REPUBLIC OF KENYA

KENYA NATIONAL ASSEMBLY

ELEVENTH PARLIAMENT – SECOND SESSION

COMMITTEE ON REGIONAL INTEGRATION

REPORT ON THE PROTOCOL FOR THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION

CLERK'S CHAMBERS
PARLIAMENT BUILDINGS
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LIST OF ABBREVIATIONS

1. EAC – East African Community
2. EAMU- East African Community Monetary Union
3. EMU- European Monetary Union
4. WAEMU- West African Economic and Monetary Union
5. WAMZ- West African Monetary Zone
6. CFA- West African Francs
7. ECOWAS- Economic Community of West African States
8. GDP- Gross Domestic Product
9. CMU- Caribbean Monetary Union
10. CARICOM- Caribbean Community
11. EAMI- East African Monetary Institute
12. EACB- East African Central Bank
13. CBK- Central Bank of Kenya
14. EA- East African
15. ECB- European Central Bank
16. KIPPRA- Kenya Institute for Public Policy Research and Analysis
17. EU- European Union
18. ESM- European Stabilization Mechanism
19. OCA- Optimal Currency Area
20. NTBs- Non Tariff Barriers
21. EASB- East African Statistics Bureau
22. AU- African Union
23. UN- United Nation
24. IMF- International Monetary Fund

1.0 PREFACE

1.1 *Establishment and Mandate of the Committee*

Mr. Speaker, Sir

The Committee on Regional Integration is one of the Select Committees of the National Assembly established under Standing Order 212 and mandated to, inter alia; **'enhance the role of the House in intensification and development of the integration process in the East African Community and the greater African region'.**

1.2 *Committee Membership*

Mr. Speaker, Sir

The Committee on Regional Integration was constituted by the House on Thursday 2nd May, 2013 comprising the following members:

1. Hon. Florence Kajuju, MP **(Chairperson)**
2. Hon. Christopher Nakuleu, MP **(Vice Chairperson)**
3. Hon. David Ouma Ochieng, MP
4. Hon. Dan Kazungu, MP
5. Hon. Bady Twalib Bady, MP
6. Hon. Robert Mbui, MP
7. Hon. Anyanga Andrew Toboso, MP
8. Hon. Florence Mwikali Mutua, MP
9. Hon. Ogendo Rose Nyamunga, MP
10. Hon. Charles Mutisya Nyamai, MP
11. Hon. Alois Lentoimaga, MP
12. Hon. Anthony Kimaru, MP
13. Hon. David Kariithi, MP
14. Hon. Wanjiku Muhia, MP
15. Hon. Murungi Kathuri, MP

16. Hon. Ali Wario, MP
17. Hon. Eric Keter, MP
18. Hon. Mary Seneta, MP
19. Hon. Gideon Konchella, MP
20. Hon. Dido Ali Rasso, MP
21. Hon. Ann Nyokabi, MP
22. Hon. Emmanuel Wangwe, MP
23. Hon. Peter Shehe, MP
24. Hon. Alex Mwiru, MP
25. Hon. Mark Lomunokol, MP
26. Hon. Sarah Korere, MP
27. Hon. Cyprian Kubai Iringo, MP
28. Hon. Timothy Bosire, MP
29. Hon. Joseph Kahangara, MP

1.3 *Committee Proceedings*

Mr. Speaker, Sir,

The Committee held a total of twelve **(12)** sittings where it met with various stakeholders during the consideration of the Protocol which included; The Ministry of East African Affairs, Commerce & Tourism, The State Law Office, Institute of Economic Affairs (IEA), The National Treasury, Kenya Private Sector Alliance (KEPSA), and the Kenya Institute for Public Policy Research (KIPPRA).

1.4 *Subject Matter before the Committee*

Mr. Speaker Sir,

The Cabinet Secretary for the National Treasury, **Mr. Henry K. Rotich** and the Cabinet Secretary for East African Affairs, Commerce and Tourism, **Mrs. Phyllis J. Kandie** jointly submitted a Cabinet Memorandum on the Protocol for the establishment of the East African Community Monetary Union to the National Assembly on 22nd July 2014 for consideration and ratification pursuant to Section 8 of the Treaty Making and Ratification Act, 2012 and Article 2(6) of the Constitution of Kenya. The Cabinet Memorandum and the Protocol is hereby attached **as annex two (2) and three (3)** respectively to this report.

The Cabinet Memorandum was subsequently committed to the Committee on Regional Integration to inquire into and examine the Protocol for consideration and action by the House.

1.5 Legal Basis for EAC Monetary Union Protocol

The East African Monetary Union is the third stage/pillar of the EAC integration process. Its establishment is anchored in Article 5 (2) of the Treaty for the establishment of the East African Community which states that "the Partner States undertake to establish among themselves and in accordance with the provisions of this Treaty: **a Customs Union; a Common Market: subsequently a Monetary Union** and ultimately **a Political Federation".** In addition, Chapter Fourteen (Articles 82, 83, 84,85,86,87 and 88) of the Treaty provides for Cooperation in Monetary and Financial Matters

Mr. Speaker, Sir,

The Protocol was committed to the Committee on Regional Integration for its consideration alongside the provisions of Article 118 of the Constitution and Section 8 of the Treaty Making and Ratification Act, 2012

In considering the Protocol, the Committee was guided by the Treaty Making and Ratification Act, 2012 which provides in section 8(4) that Parliament may approve the treaty with or without reservations. This provision recognizes the principle of separation of powers between the legislature and the executive in so far as law/treaty ratification is concerned and envisages a scenario where divergent views may ensue between the two branches of Government.

Mr. Speaker Sir,

The Committee observed that the Cabinet Memorandum forwarding the protocol from the Cabinet to the National Assembly noted that the practice in the EAC is to negotiate protocols that do not allow reservations and declarations. This disregards the provisions of the Constitution and Treaty Making and Ratifications Act, 2012 which give powers to Parliament to make reservations on provisions of international treaties and protocols that contradict the Constitution of Kenya.

1.6 The Protocol for the Establishment of East African Community Monetary Union

The following is a summary of the key provisions of the Protocol for the Establishment of the East African Community Monetary Union (EAMU).

(i) **Part B:-Establishment, Objectives and Scope of the Monetary Union**

This part contains articles that define the overall objective of EAMU-promoting and maintaining a zone of sound monetary and fiscal policies and financial stability to facilitate achievement of sustainable growth and development of the community.

(ii) **Part C:- Pre-Requisites for the Monetary Union**

Prerequisites to EAMU covers the implementation of the Custom Union, Common Market Protocol, coordination and harmonization of fiscal policies, harmonization and coordination of monetary and exchange rate policies, achievement and maintenance of macroeconomic convergence, framework for surveillance and enforcement and adherence to principles of open market economy

(iii) **Part D- Macroeconomic Convergence Criteria**

This part provides for the specific targets on inflation (8%), fiscal deficit including grants (3%), gross public debt (50%), and months of import cover (4.5) to be achieved and maintained by EAC Partner States as countries join the EAMU.

(iv) **Part E- Macroeconomic Policy framework**

This part provides for macroeconomic policy framework comprising fiscal policies, monetary policy, and exchange rate policy. It further provides for how partner states will harmonize, coordinate and disclose their fiscal policies. Provisions on building resilience and managing economic shocks among the economies of the partner states and debt management are also given. Of major importance in this part is the ceding of Partner State's individual Central Banks of the monetary policy mandate to a supra national Bank in the region. This will call for amendments in Article 231 of the Constitution

(v) **Part F- Financial, Payment and Settlement Systems**

This part provides for the development of an efficient, sound, sustainable, accessible, harmonized, stable and integrated financial and payment systems. This will ensure efficient flow of financial transactions within the monetary union.

(vi) **Part G- Statistics**

This part provides for the development and adoption of East African Statistical Framework for compilation, analysis and dissemination of statistical data and information necessary for the proper functioning of the monetary union.

(vii) **Part I- Institutional Mechanisms**

This part provides for the establishment of the East African Central Bank, its capitalization, independence and integration with the national central banks of Partner States in the single currency area to form a functionally integrated system of central banks. The part also proposes formation of other institutions to support the monetary union such as the Statistics, financial services and surveillance.

1.7 Committee Observations

Below is a summary of the Committee Observations on the Protocol for the establishment of the East African Community Monetary Union:-

1.7.1 The East African Community (EAC) is a regional inter-governmental organization established under Article 2 of the East African Community Treaty that came into force in July 2000. The EAC is made up of five (5) Partner States namely; United Republic of Tanzania, Republic of Uganda, Republic of Rwanda, Republic of Kenya and Republic of Burundi.

1.7.2 The EAC integration process has four (4) pillars namely; **Customs Union (1st Pillar), Common Market (2nd Pillar), Monetary Union (3rd Pillar)** and **Political Federation (4th pillar)**.

1.7.3 Partner states have so far established among themselves a Customs Union that came into force in 2005, the EAC Common Market Protocol which was signed in November, 2009 and its implementation started on 1st July, 2010 with the year 2015 as the target for its full implementation. Consequently partner states have now embarked on the third pillar of establishing the East African Community Monetary Union (EAMU) having established the first two pillars of the EAC integration process.

1.7.4 The Cabinet of Kenya discussed and approved the Protocol on the establishment of the EAC Monetary Union in the fifth Cabinet meeting held on 10th July, 2014 and forwarded the same to Parliament for ratification.

1.7.5 The East African Monetary Union will have both positive and negative consequences on the economy. However, if mitigating measures put in place in the protocol are well implemented the envisaged negative effects will be significantly reduced or altogether eliminated. Among the benefits that the citizens will enjoy include; enhanced trade and investment, reduction in foreign exchange risk, increased efficiency and wider market, ease of price comparability, and symbol of integration.

1.8 Committee's Recommendation

The Committee is convinced that the Protocol for the Establishment of the EAC Monetary Union will be beneficial to the individual Partner States of the East African Community and therefore recommends that the House ratifies the Protocol.

1.9 Acknowledgement

The Committee wishes to record its appreciation to the Office of the Speaker and the Clerk of the National Assembly for facilitation. The Committee is grateful to all the stakeholders who appeared before it and made submissions. Further, the Committee is indebted to the staff of the National Assembly, State Law Office, and The National Treasury for the services they rendered to the Committee. It is their commitment and dedication to duty that made the work of the Committee and production of this report possible. I wish to express my appreciation to the Honorable Members of the Committee who sacrificed their time to participate in the activities of the Committee and preparation of this report.

Finally, the Committee appreciates the role played by the Chairperson of the EAC Summit, H.E. Uhuru Kenyatta, CGH, the Chairperson of the EAC Council, Ms. Phyllis Kandie, all the Kenyan negotiators and the Kenya National Assembly towards the establishment of the EAC Monetary Union.

Mr. Speaker, Sir,

On behalf of the Committee, it is therefore my pleasant duty and privilege, on behalf of the Committee on Regional Integration, to commend this report on Protocol for the Establishment of the East African Community Monetary Union for consideration and approval by the House Pursuant to Section 8(4) of the Treaty Making and Ratification Act, 2012 and Standing Order 199.

Signed ....

THE HON. FLORENCE KAJUJU, MP
CHAIRPERSON,
COMMITTEE ON REGIONAL INTEGRATION

Date: 16th. OCT. 2014

2.0 BACKGROUND

2.1 East African Community Monetary Union

2.1.1 The negotiations of the EAC Monetary Union commenced in January 2011 and were concluded in July 2013 thus paving way for its approval and signing in November, 2013. The 15th Summit of EAC Heads of State on the 30th November, 2013 in Kampala Uganda, signed the East African Monetary Union and directed that all Partner States should conclude the ratification of the Protocol establishing the Monetary Union by July, 2014.

2.1.2 The East African Community Monetary Union is expected to provide among others benefits to the citizens and economies of the East African Community which include;

(a) Enhanced trade and investment;

(b) Reduction in foreign exchange risk;

(c) Increased efficiency and wider market;

(d) Ease of price comparability;

(e) International Reserves;

(f) Symbol of Integration.

2.1.3 Further the East African community Monetary Union also present challenges to the Partner States which include;

i. Loss of sovereignty in monetary and exchange rate policies.

ii. Amendment of the Laws to conform to the East African Monetary Union Protocol.

iii. Constrained Fiscal Environment.

2.2 Pre-requisites for the Monetary Union

2.2.1 Each of the Partner States in the region will be required to fulfill the following pre-requisites before entering into the Monetary Union as per the road map for the establishment of the Monetary Union;

i. Fully implement the Protocol Establishing the East African Community Customs Union and the Protocol Establishing the East African Community Common Market;
ii. Harmonize and coordinate their fiscal policies;
iii. Harmonize and coordinate their monetary and exchange rates policies;
iv. Adopt common principles and rules for payments and settlements;
v. Harmonize their payments and settlement systems;
vi. Harmonize their policies and laws relating to the production, analysis and dissemination of statistical information;
vii. Introduce bands and gradually fix their bilateral exchange rates to facilitate the conversion of the currencies of the Partner States to the East African currency unit;
viii. Integrate their financial systems and adopt common principles and rules for the regulation and supervision of the financial system;
ix. Phase out any outstanding national central bank lending to its Government and public entities;
x. Attain and maintain for three consecutive years the following macro-economic convergence criteria:
    - A ceiling on headline inflation of 8%;
    - A ceiling on fiscal deficit, including grants of 3% of Gross Domestic Product;
    - A ceiling on gross public debt of 50% of Gross Domestic Product in Net Present Value terms;

- A reserve covers of 4.5 months of imports.

2.3 International Comparison

(a) European Union Economic and Monetary Union (EMU)

2.3.1 The Maastricht Treaty of 1992 spelt out the following criteria for membership of EU countries in the Economic and Monetary Union (EMU), which started in January 1999:

(i) Long-term interest rate not in excess of 2 percent above the average of the three countries with the lowest inflation rates;

(ii) Inflation rate not higher than 1.5 percent above the average of the three countries with the lowest inflation rates

(iii) No devaluation of its currency in the two years preceding the entrance into the Union; and

(iv) Government deficits and debts not exceeding 3 percent and 60 percent of the GDP, respectively.

(b) West Africa Monetary Union (EMU) and West African Second Monetary Zone (WAMZ)

2.3.2 The Treaty founding the West African Economic and Monetary Union (WAMU) was adopted on 10^{th} January 199 economic and monetary union of eight West African countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo) which share same currency, West African Francs (CFA francs), monetary policies, and French as an official language.

2.3.3 Six of the 15 member countries of the Economic Community of West African States (ECOWAS), namely, The Gambia, Ghana, Liberia, Nigeria and Sierra Leone, embarked on an ambitious project to set up a second monetary union and common currency in West Africa (popularly referred to as West African Second Monetary Zone (WAMZ), to coexist with WAEMU.

2.3.4 In April 2000, these countries signed the Accra Declaration on a second monetary zone, committing themselves to restructuring their economies to meet the following stringent convergence criteria one year ahead of the ECOWAS goal of launching the single monetary zone (and the introduction of a single currency) in the sub-region:

i) Maintain single-digit inflation by the end of 2000 and an inflation rate of not more than 5 percent by 2003;

ii) Maintain gross foreign currency reserves to cover at least three months' worth of imports by the end of 2000 and six months' worth by the end of 2003;

iii) Limit central bank financing of the budget deficit to 10 percent of the previous year's tax revenue; and

iv) Maintain a maximum budget deficit-to-GDP ratio of 5 percent by the end of 2000 and 4 percent by the end of 2003.

2.3.5 The WAMZ partner States set a 10 year road map (2001-2012) to fully meet all of the convergence criteria. The data available indicates that none of the six countries was able to fully meet the convergence criteria in the 10 year period.

(c) Caribbean Monetary Union (CMU)

2.3.6 The bid for the formation of Caribbean Monetary Union (CMU) was started in 1989 by member States of the Caribbean Community (CARICOM)[1]. A set of criteria was established which member countries must satisfy before joining

[1] The CARICOM Members are: Antigua and Barbuda; Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Haiti; Jamaica; Montserrat; Saint Lucia; St. Kitts and Nevis; St. Vincent and Grenadines; Suriname; and Trinidad and Tobago

CMU. The convergence criteria state that member countries must adhere to the following:

(i) Hold external reserves equal to at least 3 months of imports for at least 1 year.

(ii) Maintain a stable exchange rate for at least 3 years (i.e. the exchange rate is not to fluctuate by more than 1.5% during the 3 years prior to monetary union).

(iii) Have external debt service obligations of no more than 15% of exports.

(iv) Contain fiscal deficits of below 3% of GDP.

(v) In the year prior to monetary union, have an inflation rate within 1.5% of the median of the 3 countries with the lowest (but positive) rates.

2.3.7 The CARICOM Partner States envisaged that CMU would include all members of CARICOM and recommended that a fully operational common currency be in place by the year 2000.

3.0 SUBMISSIONS

3.1 Submission by the State Department of East African Affairs

3.1.1 The then Principal Secretary for State Department of East African Affairs, **Ms. Mabruki Mwanamaka** appeared before the Committee on 14th August 2014 and submitted the following on the protocol for establishment of the East African Monetary Union:

The following is a summary of the submissions:

(1.) Negotiations of the EAC Monetary Union Protocol

3.1.2 The negotiations of the EAC Monetary Union commenced in January 2011 and were concluded in July 2013 thus paving way for its approval and signing in November, 2013. Prior to initiation of the negotiations, the Summit had issued several directives on monetary union. The following three directives are worth mentioning.

(a) The **6th Extra-Ordinary Summit** of the EAC Heads of State held on **20th August 2007**, decided that there is need to move expeditiously towards establishing a Common Market by 2010 and a Monetary Union by 2012 as the EAC moves on to a Political Federation;

(b) The **11th Ordinary Summit** held on **20th November 2009** received the report on the progress towards the establishment of the EAC Monetary Union and directed the EAC Council to ensure that, upon the coming into operation of the Common Market, the preparations for the establishment of the Monetary Union should be moved into higher gear; and

(c) The **11th Extra Ordinary Summit** held on **28th April 2013** directed the Council of Ministers to expedite negotiations and conclusions of the Protocol on the Establishment of the East African Monetary Union with a view to signing the Protocol at the 15th Summit of the EAC Heads of State scheduled for November, 2013.

3.1.3 In line with these directives, the **15th Summit of EAC Heads of State** on the **30th November, 2013** in Kampala Uganda approved and signed the East African Monetary Union Protocol.

3.1.4 In the same meeting the following pronouncements were made relating to the monetary union as captured in the Summit Communiqué issued:

a) All Partner States should conclude the ratification of the Protocol by July, 2014;

b) The Sectoral Council on Finance and Economic Affairs will be responsible for the implementation of the monetary union ;

c) The Council of Ministers should implement the road map to single currency as indicated in the schedule on EAC Monetary Union Protocol;

d) The Council of Ministers apprise the Summit on the progress made on the implementation of the roadmap to single currency at every ordinary Summit;

e) The Council of Ministers develops Bills for the establishment of the institutions provided in the Protocol for consideration by the East African legislative Assembly as provided in the road map;

f) The following five key institutions will support the implementation of the monetary union:

(1) East African Monetary Institute (EAMI)- a transitional institution to carry out the preparatory work for the monetary union;

(2) East African Surveillance Compliance and Enforcement Commission to be responsible for surveillance, compliance and enforcement of the monetary union matters in the Community;

(3) East African Statistics Bureau to be responsible for statistics;

(4) East African Financial Services Commission to be responsible for financial services in the Community; and

(5) East African Central Bank to be responsible for monetary and exchange rate policies and issuance of the EAC currency.

(2) Legal Basis on Ratification of the Protocol

3.1.4 Article 151(3) of the Treaty for the establishment of the EAC requires that **each** protocol concluded should be signed and ratified by the Partner States. In accordance with the provision of this Article, the 15^{th} Summit of EAC Heads of State signed the Protocol on the Establishment of the East African Community Monetary Union on 30th November 2013 and directed that all Partner States conclude the ratification of the Protocol **by July, 2014**.

3.1.5 Article 2(6) of the Constitution of Kenya provides that, "Any Treaty or Convention ratified by Kenya shall form part of the laws of Kenya". The Treaty Making and Ratification Act, 2012 was enacted to give effect to the provisions of this article and to provide the procedure for the making and ratification of Treaties.

3.1.6 The ratification of EAMU Protocol is therefore anchored in the Treaty Establishing East African Community, the Constitution of Kenya and The Treaty Making and Ratification Act, 2012.

(3) Sensitization of the public on the East African Monetary Protocol

3.1.7 Sensitization of the public and other stakeholders on the Protocol has been ongoing. Key stakeholders sensitized include:

(a) Relevant committees of National Assembly such as Regional Integration Committee, Finance, Planning and Trade and Defence and International

Relations. These committees were sensitized in September, 2013 before the approval and signing of the protocol. The Public Accounts Committee and Public Investment Committee and Senate Committee on Finance, Commerce and Planning are extensively involved in the EAC activities on harmonization of public financial standards within the context of the East African Monetary Union; and

(b) Media, university students and civil society have also been sensitized. County specific sensitizations have also been undertaken. Recently country wide sensitization of county leadership was undertaken on 19th - 26th May, 2014 which brought on board stakeholders from all the 47 counties.

(4) Hosting Institution(s) To Support East African Monetary Union

3.1.8 A meeting of the stakeholders has been held to deliberate on which institution(s) the country should bid to host out of the five (5) institutions to be established to support the East African Monetary Union.

