



Bank of Tanzania

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**Currency Convertibility
Within the EAC Region
The Case of Tanzania**

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Executive Summary

The framework allowing East African Community (EAC) Partner States to accept each other's currencies became operational in May 2014 following the signing of MOU by the central bank Governors. However, studies assessing and evaluating the extent to which the framework has been effective in promoting currency convertibility in the region are limited. It is against this background that the 22nd meeting of the Monetary Affairs Committee (MAC) directed the Partners States' central banks to conduct a survey to assess the extent of currency convertibility in the region and recommend appropriate policy measures. This study therefore seeks to provide an assessment of the degree of convertibility of EAC currencies in Tanzania in line with the MAC directive. The overarching objective of the study is to assess the extent to which EAC currencies are accepted and used across the region. Specifically, the study was intended to assess the role played by financial institutions and other players in facilitating currency convertibility. In addition, to examine the demand and supply of EAC currencies in Tanzania, including the major sources.

The study targeted 39 commercial banks and 55 bureaux de changes (BDCs) all based in Dar es Salaam region. The choice of Dar es Salaam region was based on the fact that it is the country's commercial city and trade hub where most financial institutions have their headquarters. Sample selection was purposive in which case commercial banks and BDCs with headquarters in Dar es Salaam were sampled. However, the responses provided covered information for both headquarters and all the branches in the country.

The study utilized both primary and secondary data. The secondary data focused on review of EAC reports and protocols mainly sourced from the websites. The primary data involved face to face interviews. For data collection instrument, a harmonized questionnaire for the EAC region was used. Thirty-five out of thirty-nine commercial banks and all the BDCs sampled, dully completed and returned the questionnaires supplied to them implying a response rate of 89.7 percent for commercial banks and 100.0 percent for BDCs. For data analysis, a Statistical Package for Social Sciences (SPSS) was utilized.

The survey found high awareness among financial institutions on the existence of the MOU on EAC currency convertibility. Consequently, banks are the major players in the EAC currency convertibility operation. For the period of three years (2015 – 2017), the share of banks in the total value of transactions in the EAC currencies (buying and selling) averaged 94.5 percent dominating over the transactions by the BDCs. This imbalance, suggests the need for enhanced awareness among the BDCs and other relevant players.

The total value of EAC currencies purchased during 2015 to 2017, increased by 161.4 percent from United States Dollar (USD) 48.3 million in 2015 to USD 126.2 million in 2017, while sales increased by 154.3 percent from USD 45.5 million to USD 115.6 million in the same period. This reflects a critical role played

by financial institutions in enhancing convertibility operations. Kenyan shilling has dominated other EAC currencies in the convertibility transactions—on average accounted for 96.5 percent of total transactions (USD terms) in both purchases and sales.

Individual clients are the major purchasers and suppliers of EAC currencies accounting for 59.7 percent and 59.0 percent of respondents from the financial institutions, respectively. The second group is corporations with a share of 26.4 percent in purchases and 25.7 percent in sales. The major source of EAC currencies was trading activities (i.e. earnings from goods and services sold to the EAC region); on average accounted for 61.5 percent of the total supply followed by proceeds from investment in EAC at 21.1 percent. Remittances from relatives living in EAC accounted for 17.3 percent.

A number of challenges were found to encounter convertibility process. These include lack of cost effective arrangement for handling the EAC currencies across the country. For instance, the financial institutions have to meet the costs of transporting the accumulated currencies to the central bank at the head office. In addition, the low demand for some EAC currencies especially the Rwanda Franc (RWF) and Burundi Franc (BIF), leading to accumulation of idle stock. The other challenge was high exchange rates fluctuations, particularly TZS/KES and TZS/UGX. This creates uncertainties and loss of confidence in transactions using EAC currencies. The shifting of the entire burden of currency repatriation to a partner state with surplus EAC currencies and the use of reserves in offsetting balances were also found to constrain currency convertibility operations.

