reasons to be concerned with the costs, reliability, and security of Kenya's and Tanzania's transport systems, while it creates a sense of rivalry between Kenya and Tanzania (Byiers et al., 2015).

## 2.4. Institutional drivers and blockers

### Checks and balances

Analysing EAC policy from the perspective of institutions, understood in terms of the 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.

First, a large number of formal rules to provide checks and balances have not been institutionalised. In formal terms, power should be distributed between the Summit, Council and the EALA. 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. The Council in particular, uses technicalities and informal practices to maximise its power and constrain EALA.

Despite the Secretariat's mandate to monitor integration, it has no power or authority to check, control or sanction member states who are not complying with commitments. While proposals circulate on the replacement of the Secretariat with a more powerful Commission, it appears that member states have not committed to a clear position on this proposal. In the meanwhile, indecisiveness on key staffing positions have hindered Secretariat capacity even further. Although monitoring mechanisms have been set up at the national levels, implementation challenges remain, partly due to a lack of private sector engagement (see Box 1).

Formal institutions established to ensure member state compliance with EAC policies through penalties or sanctions are rarely used, and as such, states face few real challenges over their non-implementation of policies. While the Summit has the power to sanction member states over non-compliance with the treaty, this has not taken place to date. Likewise, while the East African Court of Justice formally has the power to adjudicate over disputes related to non-compliance, national courts have complete discretion in whether or not they refer a case to the Court of Justice (EACJ, 2011). A



noteworthy development in this regard is the adoption of the Elimination of Non-Tariff Barriers Act in 2015. This aims to provide a stronger basis for legal enforcement, by allowing for dispute resolution over NTBs and entails the possibility of sanctions for member states. Whether and how such an enforcement mechanism will be used in practice remains to be seen (see Box 1).

### **A role for the private sector and civil society**

The private sector, which in theory stands to gain or lose from integration, has traditionally had limited engagement on EAC policy issues through formal channels, regardless of the member state. Although the Secretariat, the national EAC Ministries, the Council and the sectoral committees were mandated in 2012 by the EALA to establish regular consultation mechanisms with national and regional civil society and private sector apex bodies, this was not acted on in practice and these activities have not received any set allocation in annual budgets since this policy was approved in 2012 (EALA, 2013a).

Kenyan firms in particular are now more active in advocating for improved regional trade conditions as well as for a more effective dispute resolution framework (see Box 1). As such, the private sector represents a potentially important means of EAC integration aside from formal inter-governmental action. However, active engagement with EAC policies is not always constructive. While business associations have contributed to increased transport sector integration, transporter associations such as the Kenya Transport Association and Tanzania Transport Association have opposed efforts to liberalise the sector in order to protect their business (World Bank, 2014).

CSO involvement in EAC policy development is generally limited. Although there are some examples of CSO contributions to policy development in the field of gender and environmental and climate policies,<sup>10</sup> these appear to be responding more to donor initiatives than citizen demand.

### **The question of money**

Another factor limiting the autonomy of the EAC to determine its policy agenda relates to the failure of member states to pay their member state contributions. These rules are regularly ignored by member states, many of whom do not pay fees for significant time periods. In January 2013 the EAC Secretariat reported that member states were in arrears worth US\$12m on their contributions to the EAC. This is reported to be a regular phenomenon. Both the Secretariat and EALA claim very late and incomplete disbursements to them are hampering their work. Peter Mutuku Mathuki (Kenya), a member of the EALA Accounts Committee, recently stated that the “The departments at the Secretariat are not well-staffed and staff is overstretched,” going on to describe the EAC Secretariat as “currently operating below capacity—meaning some services won’t be delivered to the expectations of East Africans”<sup>11</sup>. This contributes to the need for donor financing which, in turn, can lead to policies that reflect donor agendas and have little member state interest (see Section 2.5).

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. Positions in the organs of the EAC are highly lucrative. Salaries are high compared to similar postings in national and regional bodies and staff have access to considerable additional funds through large per diems, sitting allowances and study tours (World Bank, 2011). Positions are hence highly sought after and those with control over appointments to them use them as part of systems of political patronage to reward their supporters.

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<sup>10</sup> This includes the East African Sub-Regional Support Initiative for the Advancement of Women (EASSI), which contributed to the EAC adopting a Draft Gender Protocol, establishing an EAC Sectoral Council of Gender, Youth, Children and Social Protection, and a Draft Gender Bill (June 2013). The East Africa Suswatch Network has been engaged in lobbying and advocating for sustainable environmental management of the Lake Victoria basin, and implementation of the East African Community Climate Change Policy (EACCCP).