3.1.9 The Central Bank of Kenya had proposed that the country bids to host the East African Monetary Institute (EAMI) in anticipation that it will transform into East African Central Bank as was the case in the European Monetary Union. Stakeholders felt that it would be risky to assume this eventuality since it is not explicitly provided for in the East African Monetary Union Protocol. Consequently, the stakeholders agreed that Kenya will bid for both the EAMI and East African Central Bank.

3.1.10 A team of experts drawn from stakeholders from financial sector and relevant Ministries is to be constituted to prepare the concept note that will guide the bidding process. The concept note will put a strong case on why Kenya is best suited to host the two institutions.

(5) Ongoing Preparatory Work On East African Monetary Union

3.1.11 The Secretariat has kick started the preparatory work on harmonization of public expenditure and Public Financial Management. Towards this end the following activities have been undertaken:

a) Workshop on Public Financial Management among EAC Partner States was held on 18^{th} - 21^{st} January, 2014 in Arusha, Tanzania;

b) Meeting of the Committee on Fiscal Affairs held on 1^{st} - 4^{th} March, 2014 in Nairobi. The meeting considered progress on harmonization of the fiscal matters necessary for EAC Monetary Union and progress on harmonization of taxes;

c) The meeting of the Sectoral Council on Finance and Economic Affairs held on 12^{th} -15^{th} March, 2014, Nairobi. This meeting considered among others the next steps for East African Monetary Union.

d) Stakeholders Workshop on Harmonization of Public Financial Management Standards in line with the EAC Monetary Union, 17^{th} -19^{th} March, 2014, Nairobi; and

e) The Second Session of the Public Accounts Committee on Harmonization of Public Financial Management Standards in the context of East African Monetary Union held in Kigali Rwanda 8^{th} - 9^{th} May, 2014.

(6) Implications Of The East African Monetary Union

3.1.12 The East African Monetary Union will have both positive and negative consequences on the economy. However, if mitigating measures put in place in the protocol are well implemented the envisaged negative effects will be significantly reduced or altogether eliminated.

3.1.13 The following are some of the positive implications of the protocol

(i) Enhanced Trade and Investment: A single currency will significantly reduce the transaction cost. Transaction costs are costs relating to change from one currency to another for instance commission paid. The single currency in the EAMU will eliminate these foreign exchange transaction costs thus enhancing trade and investment in the region. With the establishment of the Monetary Union, more trade benefits are expected to accrue to Kenya.

(ii) **Reduction in Foreign Exchange Risk**: The existence of multiple currencies within the EAC region creates foreign exchange risks. This risk will be eliminated by adoption of a single currency within the EAC region.

(iii) **Increased Efficiency and Wider Market:** Deeper regional economic integration will accelerate development in all partner states by strengthening competition between firms within the region. The local manufacturers will in addition to being efficient, access the wider EAC region market for their products.

(iv) **Ease of Price Comparability**: The use of a single currency in the region will ease price comparisons by consumers and producers in the region.

(v) **International Reserves:** In the EAMU Protocol, Partner States agreed to maintain maintain 4.5 months of import cover. The law in Kenya allows for a minimum of 4.0 months of import cover. This enhanced level of reserve coverage will help the country withstand exernal vulnerability in the event of a crisis.

(vi) **Symbol of Integration:** The EAMU will culminate in the adoption of a single currency within the region that will act as a symbol of pride and identity (Crown) for East Africans. The single currency will symbolize achievement of a long term EAC commitment to deeper integration for East Africans.

3.1.14 The following are some of the negative implications of the protocol

(i) **Loss of sovereignty in monetary and exchange rate policies:** The Central Bank of Kenya will cede monetary and exchange rate policies to the East African Central Bank (EACB). This means CBK shall not be responsible for formulating monetary policy, promoting price stability and issuing of currency. Article 231 of the Constitution and other laws which give CBK these roles will have to be amended.

(ii) **Amendment of the Laws to conform to the East African Monetary Union Protocol:** Several laws touching on financial and fiscal matters will have to be amended to conform to the EAMU Protocol. Consequently the government will be required to undertake necessary policy and legislative changes.

(iii) **Constrained Fiscal Environment**: Fiscal policy is likely to be severely restricted since public expenditure will be confined within the limits set in the macro economic convergence criteria.

(7) Risks Associated with a Single Currency

3.1.15 Just as did happen in Euro zone, in event one Partner State in a single currency area does not play by rules spelt out in the protocol, consequences of this misbehaviour will be transmitted in the entire single currency area. Request for bail out and stabilisation of the Partner State in problem will impose burden to other Partner States. Equally the stability of the currency will be affected thus affecting credibility of the EAC currency internationally.

3.2 Committee Observations on the State Department of East African Affairs Submissions.

3.2.1 The Committee made the following observations from the submissions of the Ministry

(i) There is low levels of sensitization of the public and Members of Parliament on the Protocol and on the ratified protocols such as Customs and Common Market Protocol.

(ii) The Central Bank of Kenya just like the other Partner States Central Banks will lose its Constitutional mandate of formulating monetary policy, promoting price stability, and issuing currency as enshrined in Article 231 (2) of the Constitution.

(iii) The implementation of the two first pillars of Common Market Protocol and the Customs Union Agreement have not been fully effected.

3.3 Submission by the State Law Office

3.3.1 Ms. Dorcas Achapa from State Law Office appeared before the Committee on 14th August 2014 and presented the views of the Office of the Attorney General on the protocol for the establishment of the East African Community Monetary Union.

3.3.2 In her submissions, she stated that:

(i) The 5th Cabinet Meeting held on 10th July 2014 approved the Protocol on the Establishment of the EAC Monetary Union. The Protocol has been referred to Parliament for consideration in accordance with the procedures set out in the Treaty Making and Ratification Act, 2012. The Protocol once ratified will form part of the Laws of Kenya.

(ii) The Protocol has been developed based on Article 5(2) of the Treaty Establishing the East African Community that provides for the establishment of a Customs Union, Common Market, a Monetary Union and ultimately a Political Federation.

(iii) The Protocol provides for Partner States to cede their monetary and exchange rate policies to a supra-national central bank upon adoption of the single currency. The National Central Banks in the single currency area shall not be responsible for formulating monetary policy, promoting price stability and issuing currency. The Central Bank of Kenya is vested with this mandate under Article 231 of the Constitution. There will therefore be need to effect relevant constitutional amendments to reflect this position in accordance with the implementation roadmap of the protocol by 2021.

(iv) There will be need for amendment and harmonization of national laws, pertaining to the financial sector in order to facilitate the establishment of the Monetary Union. Currently, the State Law Office is collaborating with the Ministry of East African Affairs towards amending relevant laws to allow the for the full implementation of the Common Market Protocol.

(v) The Protocol provides for the establishment of 5 institutions; EA Monetary Institute, EA Surveillance, Compliance and Enforcement Commission, EA Statistics Bureau, EA Financial Services Commission and EA Central Bank. In accordance with EAC practice and procedures, these institutions will be set up through regional laws enacted by the East African Legislative Assembly.

(vi) Sensitization of the public and other stakeholders has been undertaken by the Ministry of East African Affairs. Concerns have been expressed relating to whether the Partner States will be able to maintain monetary and financial stability necessary for facilitating the implementation of the Protocol. These concerns have however been mitigated as follows;

a) The implementation of the Protocol will be progressive over a ten year period to allow the attainment, by the Partner States, of the pre-requisites necessary for the establishment of the Monetary Union and the single currency area.

b) The Protocol mandates the EAC Council of Ministers to develop measures to support a Partner State that experiences macroeconomic or structural imbalances arising from the implementation of the Protocol.

c) The Protocol obligates the Partner States to establish mechanisms to identify, monitor and mitigate any economy risk in a Partner State that may threaten the economic stability of the Monetary Union.

d) Only partner states that have strictly adhered to the pre-requisites and macroeconomic criteria will be admitted into the single currency area. Non compliant Partner States will not be admitted.

e) The Protocol establishes institutional mechanism that will allow for its monitoring and implementation.

3.4 Committee Observations on the State Law Office Submissions

3.4.1 The Committee made the following observations from the submissions from the State Law Office:

a) The adoption of the Protocol will lead to amendment of various legislations including the Constitution of Kenya

b) The Protocol provides for Partner States to cede their monetary and exchange rate policies to a supra-national central bank upon adoption of the single currency. This will lead to loss of sovereignty on matters of monetary policy.

3.5 Submissions by the National Treasury

3.5.1 Mr. Justus Nyamunga from the National Treasury appeared before the Committee on 26th August 2014 to make the submissions of the National Treasury on the protocol for establishment of East African Community Monetary Union.

3.5.2 It his submissions, he stated that:

i. The East African Community has the oldest single currency union in the world with the East African Currency Board that established the East African Shilling which gave birth to the current Kenya Shilling, Uganda Shilling and the Tanzanian Shilling.

ii. Negotiations for the rebuilding of the EAC started in 1998 which culminated to the establishment of the current East African Community.

iii. The East African Community is established through a treaty which has four pillars; namely, the Customs Union which came into force in 2005, the Common Market which came into force in 2010, the Monetary Union and ultimately the political federation.

iv. The monetary union is a move to establish a common currency requiring the efforts for the economies to move towards a convergence in a bid to divert economic shocks from a partner state.

v. The Protocol for the Establishment of the East African Monetary Union requires that the Partner States move towards the macro-economic convergence for 8 years after which they will be required to consistently stabilize for 3 years to be admitted to the monetary union.

vi. Studies for the monetary union were conducted in the European Union and in West Africa in a bid to ensure that the model adopted is free from mistakes other monetary union may have committed. The model adopted has inbuilt stringent institutional framework to forestall such challenges.

vii. The negotiation process of the EAMU was undertaken by a High Level Task Force from each of the Partner States composed of national experts from the Ministries of Finance, Central banks, Attorneys General, Capital Markets, Pensions, Insurance and Statistics regulating agencies coordinated by the EAC Secretariat.

viii. The Sectoral Council on East African Monetary Union comprising of Ministers responsible for Finance, East African Community Affairs and the Attorney Generals was formed to guide the negotiations of the EAC Monetary Union.

ix. The EAMU Protocol provides for Partner States to cede their monetary and exchange rate policies to a supra-national central bank upon the adoption of a single currency. This implies that the CBK shall not be responsible for formulating monetary policy, promoting price stability and issuing currency as mandated in Article 231 of the Constitution.

x. There will be need to amend the Constitution of Kenya to conform to the provisions of the Protocol by the year 2021 as per the roadmap for the establishment of the Monetary Union.

xi. The Protocol provides for the establishment of 5 institutions to support the East African Monetary Union to guide the region's financial stability.

xii. The region is expected to fulfill pre-requisites before entering the monetary union which include full implementation of the common market and custom union protocols, harmonization of fiscal, monetary and exchange polices among others.

3.6 Committee Observations on the National Treasury Submissions

3.6.1 The Committee made the following observations from the submissions of the National Treasury:

(i) There is low levels of sensitization of the public and Members of Parliament on the Protocol and on the ratified protocols such as Customs and Common Market Protocol.

(ii) The Central Bank of Kenya will lose its Constitutional mandate of formulating monetary policy, promoting price stability, and issuing currency as enshrined in Article 231 (2) of the Constitution

(iii) The implementation of the two first pillars of Common Market Protocol and the Customs Union Agreement have not been fully effected.

3.7 Submission by Kenya Institute for Public Policy Research and Analysis (KIPPRA)

3.7.1 The Committee met with Dr. Simon Githuke and Mr. August Muluvi, representatives from Kenya Institute for Public Policy Research and Analysis (KIPPRA) on 12th August 2014 to make their submissions.

3.7.2 KIPPRA submitted that:

(i.) The formation of the EAC Monetary Union (EAMU) is a noble idea and Kenya as a major beneficiary of the EAC integration should take the lead in deliberations leading to its formation.

(ii.) There is need to learn from the experiences of the European Monetary Union (EMU) along which the EAMU is modeled and avoid the so called "original sin" of the EMU. The original sin can be summarized as a "common currency without a state". The EMU thinkers at the time of its formation held that a common monetary policy administered by the European Central Bank (ECB) will co-exist with independent and largely uncoordinated fiscal policies of the member states. This weakness was exposed during the sovereign debt crisis which started in Greece in late 2009 and affected the entire Euro land.

(iii.) Another fault-line of the EMU conception was the introduction of a common currency among structurally dissimilar economies with the effect of rendering a common monetary policy ineffective in correcting economic imbalances. The EU countries diverged in terms of their competitive position upon entry into the EMU where those in the North such as Germany gained in terms of competitiveness and accumulated huge account surpluses while the reverse occurred to countries in the south such as Spain.

3.7.3 KIPPRA made the following observations on the Protocol for the Establishment of the East African Monetary Union that under Article 5 of the Protocol on prerequisite for the monetary union that:

(a) Prerequisite 1(b) be amended to read "harmonize and coordinate their fiscal policies to achieve a budgetary/ fiscal union". This would be the most ideal situation.

(b) Another prerequisite that can be introduced concerns current and capital account balances of the EAC partner states. Huge imbalances in these two accounts have to be discouraged.

(c) On macroeconomic convergence criteria- another criterion be introduced for the convergence of short-term and long term interest rates.

(d) The harmonization of legal system of the EAC partner states can be considered as an important prerequisite. Different legal systems will affect the way markets function e.g. mortgage market, modes of financing by companies might differ significantly among the partner states affecting the way the market operates.

(e) Article 5(3) and Article 6(2) should be harmonized and merged as they both addressing macroeconomic convergence criteria.

3.7.4 Under Article 8 on fiscal policies, the most ideal situation is for the ''harmonization and coordination of fiscal policies (budget and taxation) to achieve a fiscal/ budgetary union'', the model should be like the federal system of the United States. This will be facilitated by;

(a) Consolidation of national budgets will create an automatic transfer mechanism of funds to those countries facing a negative economic shock. It therefore acts like an insurance mechanism and avoids the need of having to bail out partner states that become insolvent

(b) Having a centralized fiscal institution at the EAC level that will be responsible for the issuance of debt in a currency under its control. This will insulate partner states from falling into default by financial market.

(c) Matters related to fiscal policy just like in the European Monetary Union is most likely to be a difficult one given that fiscal matters are largely a political process and spending priorities differ among countries and are determined by those in power. The EAC countries also have their own development plans e. g Kenya's vision 2030. This challenge can be overcome through the formation of a political union.

3.7.5 Under Article 10 on Building resilience and managing economic shock:- There is need for setting up of a permanent fund similar to the EU's European stabilization mechanism (ESM). EAC stabilization fund relying on EAC partner states contributions to provide soft loans to countries facing economic shocks.

3.7.6 Under Article 11 on Monetary Policy:- Article 11(3) be amended by deleting the word "stability" and replacing it thereof with the words "and financial stability" It is important for the monetary policy to consider what happens in individual countries- e. g credit creation and not just EAC wide economic aggregates.

3.7.7 Article 21 on other Institutions to support the Monetary Union to include EAC fiscal institution. The proposed institutions to support EAMU should be conceptualized taking into account the current institutional arrangement especially as regards the role of the EAC Secretariat.

3.7.8 KIPPRA therefore concludes that

(a) In the absence of a political union, the EAC just like the European Monetary Union will be a fragile construction. The EAC should strive to become a political union in the form to federation of partner states with taxation powers and a financial transfer equalization mechanism and avoid design failures that have afflicted the European Monetary Union. Thus, completion of the East African Monetary Union should be accompanied by political unification efforts and avoid the "original sin" that frustrated the functioning of the EMU.

(b) Of Article 6(3), Article 8(2) and Article 12(3). Given that the council is a gathering of ministers responsible for EAC affairs, there is a real possibility of "political logrolling" with effect of compromising monitoring and enforcement of the set criteria especially in relation to fiscal policy. The ministers will represent their National interests and are likely to resist sanctions. It is thus advisable that this responsibility be vested in another body such as the proposed EAC fiscal institution

(c) The full realization of the East African Monetary Union will have implications on the Kenyan constitution and other laws. For example, the harmonization and coordination of fiscal policies will affect the role of the National Treasury, Parliament, and commission on Revenue Allocation among others.

(d) There are also possible effects arising from the discovery of the minerals mainly hydrocarbons in Kenya, Uganda, and Tanzania especially what will happen to their economic structures when commercial exploitations starts and the effect on the exchange rate. The possibility of the EAC economies diverging over time when commercial exploitation of these minerals starts must be anticipated and counter policies devised.

(e) With the proposed EAC monetary union, there is urgent need to have fresh look at the entire EAC institutional arrangement especially what will be the role of the EAC Secretariat.

(f) The set timeframe of ten years for the full realization of the EAMU is alright because deadlines for achieving the set objectives are critical and the process should not be an open one. A ten year period for the full implementation of the EAMU can create the impression that the period is too short. However, as has been demonstrated with the implementation of the customs union and the Common Market, these deadlines are not usually met but are nevertheless important signposts.

3.7.9 In addition , KIPPRA proposed introduction of the structural convergence criteria of the economies:

(i.) Conformity of the East Africa economic structures will prevent countries responding differently when a common monetary policy is adopted. Some of the macro variables such as inflation and current account balance challenges will be addressed by tackling structural problems facing the EAC economies. Current account balance will also depend on the economic structure of the partner states. This is particularly crucial after the discovery of hydrocarbons and other minerals in EAC partner states. The possibility of these countries becoming structurally dissimilar over time cannot be ruled out.

(ii.) Wage flexibility

(iii.) Mobility of labour- related to the implementation of the common market protocol.

3.8 Committee Observations on KIPPRA Submissions

3.8.1 From the presentation of KIPPRA, the Committee made the following observations;

1. Regarding the proposed implementation of the political federation before the monetary union, the Committee maintained that the integration road map should proceed in a logical manner as contained in the treaty.
2. It is important for the EAC Partner States to learn from other established monetary unions to avoid any pitfalls/fault-lines of such monetary unions.

3. Regarding amending Article 5(1)(b) and Article 8 , the Committee noted that budgetary / fiscal union is not possible as the model adopted is different from the one in the federal system of the United States of America.
4. Regarding amending Article 10 to form a permanent fund similar to EU's stabilization mechanism, the Committee noted that this has been taken care of in Article 10(3).
5. Under Article 11 where KIPPRA proposes amendment by deleting the word 'stability' and replacing it thereof with the words 'financial stability', the Committee observes that this amendment will have no material difference.

3.9 Submission by the Institute of Economic Affairs

3.9.1 The Committee met with Mr. Kwame Owinoh from the Kenya Institute for Public Policy Research and Analysis (KIPPRA) on 12th August 2014 to make their submissions.

3.9.2 The institute submitted that:

(i) The debate on the benefits and costs of a regional monetary policy framework has been clouded by the excitement of potential political federation; the potential hindrances and downsides are barely mentioned. Kenya should learn from the experiences of other monetary unions, particularly the Euro, and cautiously weigh the benefits and costs of membership in a monetary union.

(ii) The implication of a regional central bank is that the Member States would lose their autonomy on monetary policy. National central banks will essentially be subsidiaries of the East African Central Bank, limiting unilateral action by Member States to address national fiscal and monetary challenges. The Protocol allows member states to breach the 3% fiscal deficit only if the ceiling on gross public debt of 50% of GDP in Net Present Value is maintained.

(iii) It is important to consider whether the East African Community would be an Optimal Currency Area (OCA) whose members would have more to gain as a monetary union rather than as individual states. A simple measure for viability as an OCA is macroeconomic convergence. World Bank data from 2004 to 2013 show significant variation in inflation and economic growth rates within the region. In 2011, for example, the difference in inflation rates between Uganda and Rwanda was 13 percentage points, while in 2013 it was only 1.2 percentage points.

(iv) The economies of the member states of the East African Community have nearly similar production structures and export baskets. This is favorable to formation of a monetary union because it implies that the impact of external shocks would be generally uniform, and policies made to adjust to such shocks might not have widely different effects on different member states. However, this low level of diversification is a risk because no single country in the EAC is dominant and diverse enough to be able to cushion the monetary union in the event of economic shocks. The GDPs per capita of the EAC member states are generally low and not too far apart. Burundi's GDP per capita is even much lower than those of the other EAC members. In 2013 for instance, the nominal per capita GDP numbers were: USD 994 in Kenya, USD 695 in Tanzania, USD 633 in Rwanda, USD 572 in Uganda, and USD 267 in Burundi (World Bank data).

(v) The level with which Kenya meets the convergence criteria is mixed with regards to different indicators. On the one hand, 10-year trend of variables like inflation and tax to GDP ratio show that Kenya would face challenges meeting the inflation target. Over the last ten years, Kenya had inflation of less than 8% in 2010 and 2013 only. On the other hand, 2008-2013 data show that the ratio of public debt to GDP has been under the target ceiling of 50%, ranging between 44.5% and 48.5% Taking account of the plans for expansion of infrastructure such as the Standard Gauge Railway, construction of a new pipeline, issuance of Sovereign debt and the investment in Lamu Port among others, it becomes evident that Kenya will have a larger debt to GDP burden than the 51% that obtains today. Unless the growth in GDP is much higher than the average of 4% of the last five years, it will be a significant challenge for Kenya to maintain its debt levels below the 50%.

(vi) The protocol sets a floor of tax to GDP ratio at 25%. Coupled with the ceiling on public debt, this target indicates an aspiration for a larger percentage of revenue to be collected domestically. The ratio ranges from 15% to 20% between 1991 and 2012. Taxes would have to be raised by at least 25% to comply with this requirement.