The following recommendations are put forward for MAC attention:

- There is a need to encourage trade among EAC countries as a way of promoting the use of EAC currencies across the region. This includes, among others, eradicating all non-tariff barriers (NTBs) within Partner States, improving investment environment as well as educating and encouraging the public on the use of EAC currencies.
- To review the MOU and Guidelines for currency convertibility in order to ensure fair distribution of cost of handling EAC currencies at country level and across the EAC region. This will address the concerns of the stakeholders that the cost of distributing and repatriating surplus EAC currencies is imbalanced across players.
- Resolving skepticism on the use of country's reserves in offsetting balances. Based on the review of the MOU and Guidelines for currency convertibility, it was revealed that in the event that one central bank has no surplus of the other country's currency for offsetting, the MOU provides that the excess surplus be settled using USD. This forces a country to resort to using its foreign currency reserves which is scarce and has competing uses.

Bank of Tanzania is advised on the following:

- To enhance public awareness on usage of EAC currencies. The study found low acceptance of UGX, RWF and BIF. It is thus important to educate the general public on the acceptance and usage of EAC currencies for business transactions.
- To put in place cost effective mechanism for buying surplus EAC currencies from banks, preferably by engaging BOT branches across the country in the collection process.

1.0 Introduction

1.1 Understanding the currency convertibility

Currency convertibility means the acceptability of currency of a country for exchange with another country's currency (EAC MOU, 2014). Currency convertibility in EAC dates back to 1990's when Governors agreed to allow free convertibility of EAC currencies (EAC Currency Convertibility MOU, 1994). The arrangement bodes well with the regional integration agenda of eliminating foreign exchange risk, reducing cross border transaction costs and promoting intra-regional trade and investment. This ultimately is expected to contribute towards achieving higher rate of economic growth and improve living standards.

1.2 Background of the study

The East African Community (EAC) Partner States signed the Protocol on the Establishment of the EAC Monetary Union in November 2013 which envisaged the formation of monetary union by 2024. The protocol sets out processes involved toward attainment of a common currency and establishment of a regional central bank. The key milestone in the process of achieving the monetary union is the acceptability and convertibility of the Partner States' domestic currencies as provided for in Article 82 of the EAC treaty with a view to reduce cross border transaction costs and stimulate trade among the Partner States. In this regard, EAC central bank Governors developed an operational framework that allows Partner States to accept each other's currencies guided by a memorandum of understanding (MOU) signed in May 2014. Accordingly, the MOU requires each EAC Partner States' central bank to, among others:

- commit itself to the implementation of the MOU without restricting or enlarging their statutory mandates;
- use reasonable efforts to ensure that parties within the MOU are provided with all relevant information so that each central bank may effectively perform or fulfil its obligations regarding currency repatriation;
- open and operate currency collection accounts in currencies of the other Partner State for the purpose of recording and facilitating repatriation;
- open and operate an operational account for the other central banks on request, for the purpose of receiving repatriated currency and facilitating payments;
- ensure authenticity of the currencies surrendered to them and take responsibility for any discrepancies in repatriated consignments; and

- promote acceptance and convertibility of the other Partner States' currencies and also repatriate mutilated currencies to issuing central banks for determination of value.

1.3 Motivations

Cognizant of the importance of currency convertibility arrangement in promoting cross border trade, investments and remittances it is appealing to assess operationalization of currency convertibility arrangement in Tanzania and the role played by various players in facilitating the process. It is worth noting that limited number of studies have been conducted to assess and evaluate the extent to which the currency convertibility framework has been effective in Tanzania. The study will thus address this knowledge gap.

1.4 Objectives of the study

The framework allowing EAC Partner States to accept each other's currencies became operational in May 2014 following the signing of MOU by the central bank Governors. The arrangement is intended to facilitate trade and ultimately introduction of a single currency in the EAC region by 2025. It is against this background that the 22nd meeting of the Monetary Affairs Committee (MAC) directed the Partners States' central banks to conduct a survey on the extent of currency convertibility in their respective countries and recommend appropriate policy measures. The overarching objective of the study is to assess the extent to which EAC currencies are accepted and used across the region. Specifically, the study was intended to assess the role played by various players including financial institutions in facilitating currency acceptability and convertibility. In addition, to examine demand and supply of EAC currencies in Tanzania with a specific focus on the major sources.