<sup>11</sup> See <http://www.newtimes.co.rw/section/article/2015-02-01/185519/>.



This produces nagging skills gaps across the organs of the EAC and generates an organisational culture that is not driven by results.

Additionally, bribery levels are high in each of the member states apart from Rwanda (Transparency International, 2012). This may block EAC policies even when they have the support of senior government officials. For example, various low level systems of rent extraction involving customs agents, police, private groups and politicians at ports, custom check points and weighbridges have undermined attempts to facilitate transport across corridors (e.g. Booth et al., 2014).

**Box 1: The political economy of monitoring mechanisms**

The attention paid to monitoring regional integration reflects and influences important political economy dynamics. From this point of view, monitoring mechanisms are far more than a technical issue. Indeed, while the institutional setting might provide impetus for complying with regional commitments, the institutional setting itself results from a political choice. In the EAC, the Secretariat is limited in its ability to coordinate monitoring efforts as it has no power or authority to check, control or sanction member states. Nonetheless, monitoring issues gained increasing attention under the influence of political interests in one of the EAC member states, Burundi, the support of Trade Mark East Africa (TMEA), a pooling mechanism for donor funding and project implementation, and input from the private sector.

***Monitoring regional integration: national interests in the driving seat***

East African monitoring mechanisms have been slow to take off. The EAC's main monitoring tool is the East African Monitoring System (EAMS), which comprises of an online database and monitoring system on the implementation of decisions and directives made by the EAC Summit, Council of Ministers, and Sectoral Councils. The EAMS is managed by the Secretariat and the Ministries of EAC Affairs in the member states. Considerable resources have also been invested by TradeMark East Africa, illustrating the critical role that an external actor can play in regional integration processes.

However, use of the EAMS has not been met with success. For example, consultants recruited to support member state monitoring systems have tended to not share their methodology, codes and approach, which has resulted in each of the member states developing different systems, and failing to benefit from lessons learnt across countries. The various national systems have not been working together and each member state has been crafting its own solutions, leading to development of national EAMS, which often do not function adequately.

Political interests in Burundi breathed new life into the monitoring mechanism. In Burundi, the importance attributed to the EAC grew exponentially as the government identified trade and regional integration as one of its priority economic growth transmission channels. The government gradually saw regional integration not only as a political signal towards its neighbours, but also as a way to lock-in reforms and carry out the structural transformation which it had planned to undertake as part of its national plan and its objective of boosting economic growth and development. This is reflected in the increased importance dedicated to the position of the Ministry of EAC Affairs, which is responsible for the EAMS at the national level. Initially placed under the Ministry of Foreign Affairs, it was later moved directly under the office of the President. This, in turn, created the required push for the Ministry of EAC Affairs to provide leadership in rolling out the EAMS.

In 2012, a tripartite meeting was organized between the Ministry to the Presidency for East African Affairs in Burundi, TradeMark East Africa and the EAC Secretariat. This tripartite meeting opened up a number of very important issues, which until then had remained dormant, including the general lack of transparency. A number of high level regional meetings have been organised since, to share the experience and practice (e.g. organisational structure, communication tools, case study) of Burundi and other EAC member states. The brokering role played by an external actor such as TradeMark East Africa, combined with close engagement with the Burundi Ministry of EAC Affairs, contributed to a more cooperative environment, thus diluting incentives to retain information and produce original but overly complex solutions.

***The private sector focus on trade barriers: towards a legal framework***

In spite of the above successes, the lack of private sector involvement in the EAMS has severely lowered the pace of implementation. The high-level government focus of the EAMS means that the private sector has little

to gain from participation. Instead, the private sector prefers to focus its attention on the removal of NTBs, which can be more directly addressed. In all EAC member states, the private sector participates in the national Non-Tariff Barrier Committee, which oversees the EAC Time Bound Programme on NTBs. Particularly in Kenya and Uganda, private sector players have played a significant role in pushing for a comprehensive monitoring tool.

Finally, in March 2015, the East African Legislative Assembly passed the Elimination of Non-Tariff Barriers Act, providing a legal framework for the removal of NTBs under the Common Market Protocol. As the new Elimination of Non-Tariff Barriers Act takes precedence over the national laws of member states, the business community in the region now has the opportunity to resolve existing NTBs through dispute resolution, with the possibility of sanctions for member states not observing directives by the Council of Ministers. Whether, and if so, how such enforcement mechanism will be used in practice remains to be seen. However, it is likely that it will reinforce incentives for greater transparency and monitoring of implementation.