(vii) Policymakers should be careful not to overstate the trade effect of a single currency. One of the reasons conceived as a potential benefit for a single currency is that it would enhance intra-regional trade. Furthermore, the Common Market Protocol has not been fully implemented: As a result, there is still limited mobility of labour and capital within the region. Establishing a monetary union before complete realization of a strong customs union and common market could be likened to placing the donkey before the cart. Uniform monetary policy would be less disruptive in individual states during asymmetric regional shocks if factors of production could move easily within the region.

(viii) The change in the currency and the substantial loss of sovereignty in setting fiscal policy in the country would necessitate amendment of sections of the Constitution of Kenya such as Article 231 that establishes the role of the Central Bank of Kenya as the monetary policy institution. The limits on fiscal policy could also affect sections of the constitution that deal with collection, mobilization and allocation of revenue. Since article 209 (2) expressly places the responsibility for approving tax legislation in the hands of parliament, the introduction of fiscal limits by the protocol implies that Kenya's parliament will cede this constitutional authority through ratification of the protocol.

(ix) The Protocol is unclear on the procedures and conditions for exit for any member of the union. The effects of the 2008 global recession in the European Union have shown the need for flexibility regarding exit from monetary union. It is essential to note that the United Kingdom and Denmark, who are full members of the European Union, but not of the Economic and Monetary Union, have been able to unilaterally adjust fiscal and monetary policy in response to the recession, without having to adhere to directions of the European Central Bank.

3.10 Submissions by the Kenya Private Sector Alliance (KEPSA)

The Committee met with Dr. Jared Osoro and Mr. Anthony Weru of the Kenya Private Sector Alliance appeared before the Committee on 21st August, 2014 and informed it as follows:

i. The ratification of the East African Monetary Union will have a positive effect to the region since it will move as a single economic block arising from the harmonization of its fiscal, monetary and exchange rate policies.

ii. The East African Community Monetary Union is modeled on the European Union Monetary Union in terms of the convergence criteria. It will be important to include the rate of economic growth as one of the macro-economic convergence criteria.

iii. It is also important to note that in terms of fiscal parameters, domestic resource mobilization has not been taken into account.

iv. The Indicative convergence criteria requires that the Partner States attain a core inflation rate of 5%, tax to GDP ratio of 25% and a ceiling of fiscal deficit excluding grant of 6% of GDP. However, some Partner States may not meet the required criteria since their economies are small.

v. It is to be noted that the Partner States should be careful during the transition period to ensure that the convergence criteria are met.

4.0 LEGAL OBLIGATIONS IMPOSED BY THE PROTOCOL ON THE PARTNER STATES

4.1 The Protocol for the Establishment of the East African Community Monetary Union will present the following legal implications to the Partner States:

(i.) The provisions of the Protocol only apply to activities undertaken by the Partner States in co-operation in monetary and financial matters.

(ii.) Partner States are obligated to harmonise and coordinate their fiscal policies, financial accounting and reporting practices.

(iii.) Partner States will be obligated to develop and integrate their financial payment and settlement systems. This includes adoption of an integrated trading and securities depository system. The Partner States will therefore lose autonomy in the manner in which they manage their financial systems.

(iv.) Partner States shall be obligated to adopt common principles and rules for regulation and prudential supervision of the financial system. Kenya will therefore have to harmonize all the laws regulating the financial sector in Kenya in line with principles common principles and rules adopted.

(v.) As a prerequisite to the establishment of the Monetary Union, Partner States are obligated to fully implement the Protocol Establishing the East African Community Customs Union and the Protocol Establishing the East African Community Common Market.

(vi.) Partner States are obligated to harmonize and coordinate their monetary and exchange rate policies. The impact of this on Kenya and other EAC Partner

States is that their Central Banks shall lose their independence in terms of how they formulate and change or revise their policies.

(vii.) Partner States shall be obligated to introduce bands and gradually fix their bilateral exchange rates to facilitate the conversion of the currencies of the Partner States to the East African currency unit.

(viii.) Partner States shall have to phase out any outstanding national central bank lending to its Government and public entities. This will affect access to financial/loan facilities of the Governments of the Partner States from their own national central banks which may be on friendlier borrowing terms.

(ix.) Partner States including Kenya are obligated to develop a medium term convergence programme to facilitate the attainment of the agreed macroeconomic convergence criteria.

(x.) Partner States including Kenya are obligated to coordinate and harmonise their public procurement policies.

(xi.) Partner States including Kenya are obligated to coordinate and harmonise their budgetary frameworks. This will have an impact on the way the national budgets are formulated.

(xii.) Partner States are obligated to disclose their fiscal policies and disclose aid flows to the East African Central Bank. Impact of this is that Kenya will have enable access to information concerning its fiscal policies to the other Partner States.

(xiii.) A single monetary and exchange rate policy shall be established by the East African Central Bank that shall be binding on Partner States in the single currency area.

(xiv.) Where Partner States adopt the single currency, the currency shall be the legal tender and it shall be used in the payment and settlement of transactions. Further the Council will fix an irrevocable conversion rate at which the single currency shall replace the currencies of the Partners States in the single currency area.

(xv.) Kenya will be forced to amend its constitution and the following laws to be in line with the Protocol:

The Central Bank Act

The Banking Act

Various insurance laws

The Microfinance Act

The Central Depository Act

Procurement laws

The Capital Markets Act

Foreign Investment Protection Act.

5.0 COMMITTEE'S OBSERVATIONS

Having examined the presentation made by the stakeholders, the Committee made the following observations on the Protocol for the Establishment of the East African Community Monetary Union;

1. Benefits of Establishing the EAC Monetary Union

The Committee noted that the establishment of the EAC Monetary Union will provide benefits for the region's economies such as enhanced trade and investment, increased efficiency and wider market, ease of price comparability and a symbol of integration among others.

2. Sensitization process

The Committee noted with concern that the level of sensitization of the protocol was not adequate.

3. Process of implementation of the EAMU protocol

The Committee noted that the East African Community Partner States have not implemented fully the first two pillars of integration (Common Market and the Customs Union protocols). Considering that the integration process is a phased process, it will be important to ensure that the first two pillars are fully implemented before moving into the Monetary Union.

4. Legal implications

The Committee observed that the ratification of the EAMU Protocol will lead to possible amendment of the Constitution of Kenya, various financial laws and regulations to be in tandem with the protocol. This will require the relevant state agencies to identify laws early enough to enable Parliament to carry out its legislative role. The Committee further observed that Parliament will not lose its Constitution mandate of budget making with the ratification of the Protocol.

5. Ratification Process of protocols

The Committee noted with concern that the ratification process was hurried and as a result the Cabinet memorandum forwarding the Protocol to Parliament was categorical that there is no room for reservations in ratification of the protocol. This is against the provisions of Section 8(4) of the Treaty Making and Ratification Act, 2012.

6.0 COMMITTEE'S RECOMMENDATIONS

Having considered the protocol and examined the presentations from various stakeholders, and pursuant to Section 8(4) of the Treaty Making and Ratification Act, the Committee recommends as follows:

(1) The House ratifies the protocol for the establishment of the East African Community Monetary Union.

(2) The Ministry of East African Affairs, Commerce & Tourism; the Ministry of Foreign Affairs & International Trade; the National Treasury, Parliament and all the implementing agencies should aggressively sensitize the public on the provisions of the protocol in line with the tenets of people centered integration process. Consequently, the National Treasury and Parliament should allocate adequate resources to the implementing agencies to facilitate adequate public sensitization.

(3) The Executive should fully involve Parliament from conception to the ratification process of all the regional integration instruments. This will mitigate against instances where reservations may be introduced during the ratification process by the Parliament.

(4) The Ministry of East African Affairs, Commerce & Tourism, the Attorney General and all other implementing agencies should expeditiously identify the

legal reforms to be undertaken to facilitate proper and timely implementation of the Protocol.

(5) All partner states should fully implement the first two pillars of integration (Customs union and the Common Market Protocol) as contained in the integration road map before moving into the Monetary Union.

7.0 CONCLUSION

The Committee is convinced that the Protocol for the Establishment of the EAC Monetary Union will be beneficial to the economies of individual partner states of East African Community and therefore recommends that the House ratifies the Protocol for the establishment of East African Community Monetary Union.

For seamless and flawless transition of the East African Monetary Union, Kenya and all the Partner States should endeavour to meet their obligations to fully implement the first two pillars of the integration process (customs union and the common market protocol).

ANNEXES

ANNEX 1: SUMMARY OF THE PPROTOCOL ARTICLE BY ARTICLE

	Part A: Interpretations	
Art.	**Key Highlights of the Provisions**	**Committee's Comments/Reservations**
1	Highlights the interpretation of key words used in the pro	▪ Defines key terms such as East Africa Currency Unit; financial market infrastructure and free floating
	Part B: Establishment, Objectives and Scope of the Monetary Union	
2	Establishes the monetary union, provides that the monetary union shall be realized progressively and it shall be governed in accordance to the relevant laws of the community	▪ There are still very low levels of sensitization of members of public on the Protocol, Customs Union and the Custom Market ▪ The realization of the union though progressive, has ambitious timelines which may not be achieved by some partner states
3	Defines the objective of the Monetary Union i.e. **to promote and maintain monetary and financial stability aimed at facilitating economic integration to attain sustainable growth and development of the Community**	▪ The objective is good as it promotes inclusive economic growth of the community ▪ Achieving macroeconomic convergence it may be a challenge due to the various socio-economic diversities within the various Partner States.
4	The provisions of the protocol cover activities undertaken by	▪ EAC Secretariat has initiated a process of harmonization of various standards

	partner states, in co-operation in monetary and financial matters. The partner states also agrees to harmonize various monetary and financial standards including adoption of single currency by the year 224	such as accounting & financial reporting standards, Public Finance Management Standards and Public Accounts Committee Standards ▪ The levels of engagement of key stakeholders including Parliament are very low.
	Part C: Pre-requisite for the Monetary Union	
5	Highlights the pre-conditions for the realization of full monetary union which includes: the harmonization of various fiscal and monetary policies; integration of financial systems; fully implementation of the customs union and common market by 2015; phasing out of any outstanding lending by national central banks by the year 2021 and attainment of macroeconomic convergence among others	▪ Full implementation of the Customs Union and Common Market protocols as a prerequisite may delay the establishment of the Monetary Union protocol. ▪ The indicative convergence criteria such as core inflation of 5%; tax to GDP ratio of 25% and a ceiling of fiscal deficit excluding grant of 6% of GDP are less likely to be complied with by some of the Partner States.
	Part D: Macroeconomic Convergence Criteria	
6	Highlights the macroeconomic convergence criteria that partner states undertake to achieve and maintain certain. This include: a ceiling on headline inflation of	▪ Attainment and maintenance of these convergence criteria is less likely in some of the states. ▪ Kenya, the leading economic Partner State had a headline inflation of 7.39%

	8%; a ceiling of fiscal deficit including grants of 3% of GDP; a ceiling on public debt to GDP ratio of 50%; and a reserve cover of 4.5 months	in July 2014; a fiscal deficit including grants of 4.1% in 2014/2015 budget; a public debt to GDP ratio of 57 %; and a reserve cover of 4 months.
	Part E: Macroeconomic Policy Framework	
7	The states agrees to achieve the macroeconomic policy framework; comprising of fiscal policies, monetary policy and exchange rate policy	▪ This agreement by partner states should be seen through commitment to the implementation of the Customs Union and Common Market protocol which has not been strictly adhered to by some Partner States.
8	The Partner States undertakes to harmonize the various fiscal policies and financial systems including budgetary framework, procurements, audit and avoid harmful tax competition among others	▪ The harmonization of various fiscal and financial standards has been initiated. ▪ The levels of engagement of the public have been very low.
9	Public debt management; in accordance to the debt ceiling specified in Article 6 (2) (c) which is 50% to GDP	▪ The public debt ceiling of 50% to GDP may not be achieved due to the fiscal challenges ▪ In Kenya for example, the implementation of devolution has put fiscal expansionary fiscal pressure on the government which has led to huge external borrowings.

10	Partner states commit to establish mechanism for managing economic shocks arising from exogenous factors	▪ Management of exogenous shocks may be a daunting task to the nascent union. ▪ There is need to identify these exogenous factors (global oil prices, drought, agricultural produce price fluctuations, terrorism) and come up with practical measures of dealing with them.
11	The partner states agree to commit to a single monetary policy with an objective of achieving price stability	▪ Partner states including Kenya will cede its monetary policy and exchange rate policy to a supra-national central. ▪ Central Bank of Kenya (CBK) will cease to formulate monetary policy, promoting price stability and issuing of currency. This violates Article 231 of the Constitution of Kenya and Section 8(9) of the Treaty Making and Ratification Act No. 45 of 2012. ▪ An independent (CBK) charged with keeping inflation within a low target range is more likely to result in low inflation than joining a monetary union.
12	Exchange rate policy; the exchange rate in the single currency area shall be free floating/ fluctuating	▪ The free floating exchange rate regime is where the value of the currency is determined solely by forces of market demand and supply of the currency ▪ Floating exchange rates bring

		protectionist pressures and increased chances of financial instability which both threaten economic integration and therefore may not be an option for small developing economies like the EAC Partner States
13	Foreign exchange transactions by partner states to be carried out through a system of EAC Central bank and national central banks of the partner states	▪ This provide for a shared role between the EAC Central Bank and National Central Bank of the Partner States
	Part F: Financial, Payment and Settlement Systems	
14	Provide for the development of an integrated financial systems	▪ The financial systems envisaged does not explicitly include SACCOs which plays an important role especially in provision of inclusive financial service to the rural Kenyans.
15	Highlight on the Payments and Settlement systems. The Partner States commits to adopt an integrated trading and securities depository system	▪ The financial, payment and settlement systems should be reliable, efficient and secure ▪ An integrated trading and securities depositories system will promote seamless cross-listing and trading in the Partner State's national securities exchanges.
16	Harmonization of financial management, accounting and	▪ The harmonization of financial management, accounting and reporting

	reporting	procedures and systems has been initiated for the private sector accounting and reporting. However, ▪ The slow pace in adoption of International Public Sector Accounting Standards (IPSAS) by Partner States is likely to hinder the harmonization of public sector accounting and reporting practices.
17	Framework for compilation, analysis and dissemination of statistics in the Monetary Union	▪ East African Statistics Bureau (EASB) is expected to be established by 2018
	Part H: Single Currency	
18	The Partner States undertake to adopt single currency by the year 2024.	▪ The single currency is to be adopted by at least three Partner States that meet the requirements of the pre-requisite conditions (art.5) and the macroeconomic convergence criteria (art.6). ▪ The name of the single currency is left for the Summit to determine (Art.18 (5)). The citizens of the adopting partner states should be involved in determining the name of the single currency. ▪ The changeover cost to the single currency changeover should be well

		understood by both the private sector players and the government. It may be disruptive to the economies ▪ ***What is the approximate cost of new single currency-specific signage, production of new coins, destruction of old coins and notes, change in all IT systems, new single currency price labeling (including menus), and new POS terminals?***
19	Determination of conversion rates	▪ There should be measures in place to cushion the citizens and indeed the economies from currency exchange losses arising from the irrevocable conversion rate fixed by the Council.
	Part I: Institutional Mechanisms	
20	Establishes the East African Central Bank (EACB) and provides that the Partner States shall provide the capital for the Bank	▪ This will occasion additional expenditure to the government and will require an amendment of the Constitution and the several Acts to cede some of the powers of the Central Bank of Kenya to EAC Central Bank.
	Part J: General Provisions	
22	Harmonization of policies, laws and systems by the year 2021	▪ This will require strong financial, political and institutional commitment by the various Partner States. ▪ Entrenchment of Parliament (Members

		and technical staff) will be crucial to drive this agenda. ▪ Sensitization of the general public and the private sector is crucial for the realization of this Article.
23	Transitional provision envisages the establishment of East Africa Monetary Institute by the year 2015.	▪ The kind of preparatory work that the institute shall be involved in is not clearly stipulated. ▪ The enactment of the statutory instrument establishing the institute may require time to be ratified by the Partner States.
24	The Council to develop measures to support a Partner State the experiences macroeconomic or structural imbalances	▪ The Partner States have smaller economies that are less likely to absorb major macroeconomic or structural imbalance unlike the case of Germany and Greece in the EU. ▪ Which safeguard mechanism will be put in place to support a struggling Partner State? ▪ Any major macroeconomic/structural imbalance may lead to a catastrophic collapse of the union. ▪ A successful Monetary Union requires that the economies joining it are broadly the same, especially in regard to their response to external and

		internal inflation shocks. This is not the case in EAC.
25	International and regional agreements on matters relating to the Monetary Union	▪ The involvement of EAC Central Bank in the negotiation, conclusion and implementation of any agreement with a foreign entity that may impact on single monetary policy is necessary for macroeconomic stability.
26	Admission to the single currency area	▪ The admission of a Partner State into a single currency area will be guided by fulfillment of requirements of the pre-requisite conditions (art.5) and the macroeconomic convergence criteria (art.6). ▪ The thresholds as set in (art.5) and (art.6) are dynamic and inconsistent with thresholds in other Monetary Unions such as European Monetary Union (EMU).
27	Empowers the Council to make regulations, directives and decisions necessary for effective implementation of the protocol	▪ This is necessary and in order for effective implementation
28	Dispute settlement	▪ The dispute settlement mechanism shall be guided by the provisions of the Treaty.
29	Amendment of the protocol	▪ Any amendment of the Protocol shall

		be in accordance with Article 150 of the EAC Treaty
30	Entry into force	▪ The Protocol shall enter into force upon ratification and deposit of instruments of ratification to the Secretary General by all Partner States.
31	Depository and Registration of the Protocol	▪ The Protocol to be registered with AU, UN, IMF and any other organization as the Council may determine.

ANNEX 3

PROTOCOL FOR THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION

SECRET

REPUBLIC OF KENYA

PROTOCOL ON THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION

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PROTOCOL ON THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION

ARRANGEMENT OF ARTICLES

PREAMBLE

ARTICLE	TITLE
PART A:	INTERPRETATION
ARTICLE 1	Interpretation
PART B	ESTABLISHMENT, OBJECTIVES AND SCOPE OF THE MONETARY UNION
ARTICLE 2	Establishment of the East African Community Monetary Union
ARTICLE 3	Objective of the Monetary Union
ARTICLE 4	Scope of Co-operation in the Monetary Union
PART C	PRE-REQUISITES FOR THE MONETARY UNION
ARTICLE 5	Pre-requisites for the Monetary Union
PART D	CONVERGENCE
ARTICLE 6	Macroeconomic Convergence Criteria
PART E	MACROECONOMIC POLICY FRAMEWORK
ARTICLE 7	Macroeconomic Policy Framework
ARTICLE 8	Fiscal Policies

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ARTICLE 9 Public Debt Management
ARTICLE 10 Building Resilience and Managing Economic Shocks
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PART F FINANCIAL, PAYMENT AND SETTLEMENT SYSTEMS

ARTICLE 14 Financial System
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ARTICLE 16 Financial Management, Accounting and Reporting

PART G STATISTICS

ARTICLE 17 Statistics

PART H SINGLE CURRENCY

ARTICLE 18 Name, Status and Adoption of Single Currency
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PART I INSTITUTIONAL MECHANISMS

ARTICLE 20 The East African Central Bank
ARTICLE 21 Other Institutions to support the Monetary Union

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ARTICLE 22 Harmonisation of Policies, Laws and Systems
ARTICLE 23 Transitional Provision
ARTICLE 24 Measures to Address Imbalances
ARTICLE 25 International and Regional Agreements on Matters Relating to the Monetary Union
ARTICLE 26 Admission to the Single Currency Area

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ARTICLE 27	Regulations, Directives and Decisions
ARTICLE 28	Dispute Settlement
ARTICLE.29	Amendment of the Protocol
ARTICLE 30	Entry into Force
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PROTOCOL ON THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION

PURSUANT TO THE PROVISIONS OF ARTICLES 5 (2), 82 and 151 OF THE TREATY FOR THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY, THE PROVISIONS FOR THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION ARE HEREBY SET FORTH:

PREAMBLE

WHEREAS the Republic of Burundi, the Republic of Kenya, the Republic of Rwanda, the Republic of Uganda and the United Republic of Tanzania (hereinafter referred to as the "Partner States") are parties to the Treaty for the Establishment of the East African Community (hereinafter referred to as the "Treaty");

AND WHEREAS by the provisions of paragraph 1 of Article 151 of the Treaty, the Partner States undertook to conclude such Protocols as may be necessary in each area of co-operation, which shall spell out the objectives and scope of, and institutional mechanisms for co-operation and integration;

AND WHEREAS

(a) under paragraph 2 of Article 5 of the Treaty, the Partner States undertook to establish among themselves and in accordance with the provisions of the Treaty, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation;

(b) pursuant to paragraph 2 of Article 5 and Articles 75 and 76 of the Treaty, the Partner States have established among themselves, a Customs Union in accordance with the provisions of the Protocol for the Establishment of the East African Community Customs Union; and a Common Market in accordance with

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the provisions of the Protocol for the Establishment of the East African Community Common Market;

(c) under Chapter Fourteen of the Treaty Partner States agreed to cooperate in monetary and financial matters;

CONSIDERING that the objective of the East African Community Monetary Union shall be to promote financial stability and facilitate the achievement of sustainable growth and development of the Community;

RECOGNISING that the Monetary Union together with the other integration stages of the Community will contribute to the achievement of:

(a) harmonious, balanced and sustainable economic development;

(b) sustainable and non-inflationary economic growth;

(c) intra-regional economic and financial system integration; and

(d) efficient allocation of resources for economic development;

CONSCIOUS of their individual obligations and commitments under the Treaty, the Articles of Agreement of the International Monetary Fund and other regional and international agreements;

AGREE AS FOLLOWS:

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PART A

INTERPRETATION

ARTICLE 1

Interpretation

In this Protocol, except where the context otherwise requires:

"**Community**" means the East African Community established by Article 2 of the Treaty;

"**Council**" means the Council of Ministers of the Community established by Article 9 of the Treaty;

"**East African Central Bank**" means the East African Central Bank established in accordance with Article 20;

"**East African currency unit**" means the unit of currency that the currencies of the Partner States shall be converted into before adoption of a single currency;

"**financial key**" means the cost and benefit sharing formula or figure indicating the financial contribution of each Partner State in the single currency area in relation to the East African Central Bank;

"**financial market infrastructure**" means a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives or other financial transactions;

"**financial system**" means interconnected financial institutions, markets, instruments, services, practices and transactions in the Community;

"**free floating** " means an exchange rate regime that is determined by market forces of demand and supply;

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"harmful tax competition" means tax measures introduced within the Community as a result of preferential tax regimes that offer tax advantages to particular entities in one Partner State to the detriment of other Partner States;

"Monetary Union" means the East African Community Monetary Union established by Article 2;

"national central bank" means the central bank of a Partner State;

"payment system" means a set of instruments, procedures, and rules for the transfer of funds between or among participants; including the participants and the entity operating the arrangement;

"public entity" means an entity established by Community law or any national law of a Partner State, and includes a local authority or any other body or entity where the Government of a Partner State has a controlling interest;

"Secretary General" means the Secretary General of the Community appointed under Article 67 of the Treaty;

"single currency area" means the geographical area of the Partner States which adopt the single currency;

"system of central banks" means a network of central banks composed of the East African Central Bank and the national central banks of the Partner States in the single currency area where the East African Central Bank formulates the policies which are implemented by the national central banks;

"Summit" means the Summit of the Heads of State established by Article 9 of the Treaty;

"Treaty" means the Treaty for the Establishment of the East African Community.

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PART B

ESTABLISHMENT, OBJECTIVES AND SCOPE OF THE MONETARY UNION

ARTICLE 2

Establishment of the East African Community Monetary Union

1. In order to promote the objectives of the Community under Article 5 of the Treaty and in accordance with the provisions of this Protocol, the Partner States hereby establish a Monetary Union.
2. The Monetary Union referred to under paragraph 1 shall be known as the East African Community Monetary Union (hereinafter referred to as the "Monetary Union").
3. Notwithstanding paragraph 1, the Monetary Union shall be realised progressively in accordance with Article 5 and the Schedule.
4. The Monetary Union shall be governed in accordance with the relevant laws of the Community.

ARTICLE 3

Objective of the Monetary Union

The objective of the Monetary Union shall be to promote and maintain monetary and financial stability aimed at facilitating economic integration to attain sustainable growth and development of the Community.

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ARTICLE 4

Scope of Co-operation in the Monetary Union

1. The provisions of this Protocol shall apply to activities undertaken by the Partner States, in co-operation in monetary and financial matters.

2. For the purposes of paragraph 1, the Partner States agree to:
   - (a) harmonise and coordinate their fiscal policies;
   - (b) formulate and implement a single monetary policy and a single exchange rate policy;
   - (c) develop and integrate their financial, payment and settlement systems;
   - (d) adopt common principles and rules for the regulation and prudential supervision of the financial system;
   - (e) integrate their financial management systems;
   - (f) harmonize their financial accounting and reporting practices;
   - (g) adopt common policies and standards on statistics; and
   - (h) adopt a single currency.

PART C

PRE-REQUISITES FOR THE MONETARY UNION

ARTICLE 5

Pre-Requisites for the Monetary Union

1. For the purpose of realising the Monetary Union, the Partner States shall:

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(a) fully implement the Protocol Establishing the East African Community Customs Union and the Protocol Establishing the East African Community Common Market;
(b) harmonise and coordinate their fiscal policies;
(c) harmonise and coordinate their monetary and exchange rate policies;
(d) adopt common principles and rules for payments and settlements;
(e) harmonise their payments and settlement systems;
(f) harmonise their policies and laws relating to the production, analysis and dissemination of statistical information;
(g) introduce bands and gradually fix their bilateral exchange rates to facilitate the conversion of the currencies of the Partner States to the East African currency unit; and
(h) integrate their financial systems and adopt common principles and rules for the regulation and supervision of the financial system.

2. For the purpose of realising the Monetary Union, each Partner State shall:
   (a) phase out any outstanding national central bank lending to its Government and public entities; and
   (b) attain the macroeconomic convergence criteria specified in Article 6 (2) and maintain the criteria for at least three consecutive years.

3. For the purpose of paragraph 2(b), the Partner States agree to monitor the following indicative convergence criteria:

   (a) a ceiling on core inflation of 5%;

   (b) a ceiling on fiscal deficit, excluding grants, of 6% of Gross Domestic Product; and

   (c) a tax to Gross Domestic Product ratio of 25%.

4. Each Partner State shall develop a medium term convergence programme to facilitate the attainment of the agreed macroeconomic convergence criteria.

5. The Council shall, on the recommendation of the institution responsible for surveillance, compliance and enforcement to be established in accordance with

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Article 21, determine whether a Partner State meets the requirements of paragraphs 1 and 2.

PART D

CONVERGENCE

ARTICLE 6

Macroeconomic Convergence Criteria

1. The Partner States undertake to attain and maintain macroeconomic convergence.

2. For the purposes of paragraph 1, macroeconomic convergence shall be assessed on the following performance convergence criteria:

   (a) a ceiling on headline inflation of 8%;
   (b) a ceiling on fiscal deficit, including grants of 3% of Gross Domestic Product;
   (c) a ceiling on gross public debt of 50% of Gross Domestic Product in Net Present Value terms; and
   (d) a reserve cover of 4.5 months of imports.

3. The Council shall develop measures to regularly monitor, assess, and enforce adherence to the macro-economic convergence and foster fiscal discipline in the Partner States.

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PART E

MACROECONOMIC POLICY FRAMEWORK

ARTICLE 7

Macroeconomic Policy Framework

In order to achieve macroeconomic stability, economic growth and balanced development, the Partner States agree to adhere to the macroeconomic policy framework comprising the fiscal policies, the monetary policy and the exchange rate policy provided for in this Part.

ARTICLE 8

Fiscal Policies

1. For purposes of Article 7, the Partner States undertake to:
   - (a) harmonise and co-ordinate their fiscal policies;
   - (b) disclose their fiscal policies to the other Partner States;
   - (c) coordinate their fiscal ~~policies with the single monetary policy~~ and exchange rate policy;
   - (d) harmonise and coordinate their budget frameworks;
   - (e) coordinate and harmonise their public procurement policies;
   - (f) implement their economic policies to achieve and maintain macroeconomic convergence;
   - (g) adopt and adhere to the principles of fiscal discipline;
   - (h) avoid harmful tax competition;
   - (i) disclose their aid flows to the East African Central Bank; and
   - (j) ensure efficient mobilisation and allocation of resources.

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2. The Council shall develop a mechanism to implement this Article.

ARTICLE 9

Public Debt Management

1. In implementing their fiscal policies, the Partner States shall:

   (a) adjust their net financing to their respective Governments in accordance with the debt ceiling specified in Article 6 (2) (c); and
   (b) disclose to the Council the status of their domestic and external debts, including their publicly guaranteed debts, on a quarterly basis.

2. The Partner States agree to adopt a common public debt management framework.

ARTICLE 10

Building Resilience and Managing Economic Shocks

1. The Partner States agree to establish mechanisms for managing economic shocks that may arise from exogenous factors and ensuring economic resilience among the economies of the Partner States.

2. The mechanisms under paragraph 1 shall:

   (a) identify, monitor and mitigate any economic risks in a Partner State that threaten the economic stability of the Monetary Union;
   (b) build and maintain the resilience of the economies of the Partner States to economic shocks; and
   (c) stabilise the Monetary Union or the economy of a Partner State in the event of an economic shock.

3. The mechanisms under paragraph 1 shall include:

   (a) an early warning system which shall ensure that the risk profile of the economy of each Partner State is regularly monitored and there are measures to mitigate any risks that may arise; and
   (b) a stabilisation facility to provide assistance to a Partner State experiencing or threatened with a severe exogenous economic shock.

4. Notwithstanding paragraph 2(a), the Council may allow a Partner State to exceed the fiscal deficit target provided that the Partner State does not breach the convergence ceiling on the debt ratio.

ARTICLE 11

Monetary Policy

1. For the purposes of Article 7, the East African Central Bank shall formulate a single monetary policy for the Monetary Union.

2. The single monetary policy shall be binding on the Partner States in the single currency area.

3. The primary objective of the monetary policy shall be to achieve and maintain price stability.

4. Without prejudice to paragraph 3, the monetary policy shall contribute to financial stability and economic growth and development.

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ARTICLE 12

Exchange Rate Policy

1. For the purposes of Article 7, the East African Central Bank shall formulate a single exchange rate policy for the single currency area.

2. The exchange rate regime for the single currency area shall be free floating.

3. For the purposes of paragraph 1, the Partner States in the single currency area undertake to transfer to the East African Central Bank foreign reserves as may be determined by the Council.

4. The foreign reserves under paragraph 3 shall not include the International Monetary Fund reserve positions and the Special Drawing Rights of the Partner States.

ARTICLE 13

Foreign Exchange Transactions by Partner States

For the purposes of Articles 11 and 12, foreign exchange transactions by the Governments of the Partner States in the single currency area shall be carried out through the system of central banks referred to in Article 20 (2).

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PART F

FINANCIAL, PAYMENT AND SETTLEMENT SYSTEMS

ARTICLE 14

Financial System

1. The Partner States undertake to develop and operate an efficient, stable and integrated financial system.

2. The financial system under paragraph 1 shall:

   (a) promote the development of the financial sector;
   (b) promote financial inclusion and deepening;
   (c) facilitate regulation and prudential supervision of the financial sector;
   (d) facilitate the development of the financial system infrastructure;
   (e) facilitate early identification of risks or shocks to the financial system;
   (f) promote a comprehensive, accurate and systematic assessment of financial stability;
   (g) promote adoption of preventive and timely risk mitigation policies;
   (h) facilitate coordination and promotion of a speedy region wide response to a crisis within ~~the financial system~~;
   (i) ensure market efficiency and stability;
   (j) facilitate the orderly, fair and transparent market conduct of the financial sector;
   (k) promote and strengthen competition for greater affordability of financial services;
   (l) promote confidence and the protection of consumers and investors; and
   (m) fulfil its key economic functions without significant defaults or adverse systemic impact on the real or financial sector.

3. The Partner States shall ensure that the financial system:

   (a) is resilient to endogenous and exogenous shocks;
   (b) facilitates effective assessment, pricing and management of risks; and

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(c) promotes resilience to major structural changes.

4. The financial system under paragraph 1 shall include the following subsectors:

(a)banking;
(b)capital and money markets;
(c)insurance;
(d)retirement benefits;
(e)micro finance; and
(f) other financial services.

ARTICLE 15

Payment and Settlement Systems

1. The Partner States shall develop and implement secure, efficient, reliable and integrated payment and settlement systems.

2. The objective of the payment and settlement systems shall be to ensure the efficient flow of financial transactions within the Monetary Union.

3. For the purposes of paragraph 1, the Partner States undertake to:

   (a) adopt an integrated trading and securities depository system; and
   (b) harmonise and integrate the payment and settlement system financial market infrastructure with other systems.

ARTICLE 16

Financial Management, Accounting and Reporting

1. The Partner States shall integrate their financial management systems.

2. Partner States shall harmonise their financial accounting and reporting practices.

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PART G

STATISTICS

ARTICLE 17

Statistics

1. The Partner States shall, while observing internationally accepted best practices, develop and adopt common methods, concepts, definitions and classifications for compiling, analysing and disseminating the statistics necessary for the proper functioning of the Monetary Union.

2. For the purposes of paragraph 1, the Council shall provide a framework that shall promote impartiality, reliability, independence and common methods in the compilation, analysis and dissemination of statistics in the Monetary Union.

PART H

SINGLE CURRENCY

ARTICLE 18

Name, Status and Adoption of Single Currency

1. The Partner States undertake to adopt a single currency.

2. The single currency shall be adopted by at least three Partner States that meet the requirements of Articles 5 and 6.

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3. The Partner States which adopt the single currency shall form the single currency area.

4. The Summit shall, on the recommendation of the Council, pronounce the formation and commencement of the single currency area.

5. The Summit shall determine the name of the single currency.

6. The single currency shall be the legal tender of the single currency area.

7. The Summit shall, on the recommendation of the Council, pronounce the date on which the single currency shall become the legal tender of the single currency area.

8. The single currency shall be used in the payment and settlement systems for the settlement of all transactions in the single currency area except as otherwise provided by an Act of the Community.

ARTICLE 19

Determination of Conversion Rates

The Council shall before the single currency becomes the legal tender of the single currency area, fix irrevocable conversion rates at which the single currency shall replace the currencies of the Partner States.

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PART I

INSTITUTIONAL MECHANISMS

ARTICLE 20

The East African Central Bank

1. The Summit shall, on the recommendation of the Council, establish an East African Central Bank.

2. The East African Central Bank shall, together with the national central banks of the Partner States in the single currency area, form a functionally integrated system of central banks.

3. The system of central banks shall perform the functions of a central bank in the single currency area.

4. In the performance of its functions, the East African Central Bank shall be independent and shall not be influenced by a Partner State.

5. The Partner States in the single currency area shall provide the capital for the East African Central Bank as may be determined by the Council.

6. The financial rights and obligations of the Partner States in the single currency area in relation to the East African Central Bank shall be distributed among the Partner States in the single currency area in accordance with the financial key determined by the Council and shall be adjusted every three years.

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ARTICLE 21

Other Institutions to support the Monetary Union

The Summit shall, on the recommendation of the Council, establish the following institutions to support the Monetary Union:

(a) institutions responsible for financial services;
(b) an institution responsible for surveillance, compliance and enforcement;
(c) an institution responsible for statistics; and
(d) any other institution necessary for the proper functioning of the Monetary Union.

PART J

GENERAL PROVISIONS

ARTICLE 22

Harmonisation of Policies, Laws and Systems

1. The Partner States undertake to harmonise their policies, laws and systems for the purposes of implementing this Protocol.

2. The Council shall issue directives for the purposes of this Article.

ARTICLE 23

Transitional Provision

The Summit shall, on the recommendation of the Council, establish an institution to be known as the East African Monetary Institute, which shall be responsible for the preparatory work for the Monetary Union.

ARTICLE 24

Measures to Address Imbalances

The Council shall develop measures to support a Partner State that experiences macroeconomic or structural imbalances arising from the implementation of this Protocol.

ARTICLE 25

International and Regional Agreements on Matters Relating to Monetary Union

For the purposes of Article 130(3) of the Treaty, the Partner States shall involve the East African Central Bank in the negotiation, conclusion and implementation of any agreement with a foreign entity that may impact on the single monetary policy and single exchange rate policy.

ARTICLE 26

Admission to Single Currency Area

The Summit, may on the recommendation of the Council, admit a Partner State which fulfils the requirements of Articles 5 and 6, into the single currency area.

ARTICLE 27

Regulations, Directives and Decisions

The Council shall make regulations, issue directives or take decisions necessary for the effective implementation of this Protocol.

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ARTICLE 28

Dispute Settlement

Any dispute between Partner States arising from the interpretation or application of this Protocol shall be settled in accordance with the provisions of the Treaty.

ARTICLE 29

Amendment of the Protocol

1. This Protocol may be amended by the Partner States in accordance with the provisions of Article 150 of the Treaty.

2. Subject to the provisions of paragraph 1, the Council may:
   (a) with the approval of the Summit, review the Schedule and make such modifications as it may deem necessary; and
   (b) submit to the Partner States proposals for the amendment of the provisions of this Protocol.

ARTICLE 30

Entry into Force

This Protocol shall enter into force upon ratification and deposit of instruments of ratification with the Secretary General by all the Partner States.

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ARTICLE 31

Depository and Registration

1. This Protocol and all instruments of ratification shall be deposited with the Secretary General who shall transmit certified copies of the Protocol and the instruments of ratification to all the Partner States.

2. The Secretary General shall register this Protocol with the African Union, the United Nations, the International Monetary Fund and such other organisations as the Council may determine.

DONE at Kampala, Uganda, on the 30th day of November, in the year Two Thousand and Thirteen.

IN FAITH WHEREOF the undersigned have appended their signatures hereto:

For the Republic of Kenya	For the Republic of Burundi	For the Republic of Rwanda	For the Republic of Uganda	For the United Republic of Tanzania
....	....	....	....	....
UHURU KENYATTA	PIERRE NKURUNZIZA	PAUL KAGAME	YOWERI KAGUTA MUSEVENI	JAKAYA MRISHO KIKWETE
PRESIDENT	PRESIDENT	PRESIDENT	PRESIDENT	PRESIDENT

REPUBLIC OF KENYA

SCHEDULE

ROADMAP FOR THE REALISATION OF THE MONETARY UNION

No.	ACTIVITY	RESPONSIBLE INSTITUTION	TIMELINE
1	Implementation of the Customs Union and the Common Market Protocols.	Partner States	By 2015
2	Establishment of the East African Monetary Institute (a) Initiate the legal instruments establishing East African Monetary Institute (b) Identify the host Partner State; (c) Sign host country agreements; (d) Operationalize the East African Monetary Institute	Partner States, Council	By 2015
3	Establishment of the following institutions: (a) Institution responsible for surveillance, compliance and enforcement; (b) Institution responsible for statistics; (c) Institutions responsible for financial services.	Partner States, Summit, Council, East African Monetary Institute, East African Legislative Assembly	By 2018
4	Coordination and harmonisation of fiscal policies	Partner States, Council	By 2018
5	Coordination and harmonization of the monetary and exchange rate policies during the transition to the Monetary Union.	Partner States, Council, East African Monetary Institute	By 2018

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No.	ACTIVITY	RESPONSIBLE INSTITUTION	TIMELINE
6	Harmonize payments and settlement systems. (a) Develop a payment and settlement system framework for harmonisation and integration of payment and settlement system infrastructure. (b) Create a framework for integration of trading, securities depository and payments and settlement system infrastructure.	Partner States, Council, East African Monetary Institute	By 2018
7.	Harmonise policies, standards and laws relating to production, analysis and dissemination of statistical information. (a) Develop a framework for production, analysis and dissemination of statistical information. (b) Development of national statistical systems while observing the requirements of the EAC statistical system and internationally accepted best practices; and (c) Harmonize statistical methods, concepts, definitions and classifications for compiling statistics while observing internationally accepted best practices.	Partner States, Council, Institution responsible for statistics, East African Monetary Institute	By 2018
8	Integrate financial systems and adopt common principles and rules for the regulation and supervision of the financial system.	Partner States, Council, East African Monetary Institute, Institutions responsible for financial services	By 2018
9	Harmonization of relevant national Laws and frameworks to facilitate the establishment of the Monetary Union.	Partner States	By 2020

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No.	ACTIVITY	RESPONSIBLE INSTITUTION	TIMELINE
10	Phase out any outstanding central bank lending to public entities. (a) Prepare a timetable for progressively phasing out overdraft facility. (b) Establish a mechanism to bridge temporary liquidity gaps	Partner States, Council, East African Monetary Institute	By 2021
11.	Attainment of the macroeconomic convergence criteria (a) Develop a framework for monitoring compliance to macroeconomic convergence criteria (b) Each Partner State to design a medium term convergence programme	Partner States, Council, East African Monetary Institute, institution responsible for surveillance and enforcement, institution responsible for statistics	By 2021
12.	Strict adherence and maintenance of the Macroeconomic Convergence. -Monitoring consistent compliance with the macroeconomic convergence criteria	Partner States, Council, Institution responsible for Surveillance, Compliance and Enforcement, and institution responsible for Statistics	From 2021

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No.	ACTIVITY	RESPONSIBLE INSTITUTION	TIMELINE
13.	Establishment of East African Community stabilisation facility. -Initiate a bill to establish the East African Community stabilization facility;	Partner States, Council, East African Monetary Institute., institution responsible for Surveillance, compliance and Enforcement , East African Legislative Assembly	By 2022
14.	Design and implement a common exchange rate mechanism. (a) Design a common exchange rate policy; (b) Implement a phase of convergence during which the Partner States shall implement managed float exchange rate regimes; (c) Implement a phase of conversion of the exchange rates during which the council shall irrevocably fix the exchange rates among the Partner States. (d) Convert Partner States' currencies to a single EAC currency on a date to be announced that shall not be more than six months from the date of irrevocable fixing of the exchange rates.	Partner States, East African Monetary Institute, Council	By 2022
15.	Determination of Conversion Rates and design of a single currency (a) Develop legal instruments to irrevocably fix: -the exchange rates among currencies of the Partner States; -the conversion rates at which the single currency will replace the currencies of the Partner States.	Partner States, Council, East African Monetary Institute, East African Legislative	By 2024

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No.	ACTIVITY	RESPONSIBLE INSTITUTION	TIMELINE
	(b) Irrevocably set up the parities at which national currencies will exchange for an East African Currency Unit (EACU) at the conversion phase; (c) Develop and adopt a methodology for computing the EACU as a weighted basket of the Partner States exchange rate vis a vis a suitable external reference currency. (d) Identify name and design of single currency through a competitive process	Assembly	
16.	Conversion and redenomination of existing legal instruments. -Establish rules for the redenomination of existing legal instruments and all other measures necessary for the transition to the single currency.	Partner States and East African Monetary Institute	By 2024
17.	Enactment of the legal instrument establishing the EACB. (a) operationalization of the system of central banks (b) implement a single monetary policy and a single exchange rate policy.	Partner States, Council, East African Legislative Assembly, East African Monetary Institute	By 2024
18	Introduction of single currency -Launch of bank notes and coins of the single currency	Partner . States, Council, EACB	2024

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CABINET SECRETARY
NATIONAL TREASURY
16 JUL 2014
RECEIVED
P. O. Box 30007, NAIROBI

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THE PRESIDENCY

OFFICE OF THE SECRETARY TO THE CABINET

Telegraphic Address
Telephone: Nairobi 2227411
When replying please quote
Ref. No. OP/CAB.58/4A
date

P. O. Box 62345-00200
NAIROBI

11th July, 2014

Hon. Prof. Githu Muigai, EGH, FCIArb
Attorney-General
Office of the Attorney-General and Department of Justice
NAIROBI

Dr. Kamau Thugge, EBS
Principal Secretary
National Treasury
NAIROBI

Mwanamaka Amani Mabruki
Principal Secretary /East African Community
Ministry of East African Affairs, Commerce and Tourism
NAIROBI

Dr. Ibrahim M. Mohamed
Principal Secretary/Commerce and Tourism
Ministry of East African Affairs, Commerce and Tourism
NAIROBI

Dear Henry

RE: CABINET MEMORANDUM ON THE PROTOCOL ON THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETORY UNION

I refer to the **Fifth Cabinet Meeting 2014**, held on **10th July, 2014**, during which Cabinet Memorandum **CAB(14)64**, jointly submitted by the Cabinet Secretaries for the National Treasury and East African Affairs, Tourism and Commerce was presented and discussed.