## 2.5. External drivers and blockers

Due to the large arrears in member state contributions, the EAC is heavily dependent upon donor funding. Traditional donors contributed over 65% of the 2013/14 budget of the EAC, with partner states contributing just 28% (EAC, 2013). A reliance on donor financing creates incentives to develop policies which appeal to donor interests but risk having limited domestic constituency in the EAC. Consequently, many long-term donor-supported policies, as embodied in medium term development strategies, are never translated into clear policy or plans, and current priorities are sometimes not found in any policy or plan. For instance, while the standard gauge railway is a key priority to three EAC member states, the 2011/12-15/16 Development Strategy makes no reference to it. On the other hand, it does include extensive commitments to the social sector and environment, which have not been taken forward, areas which have been pushed by external partners.

The increased prioritisation of infrastructure, particularly high-cost infrastructure projects, has been enabled by the shifting balance of influence in East Africa from 'West' to 'East'. This shift has allowed the EAC and EAC states to pursue ambitious and high-cost infrastructure projects that were not supported, or were even opposed by traditional donors previously. The most recent example of cooperation between China and the EAC is the Standard Gauge Railway, which was publicly opposed by the World Bank on the grounds that it was not cost effective. However, the World Bank's opposition and the absence of World Bank funding did not halt the project. The Government of Kenya entered into contractual agreements with Chinese companies for financing and construction of one stage of the Standard Gauge Railway line in 2014, and it is reported that EAC member states are in joint discussions with China Exim bank for financing of the remainder of the project.

Other external factors affecting EAC integration relate to the wider region. East African states are at the centre of an overlapping web of regional blocs and trade arrangements with EAC members also members of IGAD (Kenya, Uganda and now South Sudan), COMESA (all except Tanzania), SADC (Tanzania, with Burundi requesting entry in 2017) and ECCAS (Rwanda and Burundi). This doesn't include sets of bilateral and multilateral trade agreements with foreign states/RECs.

EAC states hence face competing commitments and disjointed sets of rules and standards to comply with. The effects of multiple REC membership are most prevalent in trade policy and barriers to the implementation of the common market (Sandrey, 2015). Efforts to implement a common external tariff have suffered from a patchwork of exemptions, some of which are due to the different FTA membership of EAC member states. Additionally, discrepancies between the Common External Tariffs of the different REC's complicates the implementation of an EAC customs union. The Tripartite FTA process, involving COMESA, EAC and SADC should in principle facilitate the alignment and compatibility of overlapping trade regimes, even more so if the Tripartite FTA turns into a Tripartite Customs Union, as foreseen. There is, however, still a long way to go.

Similar to the effect of overlapping memberships, external trade relations may equally create competing commitments that complicate regional objectives. In this regard, the economic partnership agreement (EPA) with the EU, officially concluded in 2014, has only been signed by Kenya and Rwanda. Other countries see no use in signing the agreement, as they can rely on the Everything But Arms agreement for Least Developed Countries (LDC) in the short term, and have much less significant exports to the EU even if they graduate to LDC status in the long term.<sup>12</sup> To date, implementation of the EPA has been halted, awaiting commitments by the remaining member states. However, at the 18th Summit of Heads of State of the EAC it was decided to consider “variable geometry” in implementing the EPA if no common position with the EU can be found within half a year. This course of direction would undermine, and ultimately jeopardise, the EAC Customs Union efforts.

### 3. The political interests of member states

There is considerable variation in the political economy dynamics of each of the EAC member states, but they all share an especially close connection between political elites and a small set of business interests. In the case of transport, for example, ruling elites in Kenya and Tanzania have a stake in the trucking industry, which helps explain why roads have enjoyed more public funding than railways, and why there are no serious attempts to liberalise the regional trucking sector. Likewise, the recent shift towards railways in the EAC’s agenda can be traced back to 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.

In other cases, however, member states have proven willing to alter these practices and focus on economic growth rather than on rents for political elites. For example, the Mombasa port in Kenya has been subject to substantial management reforms which resulted in a reduction in patronage and high-level corruption in Mombasa port, more effective financial management and reinvestment in operations (Mathieson et al., 2014).