I wish to inform you that Cabinet **considered** the contents of the Memorandum and:

(i) **Approved** the Protocol on establishment of the East African Monetary Union and for its forwarding to Parliament for ratification

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(ii) **Directed** the Cabinet Secretary for the National Treasury, Cabinet Secretary for East African Affairs, Commerce and Tourism and the Attorney-General to take appropriate action.

Please proceed and initiate action along the lines of the Cabinet decision.

Yours Sincerely

Francis

FRANCIS. T. KIMEMIA, EGH
SECRETARY TO THE CABINET

Copy to: Mr. Henry K. Rotich
Cabinet Secretary,
Ministry of the National Treasury
NAIROBI

Mrs. Phyillis Jepkosgei Kiping'or Kandie
Cabinet Secretary,
Ministry of East African Affairs, Commerce and Tourism
NAIROBI

ANNEX 4

MINUTES

MINUTES OF THE 30TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON TUESDAY 5TH AUGUST, 2014 IN THE MEMBERS LOUNGE, PARLIAMENT BUILDINGS AT 12.00 NOON

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Christopher Nakuleu, MP - Vice-Chairperson
3. Hon. Alois Lentoimaga, MP
4. Hon. Gideon Konchella, MP
5. Hon. Eric Keter, MP
6. Hon. Kubai Iringo, MP
7. Hon. Rose Nyamunga, MP
8. Hon. Dido Ali Rasso, MP
9. Hon. Andrew Toboso, MP
10. Hon. Peter Shehe, MP
11. Hon. David Ouma, MP
12. Hon. Mark Lomunokol, MP
13. Hon. Kathuri Murungi, MP
14. Hon. Wanjiku Muhia, MP
15. Hon. Timothy Bosire, MP
16. Hon. Sarah Korere, MP

Absent With Apology

1. Hon. Joseph Kahangara, MP
2. Hon. Charles Nyamai, MP
3. Hon. Anthony Kimaru, MP
4. Hon. Alex Mwiru, MP
5. Hon. Ali Wario, MP
6. Hon. Bady Twalib Bady, MP
7. Hon. Ann Nyokabi, MP
8. Hon. Florence Mutua, MP
9. Hon. Mary Seneta, MP
10. Hon. Emmanuel Wangwe, MP
11. Hon. David Karithi, MP
12. Hon. Robert Mbui, MP
13. Hon. Dan Kazungu, MP

In Attendance

1. Ms. Esther Nginyo - Third Clerk Assistant
2. Mr. Fredrick Otieno - Third Clerk Assistant
3. Mr. Nicodemus Maluki - Third Clerk Assistant

MIN.NO. CRI/130/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.30 p.m followed by a word of prayer by Hon. David Ochieng', MP

MIN.NO. CRI/131/2014 CONSIDERATION OF THE CABINET MEMORANDUM ON THE PROTOCOL FOR THE ESTABLISHMENT OF THE EAC MONETARY UNION

The Chairperson informed the Committee of the Cabinet Memorandum on the Protocol for the establishment of the EAC Monetary Union that was tabled in the House on 22nd July 2014. The Committee agreed on the need to have sufficient information on the protocol for establishing the monetary union and resolved to have a presentation on the same from the Parliamentary Budget Office. Further it resolved to invite the following stakeholders;

i. Institute of Economic Affairs
ii. African Economic Research Consortium
iii. Kenya Institute of Policy and Public Research
iv. The National Treasury
v. Ministry of East African Affairs, Commerce and Tourism
vi. State Law Office

The Committee however noted with concern that contrary to the information on Cabinet Memorandum on public sensitization on the Protocol that sensitization was done to the Committee on Regional Integration and other Committees of the National Assembly and the Senate, the Committee was not involved in the said sensitization. The Committee emphasized on the need to engage the public in the regional integration issues as the process should be people driven to be successful.

MIN.NO. CRI/132/2014 ANY OTHER BUSINESS

The Committee agreed to benchmark on countries with regional cooperation and integration to learn from their best practices. The following countries/regions were proposed;

1. South Korea as a Member of ASEAN
2. Brazil as a Member of Mercosur

3. Switzerland, Geneva, the Headquarters of World Trade Organization
4. Ghana as a Member of ECOWAS
5. IGAD Headquarter

MIN.NO. CRI/133/2014 ADJOURNMENT

There being no Other Business, the Chairperson adjourned the meeting at 1.16 p.m.

Signed..

Chairperson

Date....26/09/2014..........

MINUTES OF THE 31ST SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON THURSDAY 7TH AUGUST, 2014 IN THE COMMITTEE ROOM 9, PARLIAMENT BUILDINGS, AT 12.00 PM.

Present

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Christopher Nakuleu, MP - Vice-Chairperson
3. Hon. Dido Ali Rasso, MP
4. Hon. Alois Lentoimaga, MP
5. Hon. David Ouma, MP
6. Hon. Eric Keter, MP
7. Hon. Joseph Kahangara, MP
8. Hon. Wanjiku Muhia, MP
9. Hon. Kathuri Murungi, MP
10. Hon. David Karithi, MP
11. Hon. Andrew Toboso, MP
12. Hon. Timothy Bosire, MP
13. Hon. Rose Nyamunga, MP
14. Hon. Dan Kazungu, MP
15. Hon. Mark Lomunokol, MP

Absent With Apology

1. Hon. Sarah Korere, MP
2. Hon. Emmanuel Wangwe, MP
3. Hon. Florence Mutua, MP
4. Hon. Charles Nyamai, MP
5. Hon. Anthony Kimaru, MP
6. Hon. Peter Shehe, MP
7. Hon. Robert Mbui, MP
8. Hon. Bady Twalib Bady, MP
9. Hon. Mary Seneta, MP
10. Hon. Ann Nyokabi, MP
11. Hon. Ali Wario, MP
12. Hon. Alex Mwiru, MP
13. Hon. Gideon Konchella, MP
14. Hon. Kubai Iringo, MP

In Attendance

Kenya National Assembly

1. Mr. Evans Oanda - First Clerk Assistant
2. Ms. Esther Nginyo - Third Clerk Assistant
3. Mr. Nichodemus Maluki - Third Clerk Assistant
4. Mr. Robert Nyaga - Fiscal Analyst
5. Mr. Joash Kosiba - Fiscal Analyst
6. Ms. Sharon Cherono - Researcher

MIN.CRI/NO.134/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.30 pm followed by a word of prayer.

MIN.CRI/NO.135/2014 PRESENTATION ON THE CABINET MEMORANDUM ON THE PROTOCOL FOR THE ESTABLISHMENT OF EAC MONETARY UNION

The Parliamentary Budget Office made a presentation to the Committee on the Protocol for the Establishment of EAC Monetary Union as follows;

I. Background

1. The East African Community (EAC) is a regional inter-governmental organization established under Article 2 of the East African Community Treaty that came into force in July 2000. The EAC is made up of five (5) Partner States namely; United Republic of Tanzania, Republic of Uganda, Republic of Rwanda, Republic of Kenya and Republic of Burundi.

2. The EAC integration process has four (4) pillars namely; Customs Union (1st Pillar), Common Market (2nd Pillar), Monetary Union (3rd Pillar) and Political Federation (4th pillar).

3. Partner states have so far established among themselves a Customs Union that came into force in 2005, the EAC Common Market Protocol which was signed in November, 2009 and its implementation started on 1st July, 2010 with the year 2015 as the target for its full implementation. Consequently partner states have now embarked on the third pillar of establishing the East African Community Monetary Union (EAMU) having established the first two pillars of the EAC integration process.

II. Monetary Union and Process of Ratification of the Protocol

(a) Concept of a Monetary Union

4. The concept of Monetary Union is derived from monetary integration which is an aspect of economic integration, which involves exchange rate unification and currency convertibility. Monetary integration is an encompassing concept, which may consist of Monetary Union or a common currency area.

5. Burda and Wyplosz (2001) define Monetary Union as an agreement among sovereign countries to use a common currency. They observed that *a monetary union involves the irrevocable fixing of exchange rates and the abandonment of margins of fluctuation among a number of currencies. Individual currencies are no longer distinguishable as they are substituted by a common currency and central banks lose any remaining autonomy, although one central bank is needed to manage the common currency.*

6. The features of a monetary Union and a true currency union include:
   (i) A voluntary coming together of independent nations at a highest political level.
   (ii) Abolition of member countries' individual currencies and the establishment of a single currency that will be used throughout the union.
   (iii) The adoption of a common monetary policy throughout the member countries of the union.
   (iv) The existence of a single central bank to manage the single currency.
   (v) Irrevocable fixing of exchange rates where individual currencies are not abandoned.

7. The Protocol on the Establishment of the East African Community Monetary Union was signed at the 15th Ordinary Summit of EAC Heads of States on 30th November, 2013 in Kampala, Uganda. The EAMU Protocol outlines a ten-year roadmap towards a single currency by the year 2024.

(b) Process of Ratification of a Protocol

8. The Cabinet of Kenya discussed and approved the Protocol on the establishment of the EAC Monetary Union in the fifth Cabinet meeting held on 10th July, 2014 and forwarded the same to Parliament for ratification. The Cabinet memorandum on the Protocol was tabled in the House on 22nd July, 2014 for ratification pursuant to Treaty Making and Ratification Act No 45 of 2012.

9. The 15th Summit of EAC heads of state on 30th November, 2013 in Kampala Uganda signed the EAC Monetary Union Protocol and directed that all partner states conclude the ratification of the protocol by July, 2014. It is against this background that Parliament ratification of the protocol is being sought.

10. The ratification of the EAC Monetary Union Protocol is anchored in the EAC Treaty, the Constitution of Kenya and the Treaty Making and Ratification Act, 2012. It is important to note that Article 2 (6) of the Constitution of Kenya provides that, *"Any Treaty or Convention ratified by Kenya shall form part of the laws of Kenya"*

11. The Annexes and Protocols to EAC Treaty forms an integral part of the Treaty as provided for in Article 151(4) of the Treaty. The ratification process of this Protocol therefore is guided by Sections 8 & 9 of the Treaties Making and Ratification Act No. 45 of 2012.

12. Parliament therefore may approve the ratification of this Protocol with or without reservations to specific provisions of the treaty as provided for in Section 8(4) of the Act. Any proposed reservation can be introduced as a provision into the Protocol in accordance with the procedure set out in the Standing Orders as provided for in Section 8(5).

13. It is important to note that Parliament cannot approve the ratification of a treaty or part of it if its provisions are contrary to Constitution as stipulated Section 8(9). Where Parliament refuses to approve the ratification of the treaty, the Government shall not ratify the treaty (Section 9(3).

III. Pros and Cons of a Monetary Union

14. According to the Cabinet, the establishment of a Monetary Union will provide among other the following benefits to the citizens and economies of East African Community (EAC):
    i) Enhanced trade and investment
    ii) Reduction in foreign exchange risk
    iii) Increased efficiency and wider market
    iv) Ease of price comparability
    v) International Reserves
    vi) Symbol of Integration.

15. Studies on existing Monetary Unions such as European Monetary Union (EMU) and West African Economic and Monetary Union (WAEMU) indicate that Monetary Unions jigsaw is a difficult one to solve. There are benefits and there are costs. The following are some of the challenges of establishing and joining a monetary union:
   i) Lose of monetary policy power by the Central Bank
   ii) Lose of national sovereignty in the use of monetary policy instruments such as exchange rate and interest rates
   iii) Exposure to asymmetric shocks i.e. shocks which tend to hurt some member countries but not others
   iv) High real exchange rate persistence as exchange rates adjusts more slowly to shocks in the member countries of currency unions
   v) Loss of seigniorage i.e. the profit between the difference in the value of money and cost of cost it.
   vi) Potential for political tensions
   vii) Government's ability to adjust to economic shocks is highly constrained this may lead to high unemployment.

IV. International Comparative Analysis

(a) European Union Economic and Monetary Union (EMU)

16. The Maastricht Treaty of 1992 spelt out the following criteria for membership of EU countries in the Economic and Monetary Union (EMU), which started in January 1999:
   (i) Long-term interest rate not in excess of 2 percent above the average of the three countries with the lowest inflation rates;
   (ii) Inflation rate not higher than 1.5 percent above the average of the three countries with the lowest inflation rates
   (iii) No devaluation of its currency in the two years preceding the entrance into the union;
   (iv) Government deficits and debts not exceeding 3 percent and 60 percent of the GDP, respectively.

(b) West Africa Monetary Union (EMU) and West African Second Monetary Zone (WAMZ)

17. The treaty founding the West African Economic and Monetary Union (WAMU) was adopted on 10th January 1994 in Dakar Senegal and came into force on 1st August 1994. WAMU is a regional economic and monetary union of eight West African

countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo) which share same currency, West African francs (CFA francs), monetary policies, and French as an official language.

18. Six of the 15 member countries of the Economic Community of West African States (ECOWAS), namely, The Gambia, Ghana, Liberia, Nigeria and Sierra Leone, embarked on an ambitious project to set up a second monetary union and common currency in West Africa (popularly referred to as West African Second Monetary Zone (WAMZ), to coexist with WAEMU.

19. In April 2000, these countries signed the Accra Declaration on a second monetary zone, committing themselves to restructuring their economies to meet the following stringent convergence criteria one year ahead of the ECOWAS goal of launching the single monetary zone (and the introduction of a single currency) in the sub-region:
   i) Maintain single-digit inflation by the end of 2000 and an inflation rate of no more than 5 percent by 2003;
   ii) Maintain gross foreign currency reserves to cover at least three months' worth of imports by the end of 2000 and six months' worth by the end of 2003;
   iii) Limit central bank financing of the budget deficit to 10 percent of the previous year's tax revenue; and
   iv) Maintain a maximum budget deficit-to-GDP ratio of 5 percent by the end of 2000 and 4 percent by the end of 2003.

20. The WAMZ partner States set a 10 year road map (2001-2012) to fully meet all of the convergence criteria. The data available indicates that none of the six countries was able to fully meet the convergence criteria in the 10 year period.

(c) Caribbean Monetary Union (CMU)

21. The bid for the formation of Caribbean Monetary Union (CMU) was started in 1989 by member States of the Caribbean Community (CARICOM)[1]. A set of criteria was established which member countries must satisfy before joining CMU. The convergence criteria state that member countries must adhere to the following:
   (i) Hold external reserves equal to at least 3 months of imports for at least 1 year.
   (ii) Maintain a stable exchange rate for at least 3 years (i.e. the exchange rate is not to fluctuate by more than 1.5% during the 3 years prior to monetary union).

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[1] The CARICOM Members are: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St Vincent and Grenadines, Suriname and Trinidad and Tobago

(iii) Have external debt service obligations of no more than 15% of exports.

(iv) Contain fiscal deficits of below 3% of GDP.

(v) In the year prior to monetary union, have an inflation rate within 1.5% of the median of the 3 countries with the lowest (but positive) rates.

22. The CARICOM Partner States envisaged that CMU would include all members of CARICOM2 and recommended that a fully operational common currency be in place by the year 2000. However, to date none of the CARICOM countries satisfy all the criteria.

V. Key Observations on the EAC Monetary Union Protocol

23. The proposed EAC Monetary Union (EAMU) is modeled on the European Union Economic and Monetary Union (EMU). However, there are structural differences in the economies of Member States of EU and EAC. The economies of the EU Partner States which presently stands at (28) are much developed compared to the EAC which is composed of five (5) Partner States with small developing economies which may not withstand macroeconomic shocks.

24. All EU Member States form part of Economic and Monetary Union (EMU), which can be described as an advanced stage of economic integration based on a single market. However, only eighteen (18)[2] out of the 28 Member States have joined the single currency area (Euro Currency). The resilience shown by United Kingdom and Sweden during the Euro crisis is attributable to non joining of the single currency area (the euro currency)

25. The following are some of the key timelines on the provisions of the Articles of the Protocol:

a) Fully implementation of Customs Union and Common Market by 2015
b) Establishment of East Africa Monetary Institute by 2015
c) Establishment of EASB, EASCEC and EAFSC by 20118
d) Introduction of a single EAC Currency, EAC Central Bank by 2024
e) Establishment of a monetary reserve mechanism to provide funds for maintaining the official exchange rates of the EAC currency by equalizing the buying and selling of foreign exchange (EAC Stabilization Fund/Exchange Stabilization Fund) by 2022
f) Harmonization of relevant National Laws and framework for the establishment of the monetary union by 2021.

[2] Belgium; Germany; Ireland; Spain; France; Italy; Luxembourg; the Netherlands; Austria; Portugal; Finland; Greece; Slovenia; Cyprus; Malta; Slovakia; Estonia; and Latvia

g) Phasing out of outstanding Central Bank Lending to Public Entities by 2021

h) Attainment of macroeconomic convergence criteria and maintaining the criteria going forward by 2021.

26. The macroeconomic convergence criteria that Partner States undertake to achieve and maintain include: a ceiling on headline inflation of 8%; a ceiling of fiscal deficit including grants of 3% of GDP; a ceiling on public debt to GDP ratio of 50%; and a reserve cover of 4.5 months.

27. The public debt ceiling of 50% to GDP may not be achieved due to the fiscal challenges. In Kenya for example, the implementation of devolution has put fiscal expansionary pressures on the government which has led to huge external borrowings.

28. The pre-requisite on full implementation of the Customs Union and Common Market protocols as a prerequisite may delay the establishment of the Monetary Union protocol.

29. The levels of engagement and sensitization of key stakeholders including Parliament and the public on the Customs Union, Common Market Protocol and the proposed Monetary Union Protocol very low.

IV. Pertinent Issues

30. The following are some of the pertinent issues may be considered by the Partner States:

i. Incomplete implementation of EAC Common Market Protocol: - EAC Partner States should consider full implementation of the Customs Union and Common Market Protocols which are a pre-requisite for the implementation of the Monetary Union. Partner states should ensure that they are open to trade; diversify their economies, thus mitigating the effects of country-specific shocks; and they should have full mobility of inputs, especially labour which is presently partially immobile.

ii. Adjustments Costs: - Upon ratification of the Protocol, Partner States will be faced with various asymmetric macroeconomic shocks which will lead to various adjustment costs. These include:

a) *Fiscal contraction:*-Kenya for example, could face challenges due the implementation of devolution.

b) *Inflation Target:* - There are other issues such as whether the target headline inflation of 8% is achievable or whether the target is very high.

c) *Levels of Public Debt:* - The level of public debt in Kenya for example present stands at 56% to GDP.

d) *Budgetary costs:* - The implementation of the protocol will lead to additional budgetary costs to the Partner States.

iii. Public Participation: - There are still very low levels of sensitization of members of public on the Protocol, Customs Union and the Custom Market.

iv. Cost of the Institutional Arrangements: - The Protocol proposes to create five (5) Institutions and the East African Stabilization Fund to support the East African Monetary Union. The cost of establishing these institutions and the Fund will require budgetary support by the Partner States.

v. The Time Frame: - Based on lessons learnt from existing monetary unions and attempt to establish monetary unions in other areas, the ten years (2014-2024) time frame for the establishment of a single currency area may not be adequate for full realization of the macroeconomic convergence criteria. The EAC Partner States may consider at least a 20 years.

vi. The convergence criteria: - The proposed indicative convergence criteria (Article 5(3) and the macroeconomic convergence criteria (Article 6) are ambitious less likely to be met by the partner states. There is a need for adjustment an enhancement of the convergence criteria.

vii. Fiscal Convergence: - There may be need for establishing ex ante a set of fiscal rules with credible sanctions against non-conformers, and giving greater independence to Central Banks.

viii. Political Commitment: - A monetary union can never be realized until there is existence of the requisite political commitment that binds Partner State not only monetarily, but also fiscally.

ix. Monetary Union Trilemma: - The EAMU process is modeled on the EU Monetary Union. The willingness to submit to what is known as the *'impossible trilogy'* principle, which asserts that two out of the three following features are mutually compatible: full capital mobility, independence of monetary policy and a fixed exchange rate will determine the realization of the union.