Large disparities in power between EAC states and Kenya’s role as the regional hegemon have enabled Kenya to exercise disproportionate influence on other member states in the EAC and dominate the regional policy agenda. Generally speaking Kenya has a greater interest in regional integration than other EAC member states, given the importance of Kenya’s trade with other EAC states - intra-EAC trade is hugely dominated by the export of Kenyan goods, primarily of high value primary/secondary goods. Kenya’s most recent Presidents have been very receptive to private sector interests, including those that relate to the EAC. As such, Kenya is willing to bear the costs which come with inter-governmental co-ordination to accelerate the integration process. The Government of Kenya has, relatively successfully, pushed ahead on the implementation of EAC policies, including on improving the efficiency at Mombasa Port, developing a regional Standard Gauge Rail network, addressing issues around weighbridges and easing visa restrictions.

The strong stance and economic dominance of Kenya has sparked fears among some states that regional integration will be a form of national subjection to Kenyan interests. In this regard, an increasing clash of interests between elites in Tanzania and Kenya risks constraining further progress. The Kenyan attempts to accelerate EAC integration represent a threat to Tanzania, the second largest EAC state, which does not have a similarly regionally expansive private sector. Consequently, Tanzania has the lowest level of compliance on policies to eliminate tariffs and NTBs and harmonise quality and safety standards in trade. Tanzania is in many ways seen to prefer a shallower form of integration to accommodate its other regional commitments.

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<sup>12</sup> See <http://globalriskinsights.com/2017/03/bloc-to-bloc-will-the-eac-sign-the-european-unions-epa/>

The different approaches between Kenya and Tanzania have also spilled over to the EAC's external relations, with Kenya championing and indeed needing the EPA to maintain the same EU market access, and Tanzania fiercely rejecting it. While most countries in the region have not backed the EPA, Tanzania in particular fears its domestic industries will be outcompeted by heightened European competition.<sup>13</sup> Paradoxically, Kenya's willingness to align with private sector interests, which has been a driver of EAC integration, could mean adoption of the EPA at the cost of future EAC integration.

The clash of interests between Tanzania and the rest of the region led in recent years to the Tripartite Infrastructure Initiative, later called the Northern Corridor Integration Project. The project consisted of an informal tripartite grouping of Kenya, Uganda and Rwanda and was used as an alternative policy forum to the exclusion of Tanzania. The Northern Corridor Integration Project (also known in local press as "the coalition of the willing") was established with a specific focus on the Mombasa port and the Northern Corridor, but soon expanded to include extra clusters ranging from ICT over defence cooperation to the possibility of a political federation. South Sudan became an active member at the third Summit, while Ethiopia and Tanzania eventually joined as observers<sup>14</sup>. Interestingly enough, cracks are starting to show, with members of the alliance turning to Tanzania instead of Kenya for infrastructure cooperation, following Tanzania's elections and political change there<sup>15</sup>.

The tensions between Kenya and Tanzania have been accentuated by two recent developments. In the case of transport, the long standing competition over control of the regional transit market between Tanzania and Kenya is growing with the traffic at Dar port increasing up to 12.9% compared with 11% in Mombasa (Shippers Council of Eastern Africa, 2013), and the US\$10 billion finance that the Government of Tanzania has secured for the development of the port of Bagamoyo. Additionally, the discovery of gas reserves worth US\$2.1 trillion could bolster the Tanzanian government in its aims of industrial transition and threaten Kenya's regional economic dominance (Byiers et al., 2015). While neither of these developments currently poses a challenge to Kenya's position in the region, there is a risk that they could in the future and Kenyan elites seem to be reacting strongly to this possibility.

## 4. Areas with most traction for regional cooperation

This 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. This is perhaps illustrated best by the accelerated integration efforts of the sub-group of the Northern Corridor countries. While the Northern Corridor Integration Project represents an opportunity to drive integration, it also entails 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.

Interests have most clearly aligned among EAC countries around new large-scale regional infrastructure, supported by 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 policymakers 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 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. This would require

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<sup>13</sup> See <http://globalriskinsights.com/2017/03/bloc-to-bloc-will-the-eac-sign-the-european-unions-epa/>

<sup>14</sup> See <https://www.nciprjects.org/about/about-us>.

<sup>15</sup> See <http://www.nation.co.ke/lifestyle/smartcompany/Northern-Corridor-initiative-shaky-as-projects-falter/1226-3128274-ingi4p/index.html>.

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 also points to apparent discussions on the EAC institutional arrangements, with an ongoing 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 disincentives 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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