ANNEX: ANALYSIS OF THE PROTOCOL ARTICLE BY ARTICLE

This section provides article by article analytical review of the protocol and Parliamentary Budget Office comments and reservations:

	Part A: Interpretations	
Art.	Key Highlights of the Provisions	PBO Comments/Reservations
1	Highlights the interpretation of key words used in the pro	▪ Defines key terms such as East Africa Currency Unit; financial market infrastructure and free floating
	Part B: Establishment, Objectives and Scope of the Monetary Union	
2	Establishes the monetary union, provides that the monetary union shall be realized progressively and it shall be governed in accordance to the relevant laws of the community	▪ There are still very low levels of sensitization of members of public on the Protocol, Customs Union and the Custom Market ▪ The realization of the union though progressive. has ambitious timelines which may not be achieved by some partner states
3	Defines the objective of the Monetary Union i.e. to promote and maintain monetary and financial stability aimed at facilitating economic integration to attain sustainable growth and development of the Community	▪ The objective is good as it promotes inclusive economic growth of the community ▪ Achieving macroeconomic convergence it may be a challenge due to the various socio-economic diversities within the various Partner States.
4	The provisions of the protocol cover activities undertaken by partner states, in co-operation in monetary and financial matters. The partner states also agrees to harmonize various monetary and financial standards including adoption of single currency by the year 224	▪ EAC Secretariat has initiated a process of harmonization of various standards such as accounting & financial reporting standards, Public Finance Management Standards and Public Accounts Committee Standards ▪ The levels of engagement of key stakeholders including Parliament are very low.

	Part C: Pre-requisite for the Monetary Union	
5	Highlights the pre-conditions for the realization of full monetary union which includes: the harmonization of various fiscal and monetary policies; integration of financial systems; fully implementation of the customs union and common market by 2015; phasing out of any outstanding lending by national central banks by the year 2021 and attainment of macroeconomic convergence among others	▪ Full implementation of the Customs Union and Common Market protocols as a prerequisite may delay the establishment of the Monetary Union protocol. ▪ The indicative convergence criteria such as core inflation of 5%; tax to GDP ratio of 25% and a ceiling of fiscal deficit excluding grant of 6% of GDP are less likely to be complied with by some of the Partner States.
	Part D: Macroeconomic Convergence Criteria	
6	Highlights the macroeconomic convergence criteria that partner states undertake to achieve and maintain certain. This include: a ceiling on headline inflation of 8%; a ceiling of fiscal deficit including grants of 3% of GDP; a ceiling on public debt to GDP ratio of 50%; and a reserve cover of 4.5 months	▪ Attainment and maintenance of these convergence criteria is less likely in some of the states. ▪ Kenya, the leading economic Partner State had a headline inflation of 7.39% in July 2014; a fiscal deficit including grants of 4.1% in 2014/2015 budget; a public debt to GDP ratio of 57 %; and a reserve cover of 4 months.
	Part E: Macroeconomic Policy Framework	
7	The states agrees to achieve the macroeconomic policy framework; comprising of fiscal policies, monetary policy and exchange rate policy	▪ This agreement by partner states should be seen through commitment to the implementation of the Customs Union and Common Market protocol which has not been strictly adhered to by some Partner States.
8	The Partner States undertakes to harmonize the various fiscal policies and financial systems including budgetary framework, procurements, audit and avoid harmful tax	▪ The harmonization of various fiscal and financial standards has been initiated. ▪ The levels of engagement of the public have been very low.

	competition among others	
9	Public debt management; in accordance to the debt ceiling specified in Article 6 (2) (c) which is 50% to GDP	▪ The public debt ceiling of 50% to GDP may not be achieved due to the fiscal challenges ▪ In Kenya for example, the implementation of devolution has put fiscal expansionary fiscal pressure on the government which has led to huge external borrowings.
10	Partner states commit to establish mechanism for managing economic shocks arising from exogenous factors	▪ Management of exogenous shocks may be a daunting task to the nascent union. ▪ There is need to identify these exogenous factors (global oil prices, drought, agricultural produce price fluctuations, terrorism) and come up with practical measures of dealing with them.
11	The partner states agree to commit to a single monetary policy with an objective of achieving price stability	▪ Partner states including Kenya will cede its monetary policy and exchange rate policy to a supra-national central. ▪ Central Bank of Kenya (CBK) will cease to formulate monetary policy, promoting price stability and issuing of currency. This violates Article 231 of the Constitution of Kenya and Section 8(9) of the Treaty Making and Ratification Act No. 45 of 2012. ▪ An independent (CBK) charged with keeping inflation within a low target range is more likely to result in low inflation than joining a monetary union.
12	Exchange rate policy; the exchange rate in the single currency area shall be free floating/ fluctuating	▪ The free floating exchange rate regime is where the value of the currency is determined solely by forces of market demand and supply of the currency ▪ Floating exchange rates bring protectionist pressures and increased chances of financial instability which both threaten economic integration and therefore may

		not be an option for small developing economies like the EAC Partner States
13	Foreign exchange transactions by partner states to be carried out through a system of EAC Central bank and national central banks of the partner states	▪ This provide for a shared role between the EAC Central Bank and National Central Bank of the Partner States
	Part F: Financial, Payment and Settlement Systems	
14	Provide for the development of an integrated financial systems	▪ The financial systems envisaged does not explicitly include SACCOs which plays an important role especially in provision of inclusive financial service to the rural Kenyans.
15	Highlight on the Payments and Settlement systems. The Partner States commits to adopt an integrated trading and securities depository system	▪ The financial, payment and settlement systems should be reliable, efficient and secure ▪ An integrated trading and securities depositories system will promote seamless cross-listing and trading in the Partner State's national securities exchanges.
16	Harmonization of financial management, accounting and reporting	▪ The harmonization of financial management, accounting and reporting procedures and systems has been initiated for the private sector accounting and reporting. However, ▪ The slow pace in adoption of International Public Sector Accounting Standards (IPSAS) by Partner States is likely to hinder the harmonization of public sector accounting and reporting practices.
17	Framework for compilation, analysis and dissemination of statistics in the Monetary Union	▪ East African Statistics Bureau (EASB) is expected to be established by 2018
	Part H: Single Currency	

18	The Partner States undertake to adopt single currency by the year 2024.	▪ The single currency is to be adopted by at least three Partner States that meet the requirements of the pre-requisite conditions (art.5) and the macroeconomic convergence criteria (art.6). ▪ The name of the single currency is left for the Summit to determine (Art.18 (5)). The citizens of the adopting partner states should be involved in determining the name of the single currency. ▪ The changeover cost to the single currency changeover should be well understood by both the private sector players and the government. It may be disruptive to the economies ▪ *What is the approximate cost of new single currency-specific signage, production of new coins, destruction of old coins and notes, change in all IT systems, new single currency price labeling (including menus), and new POS terminals?*
19	Determination of conversion rates	▪ There should be measures in place to cushion the citizens and indeed the economies from currency exchange losses arising from the irrevocable conversion rate fixed by the Council.
	Part I: Institutional Mechanisms	
20	Establishes the East African Central Bank (EACB) and provides that the Partner States shall provide the capital for the Bank	▪ This will occasion additional expenditure to the government and will require an amendment of the Constitution and the several Acts to cede some of the powers of the Central Bank of Kenya to EAC Central Bank.
	Part J: General Provisions	
22	Harmonization of policies, laws and	▪ This will require strong financial, political

	systems by the year 2021	and institutional commitment by the various Partner States. ▪ Entrenchment of Parliament (Members and technical staff) will be crucial to drive this agenda. ▪ Sensitization of the general public and the private sector is crucial for the realization of this Article.
23	Transitional provision envisages the establishment of East Africa Monetary Institute by the year 2015.	▪ The kind of preparatory work that the institute shall be involved in is not clearly stipulated. ▪ The enactment of the statutory instrument establishing the institute may require time to be ratified by the Partner States.
24	The Council to develop measures to support a Partner State the experiences macroeconomic or structural imbalances	▪ The Partner States have smaller economies that are less likely to absorb major macroeconomic or structural imbalance unlike the case of Germany and Greece in the EU. ▪ Which safeguard mechanism will be put in place to support a struggling Partner State? ▪ Any major macroeconomic/structural imbalance may lead to a catastrophic collapse of the union. ▪ A successful Monetary Union requires that the economies joining it are broadly the same, especially in regard to their response to external and internal inflation shocks. This is not the case in EAC.
25	International and regional agreements on matters relating to the Monetary Union	▪ The involvement of EAC Central Bank in the negotiation, conclusion and implementation of any agreement with a foreign entity that may impact on single monetary policy is necessary for macroeconomic stability.
26	Admission to the single currency area	▪ The admission of a Partner State into a single currency area will be guided by fulfillment of requirements of the pre-

		requisite conditions (art.5) and the macroeconomic convergence criteria (art.6). ▪ The thresholds as set in (art.5) and (art.6) are dynamic and inconsistent with thresholds in other Monetary Unions such as European Monetary Union (EMU).
27	Empowers the Council to make regulations, directives and decisions necessary for effective implementation of the protocol	▪ This is necessary and in order for effective implementation
28	Dispute settlement	▪ The dispute settlement mechanism shall be guided by the provisions of the Treaty.
29	Amendment of the protocol	▪ Any amendment of the Protocol shall be in accordance with Article 150 of the EAC Treaty
30	Entry into force	▪ The Protocol shall enter into force upon ratification and deposit of instruments of ratification to the Secretary General by all Partner States.
31	Depository and Registration of the Protocol	▪ The Protocol to be registered with AU, UN, IMF and any other organization as the Council may determine.

MIN.CRI/NO.136/2014 COMMITTEE'S CONCERNS

The Committee raised the following concerns from the presentation;

i. There is need to have more comparative studies on models of regions that have monetary union in place in addition to the European Union Model.

ii. Delays in the implementation of the EAC Common Market Protocol and the Customs Union would affect the implementation of the establishment of the monetary union.

iii. Upon ratification of the monetary union protocol, one of the effects the monetary union will be asymmetric macroeconomic shocks which will lead to various adjustment costs such as fiscal contraction, inflation target, levels of public debts and additional budgetary costs. The EAC partner states individual economies are small to handle the asymmetric macroeconomic shocks.

iv. There is need for establishment of a development fund for the region to be used for developing the partner states in a bid to bring them at par.

MIN.CRI/NO.137/2014 ADJOURNMENT

There being no other business, the Chairperson adjourned the meeting at 1.25 pm. The next meeting will be held on Tuesday, 12th August, 2014.

Signed..

Chairperson

Date....26/09/2014....................

MINUTES OF THE 32ND SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON TUESDAY 12TH AUGUST, 2014 IN CONTINENTAL HOUSE, 4TH FLOOR, PARLIAMENT BUILDINGS AT 10.00 AM

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Alois Lentoimaga, MP
3. Hon. Eric Keter, MP
4. Hon. Kubai Iringo, MP
5. Hon. Rose Nyamunga, MP
6. Hon. Peter Shehe, MP
7. Hon. David Ouma, MP
8. Hon. Mark Lomunokol, MP
9. Hon. Kathuri Murungi, MP
10. Hon. Wanjiku Muhia, MP
11. Hon. Timothy Bosire, MP
12. Hon. Sarah Korere, MP
13. Hon. Florence Mutua, MP
14. Hon. Mary Seneta, MP

Absent With Apology

1. Hon. Christopher Nakuleu, MP - Vice-Chairperson
2. Hon. Joseph Kahangara, MP
3. Hon. Charles Nyamai, MP
4. Hon. Anthony Kimaru, MP
5. Hon. Alex Mwiru, MP
6. Hon. Ali Wario, MP
7. Hon. Bady Twalib Bady, MP
8. Hon. Ann Nyokabi, MP
9. Hon. Emmanuel Wangwe, MP
10. Hon. David Karithi, MP
11. Hon. Robert Mbui, MP
12. Hon. Dan Kazungu, MP
13. Hon. Gideon Konchella, MP
14. Hon. Dido Ali Rasso, MP
15. Hon. Andrew Toboso, MP

In Attendance

1. Mr. Evans Oanda - First Clerk Assistant
2. Ms. Esther Nginyo - Third Clerk Assistant
3. Mr. Fredrick Otieno - Third Clerk Assistant
4. Mr. Nicodemus Maluki - Third Clerk Assistant
5. Mr. Joash Kosiba - Fiscal Analyst
6. Ms. Sharon Cherono - Research Officer

Kippra

1. Mr. Augustus Muluvi
2. Dr. Simon Githuku

Institute of Economic Affairs

1. Mr. Kwame Owino

MIN.NO. CRI/138/2014 PRELIMINARIES

The Chairperson called the meeting to order at 10.30 a.m followed by a word of prayer. She welcomed all present to do self-introduction.

MIN.NO. CRI/139/2014 CONSIDERATION OF THE CABINET MEMORANDUM ON THE PROTOCOL FOR THE ESTABLISHMENT OF THE EAC MONETARY UNION

1. Presentation by Kenya Institute of Public Policy Research Analysis

Dr. Simon Githuku and Mr. August Muluvi appeared before the Committee and made a presentation as follows that;

i. There is need to harmonize and merge the indicative convergence criteria as cited in Article 5(3) with the Macro-economic Convergence Criteria as cited in Article 6(2) in the Protocol.
ii. Under pre-requisites for the monetary union 4.2(ii), be amended to read as 'harmonize and coordinate their fiscal policies to achieve a budgetary/fiscal union'.

iii. Under Article 6(3) which states that 'the Council shall develop measures to regularly monitor, assess, and enforce adherence to the macro-economic convergence and foster fiscal discipline in the Partner States'. It is proposed that instead of a Council, an oversight body can be created to ensure adherence to the convergence criteria.

iv. Under the macro-economic Convergence Criteria, there is need to introduce another criterion for the convergence of short-term and long-term interest rates.

v. There is need to consider as pre-requisite the harmonization of the legal system of the EAC Partner States since different legal systems will affect the way markets function.

vi. There is need for the introduction of Structural convergence Criteria of the economies since conformity of the East Africa Economic Structures will prevent countries responding differently when a common monetary policy is adopted. Tackling structural problems facing the EAC economies will address challenges such as inflation and balance of payment.

vii. Under Article 8 of the Protocol on Fiscal Policies, the most ideal situation would be the harmonization and coordination of fiscal policies to achieve a fiscal/budgetary union. In terms of the fiscal union, the model should be like the devolved system in Kenya or the United States system. Consolidation of national budgets will create an automatic transfer mechanism of funds to those countries facing a negative economic shock. A proposal is therefore made for the formation of an EAC Fiscal Institution that will be responsible for the issuance of debt in a currency under its control. This will insulate the Partner States from falling into default by financial market.

viii. Under Article 10(3) as a Mechanism for building resilience of EAC's economies against economic shocks, it is proposed that a permanent fund similar to the EU's European Stabilization Mechanism be set up which will be from the EAC Partner States contributions to provide soft loan to countries facing economic shocks.

ix. Under Article 11(3) it is proposed that the following words 'and financial stability' be inserted immediately after the word 'price' to read as follows; 'the primary objective of the monetary policy shall be to achieve and maintain price and financial stability'. This is because it is important to consider what happens in specific countries.

x. Under Article 21 on other institutions to support the Monetary Union, it is proposed that the following institutions be included; EAC Fiscal Institution and EAC Presidency –similar to the EU President to ensure political convergence as the EAC awaits the formation of a political union.

xi. There is therefore need to establish a political union for purposes of strengthening the Monetary Union.

xii. There is also the need to relook at the EAC Institutional arrangement with the proposed EAC Monetary Union.

2. Presentation from the Institute of Economic Affairs

Mr. Kwame Owino, Chief Executive Officer, Institute of Economic Affairs appeared before the Committee and made a presentation as follows that;

i. The Monetary Union Protocol is a standard document that has borrowed widely from the European Union.

ii. The Cabinet Memorandum has a bias as it stipulates the benefits that the East African Citizens will gain from the Monetary Union. However, by ratifying the protocol, it is not guaranteed that the Monetary Union will provide the benefits as stipulated.

iii. From the European Union experience, it can be noted that countries like the United Kingdom and Sweden that have not embraced the EU Monetary Union have been able to withstand the economic shocks in the region.

iv. Contrary to the indication by the Cabinet Memorandum on the key stakeholders sensitization on the monetary union, it was noted that the said consultation was not done widely as indicated.

v. Ratification of the Protocol for the establishment of the EAC Monetary Union raises constitutional issues. The Central Bank of Kenya as established in Article 231 of the Constitution will be rendered redundant with the establishment of a Supra-national Central Bank. This will call for an amendment to the Constitution.

vi. On fiscal policy, once the Monetary Union Protocol is ratified, Parliament will surrender part of its fiscal authority.

vii. There is need to conclude the implementation of the customs union protocol and common market agreement first before embarking on the monetary union.

MIN.NO. CRI/140/2014 COMMITTEE'S CONCERNS

The Committee having listened to the presentations raised the following concerns that;

i. The European Union integration process has been in place for over 50 years and introduced its monetary union only 15 years ago. Being a strong economic regional block, the EU has countries that are able to absorb the economic shocks for the weaker countries in their region. On the contrary, the EAC region does not have countries that can absorb economic shocks for other partner state.

ii. It is important for the EAC to establish a Fiscal Monitoring Institution that will be monitoring the fiscal policies of the Partner States.

iii. The establishment of the Monetary Union will provide for establishment of various institutions which will have budgetary implications.

MIN.NO. CRI/141/2014 ADJOURNMENT

There being no other business, the Chairperson adjourned the meeting at 11.46 a.m. The next meeting will be held on Thursday, 14th August, 2014.

Signed..

Chairperson

Date....26/09/2014......................................

MINUTES OF THE 33RD SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON THURSDAY 14TH AUGUST, 2014 IN CONTINENTAL HOUSE, 4TH FLOOR, PARLIAMENT BUILDINGS AT 12.00 NOON

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Rose Nyamunga, MP
3. Hon. David Ouma, MP
4. Hon. Mark Lomunokol, MP
5. Hon. Wanjiku Muhia, MP
6. Hon. Timothy Bosire, MP
7. Hon. Sarah Korere, MP
8. Hon. Florence Mutua, MP
9. Hon. Mary Seneta, MP
10. Hon. Emmanuel Wangwe, MP
11. Hon. David Karithi, MP
12. Hon. Robert Mbui, MP
13. Hon. Dan Kazungu, MP
14. Hon. Gideon Konchella, MP
15. Hon. Dido Ali Rasso, MP
16. Hon. Andrew Toboso, MP

Absent With Apology

1. Hon. Christopher Nakuleu, MP - Vice-Chairperson
2. Hon. Joseph Kahangara, MP
3. Hon. Charles Nyamai, MP
4. Hon. Anthony Kimaru, MP
5. Hon. Alex Mwiru, MP
6. Hon. Ali Wario, MP
7. Hon. Bady Twalib Bady, MP
8. Hon. Ann Nyokabi, MP
9. Hon. Alois Lentoimaga, MP
10. Hon. Eric Keter, MP
11. Hon. Kubai Iringo, MP
12. Hon. Peter Shehe, MP
13. Hon. Kathuri Murungi, MP

In Attendance

1. Ms. Esther Nginyo - Third Clerk Assistant
2. Mr. Fredrick Otieno - Third Clerk Assistant
3. Mr. Nicodemus Maluki - Third Clerk Assistant
4. Ms. Sharon Cherono - Research Officer

Ministry of East African Affairs, Commerce & Tourism

1. Mwanamaka Mabruki - Principal Secretary
2. Peter Njoroge - State Department of East African Affairs

State Law Office

1. Dorcas Achapa - Deputy Solicitor General
2. Allan Githaiga - Senior State Counsel

MIN.NO. CRI/142/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.30 p.m. followed by a word of prayer. She welcomed all present to do self-introduction.

MIN.NO. CRI/143/2014 CONSIDERATION OF THE CABINET MEMORANDUM ON THE PROTOCOL FOR ESTABLISHING EAC MONETARY UNION

Presentation by the State Law Office

Ms. Dorcas Achapa, Deputy Solicitor General, State Law Office appeared before the Committee and made a presentation on the Protocol for establishing the EAC Monetary Union as follows that;

i. The 5th Cabinet Meeting held on 10th July 2014 approved the Protocol on the Establishment of the EAC Monetary Union. The Protocol has been referred to Parliament for consideration in accordance with the procedures set out in the Treaty Making and Ratification Act, 2012. The Protocol once ratified will form part of the Laws of Kenya.
ii. The Protocol has been developed based on Article 5(2) of the Treaty Establishing the East African Community that provides for the establishment of a Customs Union, Common Market, a Monetary Union and ultimately a Political Federation.

iii. The Protocol provides for Partner States to cede their monetary and exchange rate policies to a supra-national central bank upon adoption of the single currency. The National Central Banks in the single currency area shall not be responsible for formulating monetary policy, promoting price stability and issuing currency. The Central Bank of Kenya is vested with this mandate under Article 231 of the Constitution. There will therefore be need to effect relevant constitutional amendments to reflect this position in accordance with the implementation roadmap of the protocol by 2021.

iv. There will be need for amendment and harmonization of national laws, pertaining to the financial sector in order to facilitate the establishment of the Monetary Union. Currently, the State Law Office is collaborating with the Ministry of East African Affairs towards amending relevant laws to allow the for the full implementation of the Common Market Protocol.

v. The Protocol provides for the establishment of 5 institutions; EA Monetary Institute, EA Surveillance, Compliance and Enforcement Commission, EA Statistics Bureau, EA Financial Services Commission and EA Central Bank. In accordance with EAC practice and procedures, these institutions will be set up through regional laws enacted by the East African Legislative Assembly.

vi. Sensitization of the public and other stakeholders has been undertaken by the Ministry of East African Affairs. Concerns have been expressed relating to whether the Partner States will be able to maintain monetary and financial stability necessary for facilitating the implementation of the Protocol. These concerns have however been mitigated as follows;

- The implementation of the Protocol will be progressive over a ten year period to allow the attainment, by the Partner States, of the pre-requisites necessary for the establishment of the Monetary Union and the single currency area.
- The Protocol mandates the EAC Council of Ministers to develop measures to support a Partner State that experiences macroeconomic or structural imbalances arising from the implementation of the Protocol.
- The Protocol obligates the Partner States to establish mechanisms to identify, monitor and mitigate any economy risk in a Partner State that may threaten the economic stability of the Monetary Union.
- Only partner states that have strictly adhered to the pre-requisites and macroeconomic criteria will be admitted into the single currency area. Non compliant Partner States will not be admitted.
- The Protocol establishes institutional mechanism that will allow for its monitoring and implementation.

Presentation by the State Department of East African Affairs

Ms. Mabruki Mwanamaka, Principal Secretary, State Department of East African Affairs appeared before the Committee and made a presentation as follows;

i. The East African Heads of States signed the East African Monetary Union Protocol on 30th November, 2013 in Kampala and directed that the Partner States conclude ratification of the Protocol by July, 2014. However, Kenya has not ratified the Protocol.

ii. The Sectoral Council of Finance and Economic Affairs will be in charge of the implementation of the East African Monetary Union. The Council of Ministers will develop bills to facilitate implementation of the EA Monetary Union.

iii. Sensitization has been done to the relevant Committees of Parliament, media, university students and civil society organizations. Countrywide Sensitization of county leadership on the protocol has been done in the 47 counties.

iv. Upon establishment of the East African institutions to support the monetary union, Kenya will be negotiating to host the East African Monetary Institute.

v. The benefits that the East African Monetary Union will bring to the citizens and the economies of the partner states include; enhanced trade and investment, reduction in foreign exchange risk, increased efficiency and wider market, ease of price comparability, international reserves and symbol of integration.

vi. The monetary union will also bring negative implications to the Partner States which include; loss of sovereignty in the formulation of the monetary and fiscal policies, amendment of laws in the partner states to conform with the protocol and exposing the partner states to the risks that go with a single currency.

MIN.NO. CRI/144/2014 COMMITTEE'S CONCERNS

Members raised the following concerns on the Protocol for the establishment of EAC Monetary Union that;

i. The Republic of Tanzania despite lagging behind in other matters of regional integration has already concluded with the ratification of the Protocol of the establishment of EAC Monetary Union. The Committee was however informed that ratification of protocols and treaties in the Republic of Tanzania is not as stringent as it is in Kenya.

ii. The effects of the principle of variable geometry to the implementation of the monetary union. The Committee was informed that pursuant to Article 7(1)(e) of the Treaty for the Establishment of the East African Community and Article 18(2) of the Protocol, at least three countries can adopt the single currency.

iii. The partner states have not been able to put in place the right enabler such as infrastructure and free movement of labour among the partner states to facilitate implementation of the monetary union. There is therefore need to conclude the implementation of the Common Market and the Customs Union.

iv. The economies of the Partner States are not strong enough to absorb economic shocks from any member. There is therefore need to reform nationally before the implementation of the monetary union.

v. There is need to conduct further sensitization to the citizens of East African Community on the issue of the monetary union.

MIN.NO. CRI/145/2014 ANY OTHER BUSINESS

The Committee was informed that Kenya Private Sector Alliance and the Central Bank of Kenya will also be invited to discuss the issue of the Monetary Union.

MIN.NO. CRI/146/2014 ADJOURNMENT

There being no other business, the Chairperson adjourned the meeting at 13.56 p.m. The next meeting will be held on Tuesday, 19th August, 2014.

Signed...

Chairperson

Date....26/09/2014..........................

MINUTES OF THE 34TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON TUESDAY 19TH AUGUST, 2014 IN CONTINENTAL HOUSE, 4TH FLOOR COMMITTEE ROOM, PARLIAMENT BUILDINGS AT 12.00 NOON

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Alois Lentoimaga, MP
3. Hon. Kubai Iringo, MP
4. Hon. David Karithi, MP
5. Hon. Andrew Toboso, MP
6. Hon. Wanjiku Muhia, MP
7. Hon. Florence Mutua, MP
8. Hon. Robert Mbui, MP
9. Hon. Ann Nyokabi, MP

Absent With Apology

1. Hon. Christopher Nakuleu, MP - Vice-Chairperson
2. Hon. Gideon Konchella, MP
3. Hon. Joseph Kahangara, MP
4. Hon. Rose Nyamunga, MP
5. Hon. Charles Nyamai, MP
6. Hon. David Ouma, MP
7. Hon. Peter Shehe, MP
8. Hon. Eric Keter, MP
9. Hon. Mark Lomunokol, MP
10. Hon. Dido Ali Rasso, MP
11. Hon. Anthony Kimaru, MP
12. Hon. Alex Mwiru, MP
13. Hon. Sarah Korere, MP
14. Hon. Timothy Bosire, MP
15. Hon. Kathuri Murungi, MP
16. Hon. Ali Wario, MP
17. Hon. Bady Twalib Bady, MP
18. Hon. Mary Seneta, MP
19. Hon. Emmanuel Wangwe, MP
20. Hon. Dan Kazungu, MP

In Attendance

1. Ms. Esther Nginyo - Third Clerk Assistant
2. Mr. Nicodemus Maluki - Third Clerk Assistant

MIN.NO. CRI/148/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.40 p.m followed by a word of prayer

MIN.NO. CRI/149 /2014 SCRUNITY OF PROTOCOL FOR THE ESTABLISHMENT OF THE EAST ARICAN COMMUNITY MONETARY UNION (PRESENTATION BY PARLIAMENTARY LEGAL OFFICE)

The Parliamentary Legal Office made a presentation to the Committee on the Protocol for the Establishment of the East African Community Monetary Union article by article as follows;

PART A- INTERPRETATION

Article 1 is the interpretive article of the protocol. The most important definitions to point out are-

i. East African Central Bank (EACB)which means the bank established under Article 20;
ii. East African currency unit which means the currency the Partner states shall be converted into before adoption of a single currency;
iii. Financial key which means the formula or figure indicating the financial contribution of each Partner State in the single currency area in relation to the EACB;
iv. System of central banks which means a network of central banks composed of the EACB and national central banks of partner states in the single currency area where EACB formulates policies which are implemented by the national central banks.

PART B-ESTABLISHMENT, OBJECTIVES AND SCOPE OF THE EAST AFRICAN COMMUNITY MONETARY UNION

Article 2 provides for the establishment of the East African Community Monetary Union, which shall be realised progressively in accordance with Article 5.

Article 3 provides for the objective of the Monetary Union which is to promote and maintain monetary and financial stability.

Article 4 provides for the scope of co-operation in the monetary union, that is, it applies to activities undertaken by the Partner States, in co-operation in monetary and financial matters. Key things to note, is that it also provides that Partner states agree:

i. to harmonise their fiscal policies;
ii. formulate and implement single monetary policy and single exchange rate policy;
iii. develop and integrate their financial, payment and settlement systems;
iv. adopt common principles and rules for the regulation and prudential supervision of financial system; and
v. adopt a single currency.

PART C -PREREQUISITES OF THE MONETARY UNION

Article 5 provides for the prerequisites of the monetary union, which include that Partners shall fully implement the Protocol Establishing the Customs Union and the Common Market, harmonise their fiscal policies, harmonise monetary and exchange rate policies among other requirements.

Article 5 further provides that each Partner state shall-

i. phase out any outstanding national central bank lending to its Government and public entities; and
ii. attain the macroeconomic criteria set out in Article 6 and maintain it for at least three consecutive years.

Article 5 further provides that Partner State agree to monitor the following indicative convergence criteria-

i. a ceiling on core inflation of 5%;
ii. a ceiling on fiscal deficit, excluding grants of 60% of Gross Domestic Product; and
iii. a tax to Gross Domestic Product ratio of 25%.

PART D- CONVERGENCE

Article 6 provides for the performance convergence criteria to be used to assess the macroeconomic convergence to be attained and maintained by Partner states. It also provides for the development of measures by the Council to monitor and assess adherence to macroeconomic convergence among Partner States.

PART E -MACROECONOMIC POLICY FRAMEWORK

Article 7 provides for the macroeconomic policy framework.

Article 8 provides for fiscal policies to be undertaken by the Partner States and provides for the development of mechanisms by the Council to implement the policies. Key things to point out are that Partner States are obligated to-

i. disclose their fiscal policies to other Partner States;
ii. coordinate their fiscal policies with the single monetary policy and exchange rate policy; and
iii. Coordinate and harmonise their public procurement policies.

Article 9 provides for the adoption of common public debt management framework. It provides that Partner States shall disclose the status of their domestic and external debts including public guaranteed debts.

Article 10 provides for the establishment of mechanism for management of economic shock and ensuring economic resilience among the economies of Partner States. Such mechanisms include an early warning system to ensure the risk profiles of economies of Partner States are regularly monitored and a stabilisation facility to provide assistance to a Partner State. Article 10 further provides that the Council may allow a Partner State to exceed the fiscal deficit provided it does not breach the convergence ceiling.

Article 11 provides for the formulation of a single monetary policy for the Monetary Union that shall be binding in the single currency area.

Article 12 provides for the formulation of a single exchange rate policy for the single currency area that shall be free floating. Partner states are obligated to transfer to the EACB foreign reserves as may be determined by the Council. The foreign reserves do not include International Monetary Fund reserves positions and the Special Dawning Rights of Partner States.

Article 13 provides that foreign exchange transactions in the single currency area shall be carried out through the system of central banks referred to in Article 20.

PART F- FINANCIAL, PAYMENT AND SETTLEMENT SYSTEMS

Article 14 provides for the development and operation of an efficient, stable and integrated financial system by Partner States. The financial system includes the following subsectors; banking, capital and money markets, insurance, retirement benefits, microfinance and other financial services.

Article 15 provides for the development of integrated payment and settlement systems. Partner States undertake to adopt an integrated trading and securities depository system and harmonise the payment and settlement system financial market infrastructure with other system.

Article 16 provides for integration of financial management systems and harmonization of financial accounting and reporting practices by Partner States.

PART G-STATISTICS

Article 17 provides compilation, analysis and dissemination of statistics necessary for proper functioning of the Monetary Union.

PART H-SINGLE CURRENCY

Article 18 provides for adoption of a single currency. The currency shall be adopted by at least three Partner States that meet the requirements of Articles 5 and 6, these States shall form the single currency area. The single currency shall be legal tender of the single currency area.

Article 19 provides for the fixing of an irrevocable conversion rates at which the single currency shall replace the currencies of the Partners States in the single currency area.

PART I-INSTITUTIONAL MECHANISMS

Article 20 establishes the East African Central Bank. The EACB together with the national central banks of the Partner States in the single currency area shall form an integrated system of central banks that shall perform the functions of a central bank in the single currency area. Partner States in the single currency area shall provide the capital of the EACB. Financial rights and obligations of the Partner States shall be in accordance with the financial key determined by the Council.

Article 21 provides that the Summit on recommendation of the Council shall establish institutions to support the Monetary Union.

PART J-GENERAL PROVISIONS

Article 22 provides for harmonization of policies, laws and systems for purposes of implementation of the Protocol.

Article 23 provides for the establishment of the East African Monetary Institute that shall do the preparatory work for the Monetary Union.

Article 24 provides for development of measures to address imbalances due to implementation of the Protocol.

Article 25 provides for the involvement of the EACB in the negotiation and implementation of any agreement with foreign entities that may impact the single monetary policy and single exchange rate.

Article 26 provides admission of Partner States into the single currency area.

Article 27 provides for the making of regulations and issuance of directives for the effective implementation of the Protocol.

Article 28 provides for dispute settlement amongst partner states to be in accordance with the Treaty.

Article 29 provides for procedure for amendment Protocol that shall be in accordance with Article 150 of the Treaty.

Article 30 provides that the Protocol enter into force upon ratification and deposit of instruments of ratification with the Secretary General.

Article 31 provides for depository of instruments of ratification and registration of the Protocol with the African Union, United Nations, International Monetary Fund and other organisations as the Council may determine.

MIN.NO. CRI/150 /2014 COMMENTS ON THE PROPOSED EAST AFRICAN MONETARY UNION (PRESENTATION BY DR. WANYAMA MASINDE)

Dr. Wanyama Masinde appeared before the Committee and made a presentation on the Protocol for the Establishment of the East African Community Monetary Union as follows that;

i. The Protocol is a negotiated document agreed on by the five Partner States of the EAC. The negotiations process involved experts from the Central Banks, Ministries of Finance/Treasury/Economic Planning and other experts; as well as external advisors.
ii. It is important to note that Central Banks in the EAC, at COMESA level and on the Continent have been working on Monetary Convergence over the years. East African Central Banks were already working together even before negotiations on the EAMU Protocol started.
iii. The Treaty for the Establishment of the East African Community provides for the establishment of the East African Monetary Union (EAMU) under Article 5(2) which states that "the Partner states undertake to establish among themselves and in accordance with the provisions of this Treaty, a Customs union, a Common

Market, subsequently a Monetary Union and ultimately a Political Federation." Chapter Fourteen of the Treaty (Articles 82, 83, 84, 85, 86, 87 and 88) provides for Cooperation in Monetary and Financial Matters.

iv. The EAMU Protocol was signed by the Heads of state at their Kampala Summit on 30 November 2013 and directed that all Partner States ratify it by July 2014.

v. Comparatively, the South African Development Community (SADC) has also set a target date for a single currency for the year 2016.

vi. Within the Economic Commission for West Africa States former French colonies and Guinea Bissau (former Portuguese colony) are members of the West African Economic Monetary Union (WAEMU or UEMOA the French acronym) and use a common currency, the CFA. UEMOA is Africa's oldest monetary union on the continent. The other West African countries, which are Anglophone, have come together as the West African Monetary Zone (WAMZ) and plan to create their own currency, the ECO, which they would like to be in place by 2015.

vii. Article 2(6) of the Constitution of Kenya provides that, "Any Treaty or Convention ratified by Kenya shall form part of the Laws of Kenya." The Treaty Making and Ratification Act No.45 of 2012 was enacted to give effect to the provisions of this Article and to provide the procedure for the making and ratification of treaties. The Ratification of the EAMU is therefore not only anchored on the Treaty for the Establishment of the EAC but also in The Constitution of Kenya and the Treaty Making and Ratification Act, 2012.

viii. Article 30 of the Protocol on Entry into Force of the Protocol states that, "This Protocol shall enter into force upon ratification and deposit of the instruments of ratification with the Secretary General by all the Partner States.

ix. Articles 22 (1) on Harmonisation of Policies, Laws and Systems states that, " The Partner states undertake to harmonise their policies, laws and systems for the purposes of implementing this Protocol.'

x. Article 5 of the Protocol is on The Pre-Requisites for the Monetary Union the first of which is the full implementation of the Customs Union and the Common Market Protocols - 2015 is given as the target for their full implementation. There are other requirements, including the requisite policies, laws and instituions, running through a timeline going to 2024 when a Common currency and a Central Bank are envisaged.

xi. It is important to note that Tanzania, which has usually been accused of dragging its feet, has already ratified the Protocol. The ratification processes in the two countries are different - Tanzania's process is shorter and less stringent.

xii. The EAMU is a key pillar of the Treaty. Kenya ratified the Treaty and is a founding Partner State of the EAC and should therefore in good spirit meet its obligation to deliver an EAMU.

xiii. Some of the challenges that are facing the implementation of Protocol for the establishment of the monetary union include fear of loss of sovereignty by the Central Banks of the Partner States and the slow implementation of the first two pillars, namely, Customs union Agreement and Common Market Protocol.

Way Forward

- Kenya should take the lead - strategically. The country should not be seen to be dragging its feet.
- Kenya is a major beneficiary of the East African integration agenda and should use the requirements of the EAMU to have the Customs Union and Common Market fully implemented.

- Kenya should strategically position itself and negotiate to host the East African Monetary Institute; the precursor of the East African Central Bank. It is important to note that Kenya already hosts the COMESA Monetary Institute which is located at the Central Bank owned Kenya School of Monetary Studies.
- Parliament should carry out the necessary ammendments to make the EAC work; it is in our national interest.

MIN.NO. CRI/151/2014 ANY OTHER BUSINESS

i. The Committee resolved to undertake a retreat to Mombasa on 3rd September, 2014 to 6th September, 2014 to further deliberate on the protocol and write a report for presentation to the House.

ii. Members were concerned that their Committee allowances were not paid. The secretariat was requested to investigate the matter and report back to the committee on 21st August, 2014.

MIN.NO. CRI/152/2014 ADJOURNMENT

There being no Other Business, the Chairperson adjourned the meeting at 1.50 p.m.

Signed..

Chairperson

Date........26/09/2014..

MINUTES OF THE 35TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON THURSDAY 21ST AUGUST, 2014 IN CONTINENTAL HOUSE, 4TH FLOOR, PARLIAMENT BUILDINGS AT 12.00 NOON

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Christopher Nakuleu, MP - Vice-Chairperson
3. Hon. Rose Nyamunga, MP
4. Hon. David Ouma, MP
5. Hon. Wanjiku Muhia, MP
6. Hon. Timothy Bosire, MP
7. Hon. Mary Seneta, MP
8. Hon. Emmanuel Wangwe, MP
9. Hon. Robert Mbui, MP
10. Hon. Annah Nyokabi, MP
11. Hon. Dido Ali Rasso, MP
12. Hon. Andrew Toboso, MP
13. Hon. Ali Wario, MP
14. Hon. Kubai Iringo, MP
15. Hon. Peter Shehe, MP
16. Hon. Kathuri Murungi, MP
17. Hon. Alois Lentoimaga, MP

Absent With Apology

1. Hon. Joseph Kahangara, MP
2. Hon. Charles Nyamai, MP
3. Hon. Anthony Kimaru, MP
4. Hon. Alex Mwiru, MP
5. Hon. Bady Twalib Bady, MP
6. Hon. Eric Keter, MP
7. Hon. Mark Lomunokol, MP
8. Hon. Sarah Korere, MP
9. Hon. Florence Mutua, MP
10. Hon. David Karithi, MP
11. Hon. Gideon Konchella, MP
12. Hon. Dan Kazungu, MP

In Attendance

1. Mr. Evans Oanda - First Clerk Assistant
2. Ms. Esther Nginyo - Third Clerk Assistant
3. Mr. Fredrick Otieno - Third Clerk Assistant
4. Mr. Nicodemus Maluki - Third Clerk Assistant
5. Ms. Sharon Cherono - Research Officer
6. Linet Otieno - Legal Counsel

Kenya Private Sector Alliance

1. Dr. Jared Osoro
2. Mr. Anthony Weru

MIN.NO. CRI/153/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.30 p.m. followed by a word of prayer by Hon. Mary Seneta, MP. She welcomed all present to do self-introduction.

MIN.NO. CRI/154/2014 CONSIDERATION OF THE CABINET MEMORANDUM ON THE PROTOCOL FOR ESTABLISHING EAC MONETARY UNION

Presentation by Kenya Private Sector Alliance

Dr. Jared Osoro, Kenya Private Sector Alliance appeared before the Committee and made a presentation on the Protocol for establishing the EAC Monetary Union as follows that;

i. East African Community Monetary Union is a reflection of the integration agenda. There is therefore need to look at the Protocol carefully.

ii. The establishment of the single currency has a timeline of 10 years from the point of signing for purposes of transitioning. The Partner States therefore have adequate time to reflect on the issues such as loss of sovereignty on the monetary and fiscal policy issues which will affect them with the introduction of the single currency.

iii. The region will move as a single economic block as it is expected to harmonize its fiscal, monetary and exchange rate policies.

iv. The East African Community Monetary Union is modeled on the European Union Monetary Union in terms of the convergence criteria. It is however noted that there is an omission for the rate of economic growth as a convergence criteria for the EAMU.

v. It is also important to note that in terms of fiscal parameters, domestic resource mobilization has not been taken into account.

vi. The Indicative convergence criteria requires that the Partner States attain a core inflation rate of 5%, tax to GDP ratio of 25% and a ceiling of fiscal deficit excluding grant of 6% of GDP. However, some Partner States may not meet the required criteria due since their economies are small.

vii. It is to be noted that the Partner States should be careful during the transition period to ensure that the convergence criteria are met.

MIN.NO. CRI/155/2014 COMMITTEE'S CONCERNS

The Committee having listened to the presentation raised the following concerns that:

i. The United Kingdom was not in the European Union Monetary Union as it had set itself very stringent convergence criteria to meet before becoming a member of the EMU. UK was not seriously affected by the economic meltdown in the Euro zone.

ii. There is need to first fully implement the Customs Union Protocol and the Common Market Agreement as the pre-requisites for the Monetary Union.

iii. The Committee noted that the Private Sector was contented with Monetary Union which KEPSA cited would bring down the cost of currency convertibility and therefore reduce the cost of doing business across the region.

iv. The EAC Partner States are at different economic level and attaining the micro-economic convergence criteria could be a challenge within the timeline provided. The Committee was however informed that as per the Protocol, any three Partner States who would have met the criteria within the timeline can proceed to implement the Monetary Union.

MIN.NO. CRI/156/2014 PRESENTATION BY THE LEGAL DEPARTMENT ON THE LEGAL IMPLICATIONS OF THE PROTOCOL

The Directorate of Legal Services made a presentation before the Committee on the legal implications of the Protocol to the country as follows;

1. Legal Obligations imposed by the Protocol on Partner States

   a. The provisions of the Protocol only apply to activities undertaken by the Partner States in co-operation in monetary and financial matters.
   b. Partner States are obligated to harmonise and coordinate their fiscal policies, financial accounting and reporting practices.
   c. Partner States will be obligated to develop and integrate their financial payment and settlement systems. This includes adoption of an integrated trading and securities depository system. The import of this provision is that Partner States will lose autonomy in the manner in which they manage their financial systems. Further it may affect the independence of for example in Kenya the management of the Central Depository System and Securities exchange market.
   d. Partner States shall be obligated to adopt common principles and rules for regulation and prudential supervision of the financial system. The import of this is that Kenya will have to have harmonize all the laws regulating the financial sector in Kenya in line with principles common principles and rules adopted. Taking into consideration the unique circumstances and financial environment of each partner country including Kenya , having to adopt common principles may not give a country the liberty to address their own unique financial situations through adoption of other principles other than those prescribed by the Monetary Union.
   e. As a prerequisite to the establishment of the Monetary Union, Partner States are obligated to fully implement the Protocol Establishing the East African Community Customs Union and the Protocol Establishing the East African Community Common Market. This will involve the removal of all non-tariff barriers (NTBs) to intraregional trade in the East African Community. Including provision of services without restrictions in all other partner states, acceptance without preconditions the free movement of labour throughout the EAC and free movement of capital across borders within the EAC.
   f. Partner States are obligated to harmonise and coordinate their monetary and exchange rate policies. The impact of this on Kenya and other EAC Partner States

is that their Central Banks shall lose their independence in terms of how they formulate and change or revise their policies.

g. Partner States shall be obligated to introduce bands and gradually fix their bilateral exchange rates to facilitate the conversion of the currencies of the Partner States to the East African currency unit.
h. Partner States shall have to phase out any outstanding national central bank lending to its Government and public entities. This will affect access to financial/loan facilities of the Governments of the Partner States from their own national central banks which may be on friendlier borrowing terms.
i. Partner States including Kenya are obligated to develop a medium term convergence programme to facilitate the attainment of the agreed macroeconomic convergence criteria.
j. Partner States including Kenya are obligated to coordinate and harmonise their public procurement policies.
k. Partner States including Kenya are obligated to coordinate and harmonise their budgetary frameworks. This will have an impact on the way the national budgets are formulated. However harmonization of the budgetary frameworks poses great challenges considering the different economic levels and governance structure of each country and different budgetary needs.
l. Partner States are obligated to disclose their fiscal policies and disclose aid flows to the East African Central Bank. Impact of this is that Kenya will have enable access to information concerning its fiscal policies to the other Partner States.
m. Partner States including Kenya shall have to adjust its net financing to its Government in accordance with a ceiling on gross public debt of 50% of Gross Domestic Product in Net Present Value Terms. Kenya Shall also be obligated to disclose the status of their domestic external debts, including their public guaranteed debts on a quarterly basis.
n. Partner States are obligated to establish mechanisms for management of economic shock and ensuring economic resilience among the economies of Partner States. Such mechanisms include an early warning system to ensure the risk profiles of economies of Partner States are regularly monitored and a stabilisation facility to provide assistance to a Partner State.
o. A single monetary and exchange rate policy shall be established by the East African Central Bank that shall be binding on Partner States in the single currency area. The exchange rate shall be free floating, therefore in single currency areas the Countries will not be able to regulate the exchange rate. Partner States are obligated to transfer foreign reserves as may be determined by the Council. Further foreign exchange transactions in the single currency area shall be carried

out through the system of central banks referred to in Article 20. Partner States in this area will not be able to carry out their foreign exchange transactions through other means than the system of central banks established in the Protocol.

p. Where Partner States adopt the single currency, the currency shall be the legal tender. And it shall be used in the payment and settlement of transactions. Further the Council will fix an irrevocableconversion rate at which the single currency shall replace the currencies of the Partners States in the single currency area.

q. An East African Central Bank is established. The EACB together with the national central banks of the Partner States in the single currency area shall form an integrated system of central banks that shall perform the functions of a central bank in the single currency area. Partner States in the single currency area are obligated to provide the capital of the EACB. Financial rights and obligations of the Partner States shall be in accordance with the financial key determined by the Council. The EACB is unlike the national central banks an independent body and shall be influenced by the Partner States. Therefore partner states will lose a measure of control over their central banks, which can be more easily influenced to advance the agenda of the Government.

r. The Council shall develop of measures to support partner states that experience macroeconomic or structural imbalances due to implementation of the Protocol. Therefore Partner states may be called upon to support other states.

s. The EACB shall be involved in the negotiation and implementation of any agreement with foreign entities by Partner States that may impact the single monetary policy and single exchange rate. Impact of this is that Partner States cannot freely enter into negotiations with foreign entities as they have to involve the EACB especially if the agreements will impact the single monetary policy and single exchange rate.

2. Laws of Kenya affected by the Protocol

Constitution Of Kenya, 2010; Article 231 establishes the Central Bank of Kenya (CBK) and provides that it shall be responsible for formulating monetary policy, promoting price stability, issuing currency and performing other function conferred on it by an Act of Parliament. It further provides that the Central Bank shall not be under the direction or control of anybody in exercise of its powers or performance of its functions. The Article 20 of EAMU Protocol provides for the Establishment of an East African Central Bank (EACB) which together with the other national central banks shall form an integrated system of central banks. Therefore CBK will lose its autonomy under this system.

Further Article 11 and 12 of the EAMU Protocol provides that the EACB shall provide single monetary policy and exchange rate policy to apply in the Monetary Union, this in effect take away the constitutional power of CBK to determine the monetary policy to apply in Kenya. The Constitution will therefore need to be amended for the effective implantation of the Protocol.

3. Whether reservations can be entered on the protocol

It is important to note that the EAMU Protocol does not provide for the making of a reservation, it however also does not prohibit the making of reservations. It is thus silent on the issue of reservations.

Section 8 (4) of the Treaty Making and Ratification Act provides that Parliament may approve the ratification of a treaty with or without reservations to specific provisions of the treaty. Subsection 5 further provides that a proposed reservation shall be introduced as a provision into the treaty in accordance with the procedure set out in the Standing Orders. Subsection 9 further provides that Parliament shall not approve the ratification of a treaty or part of it if its provisions are contrary to Constitution, nor shall the House approve a reservation to a treaty or part of it if that reservation negates any of the provisions of the Constitution even if the reservation is permitted under the relevant treaty.

MIN.NO. CRI/157/2014 ADJOURNMENT

There being no other business, the Chairperson adjourned the meeting at 13.28 p.m.

Signed..

Chairperson

Date....26/09/2014....

MINUTES OF THE 36TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON THURSDAY 26TH AUGUST, 2014 IN CONTINENTAL HOUSE, 4TH FLOOR PARLIAMENT BUILDINGS AT 12.00 NOON

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Christopher Nakuleu, MP - Vice-Chairperson
3. Hon. Rose Nyamunga, MP
4. Hon. David Ouma, MP
5. Hon. Wanjiku Muhia, MP
6. Hon. Timothy Bosire, MP
7. Hon. Mary Seneta, MP
8. Hon. Gideon Konchella, MP
9. Hon. Robert Mbui, MP
10. Hon. Dido Ali Rasso, MP
11. Hon. Kubai Iringo, MP
12. Hon. Sarah Korere, MP
13. Hon. Dan Kazungu, MP
14. Hon. Mark Lomunokol, MP
15. Hon. Peter Shehe, MP
16. Hon. David Karithi, MP

Absent With Apology

1. Hon. Joseph Kahangara, MP
2. Hon. Charles Nyamai, MP
3. Hon. Anthony Kimaru, MP
4. Hon. Alex Mwiru, MP
5. Hon. Bady Twalib Bady, MP
6. Hon. Eric Keter, MP
7. Hon. Florence Mutua, MP
8. Hon. Emmanuel Wangwe, MP
9. Hon. Annah Nyokabi, MP
10. Hon. Andrew Toboso, MP
11. Hon. Ali Wario, MP
12. Hon. Kathuri Murungi, MP
13. Hon. Alois Lentoimaga, MP

In Attendance

1. Mr. Evans Oanda - First Clerk Assistant
2. Ms. Esther Nginyo - Third Clerk Assistant
3. Mr. Fredrick Otieno - Third Clerk Assistant
4. Mr. Nicodemus Maluki - Third Clerk Assistant
5. Ms. Sharon Cherono - Research Officer

The National Treasury

1. Mr. Justus Nyamunga - Director
2. Mr. Musa Kathenge - Deputy Director
3. Mr. Julius Mutua - Senior Economist

MIN.NO. CRI/158/2014 PRELIMINARIES

The Chairperson called the meeting to order at 12.30 p.m. followed by a word of prayer by Ms. Sharon Cherono. She welcomed all present to do self-introduction.

MIN.NO. CRI/159/2014 CONSIDERATION OF THE CABINET MEMORANDUM ON THE PROTOCOL FOR ESTABLISHING EAC MONETARY UNION

Presentation by the National Treasury

The National Treasury appeared before the Committee and made a presentation on the Protocol for establishing the EAC Monetary Union as follows, that;

i. The EAC stand to be the oldest single standing currency union in the world. The EA shilling includes Ush, Tsh and Ksh.
ii. The negotiations took place between 1998 to 2000 to rebuild the integration process between the partner states
iii. In accordance with the EAC treaty, Partner States established among themselves a Customs Union that came into force in 2005 and was to ensure free movement of goods across the borders. The EAC Common Market protocol was signed in November 2009 and its implementation started on 1st July 2010 and full implementation targeted to in 2015. The third pillar is Monetary union i.e Common Currency Union which requires efforts for economies to move towards a convergence to divert the economic shocks of one member state, this is stabilize the currency.

iv. The EAMU learnt from the mistakes that EU made and are trying to avoid.
v. The model of EAMU has an inbuilt stringent institutional framework to forestall challenges that the protocol might face.
vi. The use of single currency has a number of benefits which include the reduced transaction cost, economic efficiency framework and the bigger market.
vii. The partner states are to converge for 8 years and the last 3 years to monitor and maintain the criteria.
viii. There is East Africa Monetary Institute to midwife the process and Kenya is hosting COMESA Institute at Kenya School of Monetary Studies.

MIN.NO. CRI/160/2014 COMMITTEE'S CONCERNS

The Committee having listened to the presentation raised the following concerns that;

i. The implementation of the first two pillars, Customs Union and Common Market to anchor the process of monetary union has not been concluded. Therefore the move to establish the EAMU ideally would require that the other two pillars to be fully implemented.
ii. The budget of the East African Community is 70% funded by donors and therefore raising questions on the ability of the all the partner states meeting the microeconomic convergence criteria within the prescribed time frame.
iii. There is need for the East African Community to avoid the mistakes that the European Union did while they were establishing their monetary union.

MIN.NO. CRI/161/2014 ADJOURNMENT

There being no other business, the Chairperson adjourned the meeting at 2.05 p.m.

Signed..

Chairperson

Date...26/09/2014..............................

MINUTES OF THE 39TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON THURSDAY 25TH SEPTEMBER, 2014 AT PANGONI BEACH RESORT, MOMBASA, AT 9.30 AM

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Alex Mwiru, MP
3. Hon. Ogendo Rose Nyamunga, MP
4. Hon. David Ouma Ochieng', MP
5. Hon. Gideon Konchella, MP
6. Hon. Emmanuel Wangwe, MP
7. Hon. Robert Mbui, MP
8. Hon. Kubai Iringo, MP
9. Hon. Dan Kazungu, MP
10. Hon. Mark Lomunokol, MP
11. Hon. Peter Shehe, MP
12. Hon. David Karithi, MP
13. Hon. Bady Twalib Bady, MP
14. Hon. Anthony Kimaru, MP
15. Hon. Kathuri Murungi, MP

Absent With Apology

1. Hon. Christopher Nakuleu, MP - Vice-Chairperson
2. Hon. Joseph Kahangara, MP
3. Hon. Charles Nyamai, MP
4. Hon. Eric Keter, MP
5. Hon. Florence Mutua, MP
6. Hon. Annah Nyokabi, MP
7. Hon. Andrew Toboso, MP
8. Hon. Ali Wario, MP
9. Hon. Alois Lentoimaga, MP
10. Hon. Wanjiku Muhia, MP
11. Hon. Timothy Bosire, MP
12. Hon. Mary Seneta, MP
13. Hon. Dido Ali Rasso, MP
14. Hon. Sarah Korere, MP

In Attendance

1. Mr. Evans Oanda - First Clerk Assistant
2. Joash Kosiba - Fiscal Analyst
3. Ms. Esther Nginyo - Third Clerk Assistant
4. Mr. Fredrick Otieno - Third Clerk Assistant
5. Mr. Nicodemus Maluki - Third Clerk Assistant
6. Ms. Sharon Cherono - Research Officer
7. Clarah Kimeli - Legal Counsel

MIN.NO. CRI/170/2014 PRELIMINARIES

The Chairperson called the meeting to order at 9.45 a.m followed by a prayer from Mr. Evans Oanda. In her opening remarks, the Chairperson welcomed the Members and further informed them that the purpose of the retreat was to come up with a report on the Protocol for the Establishment of East African Community Monetary Union.

MIN.NO. CRI/171/2014 CONSIDERATION OF THE DRAFT REPORT ON PROTOCOL FOR ESTABLISHMENT OF EAC MONETARY UNION

Members were taken through the presentations made by different stakeholders by Mr. Joash Kosiba. After examining the presentations, Members raised the following observations that:

1. The sensitization of the protocol was not extensively done to the public
2. The implementations of the first two pillars (Common Market and Customs Union Protocol) have not been fully effected by the EAC Partner States.
3. The establishment of the Protocol for the Monetary Union will lead to legal reforms especially in the laws relating to financial management.

MIN.NO. CRI/172/2014 ADJOURNMENT

The Chairperson adjourned the meeting at 2.05 p.m. and asked Members to keep time for the next meeting in order to complete the report in time.

Signed...

Chairperson

Date....02/10/2014..........

MINUTES OF THE 40TH SITTING OF THE SELECT COMMITTEE ON REGIONAL INTEGRATION HELD ON FRIDAY 26TH SEPTEMBER, 2014 IN MOMBASA, PANGONI RESORT BEACH HOTEL, HERI CONFERENCE ROOM AT 10.00.AM

Present:

1. Hon. Florence Kajuju, MP - Chairperson
2. Hon. Gideon Konchella, MP
3. Hon. Kubai Iringo, MP
4. Hon. David Karithi, MP
5. Hon. David Ouma, MP
6. Hon. Kathuri Murungi, MP
7. Hon. Dan Kazungu, MP
8. Hon. Emmanuel Wangwe, MP
9. Hon. Peter Shehe, MP
10. Hon. Anthony Kimaru, MP
11. Hon. Bady Twalib Bady, MP
12. Hon. Robert Mbui, MP

Apologies

1. Hon. Christopher Nakuleu, MP - Vice-Chairperson
2. Hon. Joseph Kahangara, MP
3. Hon. Alois Lentoimaga, MP
4. Hon. Wanjiku Muhia, MP
5. Hon. Ali Wario, MP
6. Hon. Andrew Toboso, MP
7. Hon. Dido Ali Rasso, MP
8. Hon. Sarah Korere, MP
9. Hon. Ann Nyokabi, MP
10. Hon. Mary Seneta, MP
11. Hon. Eric Keter, MP
12. Hon. Florence Mutua, MP
13. Hon. Timothy Bosire, MP
14. Hon. Charles Nyamai, MP
15. Hon. Alex Mwiru, MP
16. Hon. Rose Nyamunga, MP
17. Hon. Mark Lomunokol, MP

In attendance

1. Mr. Evans Oanda - First Clerk Assistant
2. Ms. Esther Nginyo - Third Clerk Assistant
3. Mr. Nicodemus Maluki - Third Clerk Assistant

4. Mr. Fredrick Otieno - Third Clerk Assistant
5. Ms. Clarah Kimeli - Legal Counsel
6. Ms. Sharon Cherono - Research Officer

MIN.NO. CRI /173/2014 PRELIMINARIES

The Chairperson called the meeting to order at 10.30 am.

MIN.NO. CRI /174/2014 CONSIDERATION OF THE DRAFT REPORT ON PROTOCOL FOR THE ESTABLISHMENT OF THE EAST AFRICAN COMMUNITY MONETARY UNION.

Having examined the presentation made by the stakeholders, the Committee made the following observations on the Protocol for the Establishment of the East African Community Monetary Union;

(i) Benefits of EAMU protocol

The Committee noted that with the establishment of the EAC Monetary Union will provide benefits for the region's economies such as enhanced trade and investment, increased efficiency and wider market, ease of price comparability and a symbol of integration among others.

(ii) Sensitization process

The Committee noted with concern that the level of sensitization of the protocol was not adequate.

(iii) Process of implementation of the EAMU protocol

The Committee noted that the East African Community Partner States have not implemented fully the first two pillars of integration (Common Market and the Customs Union protocols). Considering that the integration process is a phased process, it will be important to ensure that the first two pillars are fully implemented before moving into the Monetary Union.

(iv) Legal implications

The Committee observed that the ratification of the EAMU Protocol will lead to possible amendment of the Constitution of Kenya, various financial laws and regulations to be in tandem with the protocol. This will require the relevant state agencies to identify laws early enough to enable Parliament to carry out its legislation role. The Committee further observed that

- Parliament will not lose its constitution mandate of budget making with the ratification of the Protocol.

(v) Ratification Process of protocols

The Committee noted with concern that the ratification process was hurried and as a result the Cabinet memorandum forwarding the protocol to parliament was categorical that there is no room for reservations in ratification of the protocol. This is against the provisions of Section 8(4) of the Treaty Making and Ratification Act, 2012.

MIN.NO. CRI/175/2014 COMMITTEE'S RECOMMENDATIONS

Having considered the protocol and examined the presentations from various stakeholders, and pursuant to Section 8(4) of the Treaty Making and Ratification Act, the Committee recommended as follows that:

(1) The House ratifies the protocol for the establishment of the East African Community Monetary Union.

(2) The Ministry of East African Affairs, Commerce & Tourism; the Ministry of Foreign Affairs & International Trade; the National Treasury and all the implementing agencies should aggressively sensitize the public on the provisions of the protocol in line with the tenets of people centered integration process. Consequently, the National Treasury and Parliament should allocate adequate resources to the implementing agencies to facilitate adequate public sensitization.

(3) The executive should fully involve Parliament from conception to the ratification process of all the regional integration instruments. This will mitigate against instances where reservations may be introduced during the ratification by the House.

(4) The Ministry of East African Affairs, Commerce & Tourism, the Attorney General and all other implementing agencies should expeditiously identify the legal reforms to be undertaken to facilitate proper and timely implementation of the Protocol.

(5) All partner states should fully implement the first two pillars of integration (Customs union and the Common Market Protocol) as contained the integration road map before moving into Monetary Union.

MIN.NO. CRI/176/2014 CONFIRMATION OF MINUTES

The Committee confirmed minutes of the previous meetings as follows:

1. Minutes of the 30th Sitting held on 5th August,2014 were confirmed as a true record of the proceedings as proposed by the Hon. David Ochieng', MP and seconded by the Hon. Gideon Konchella, MP,
2. Minutes of the 31st Sitting held on 7th August, 2014 were confirmed as a true record of the proceedings as proposed by the Hon. David Ochieng' MP and seconded by the Hon. Dan Kazungu MP.
3. Minutes of the 32nd Sitting held on 12th August, 2014 were confirmed as a true record of the proceedings as proposed by the Hon. Kathuri Murungi, MP and seconded by the Hon. Kubai Iringo, MP.
4. Minutes of the 33rd Sitting held on 14th August, 2014 were confirmed as a true record of the proceedings as proposed by the Hon. Gideon Konchella, MP and seconded by the Hon. Emmanuel Wangwe, MP.
5. Minutes of the 34th Sitting held on 19th August, 2014 were confirmed with amendments as a true record of the proceedings as proposed by the Hon. Kubai Iringo, MP and seconded by the Hon. Robert Mbui, MP.
6. Minutes of the 35th Sitting held on 21st August, 2014 were confirmed as a true record of the proceedings as proposed by the Hon. Robert Mbui, MP and seconded by the Hon. Peter Shehe, MP.
7. Minutes of the 36th Sitting held on 26th August, 2014 were confirmed as a true record of the proceedings as proposed by the Hon. Kubai Iringo, MP and seconded by the Hon. Dan Kazungu MP.

MIN.NO. CRI/177/2014 MATTERS ARISING

The following matters arose from the Minutes;

1. Under MIN.NO.CRI/151/2014 (i) it was agreed that in future, Members should be notified of changes in pre-planned events.

MIN.NO. CRI/178/2014 ADJOURNMENT

The chairperson adjourned the meeting at 1.30 p.m.

Signed...**Date**...02/10/2014......

CHAIRPERSON