1.5 Literature Review

Studies conducted on the area of EAC currency convertibility are very limited. Kessy and Reweta, (2011) assessed the status of currency convertibility in the EAC region. The study was confined to financial institutions and examined acceptability of the EAC currencies after the signing of MOU for currency convertibility in 1994. The findings provided baseline information that contributed toward drafting of another MOU on currency convertibility in 2014. Abuka, (2006) examined experience of Uganda in the implementation of currency convertibility within EAC. The study found increasing acceptability of EAC currencies with Kenya shilling (KES) dominating. According to the author, acceptability of EAC currencies contributed to a significant decline in exchange rate pressures on EAC currencies over the period 2000-2005 and that bilateral exchange rates were stable whereby fluctuations stayed within a narrow 2 percent margin. Several issues were found to constraint convertibility in EAC; namely differences in export structures and the degree of diversification in

production structure. As result, all countries in the region trade mainly with non-EAC countries. Myerson J, (1995) assessed currency convertibility in the Common Monetary Areas (CMA) countries (Eswatin, Lesotho, Namibia and South Africa). The study came up with two preconditions for successful currency convertibility. First, appropriate exchange rate – i.e. should not be overvalued and thus aligning domestic prices and international prices. Second, sound macroeconomic policies. The author further provided costs and benefits of currency convertibility. The benefits include higher consumption, increased consumer satisfaction, growth in domestic output as currency convertibility facilitate access to production inputs and markets. On the other hand, the author pointed out that currency convertibility may lead to influx of competitive imports from other member states, hence compromising locally produced goods and services.

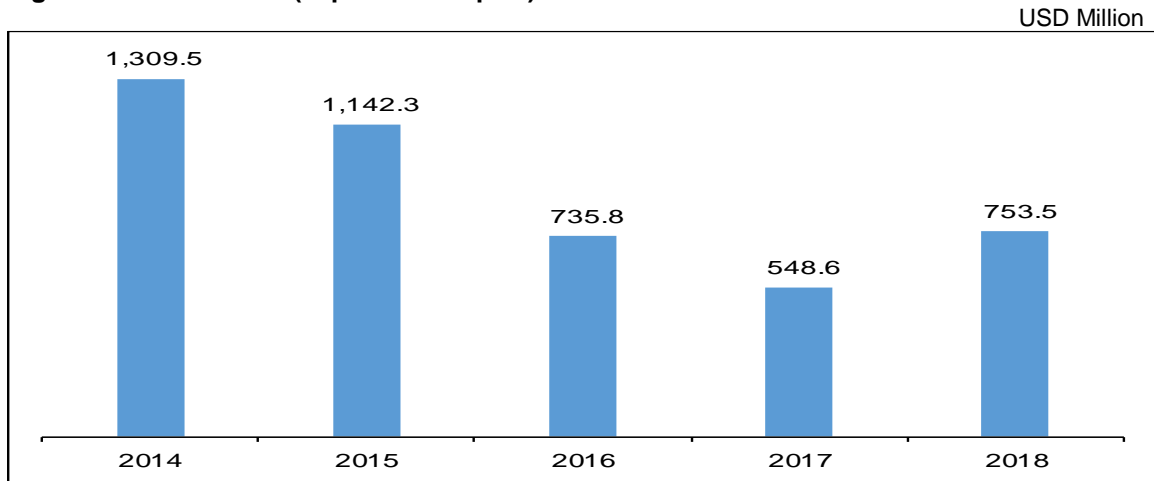
1.6 Economic linkage between Tanzania and EAC countries

Tanzania economy is strongly linked with other EAC economies. The linkage is well manifested through the growing intra-regional trade and cross-border investments.

1.6.1 Trade

Figure 1.1 provide illustrative facts on trade in goods (exports and imports) between Tanzania and the EAC Member States since the signing of MOU on currency convertibility in 2014. Overall, total trade declined over the period 2014 to 2015, but picked-up in 2017-2018, mainly associated to removal of most non-tariff barriers (NTBs), improved logistics, enhanced trade facilitation including implementation of simplified trade regime, and One Stop Border Posts at Namanga, Mtukula and Rusumo. On average, the value of Tanzania's exports to the region during 2014 – 2018 amounted to USD 531.8 million per annum which is about 11.2 percent of the total goods exports while the average value of imports was USD 366.1 million per annum, about 4.0 percent of total imports. Kenya is Tanzania's the main trading partner within the region accounting for more than 80 percent of the trade between Tanzania and the EAC member states. Globally, Kenya is in the top ten list of major trading partners with Tanzania as it accounted for an average of 7.9 percent of total goods exports and 3.4 percent of total goods imports during 2014 - 2018.

Figure 1.1: Total trade (export and import) between Tanzania and EAC countries

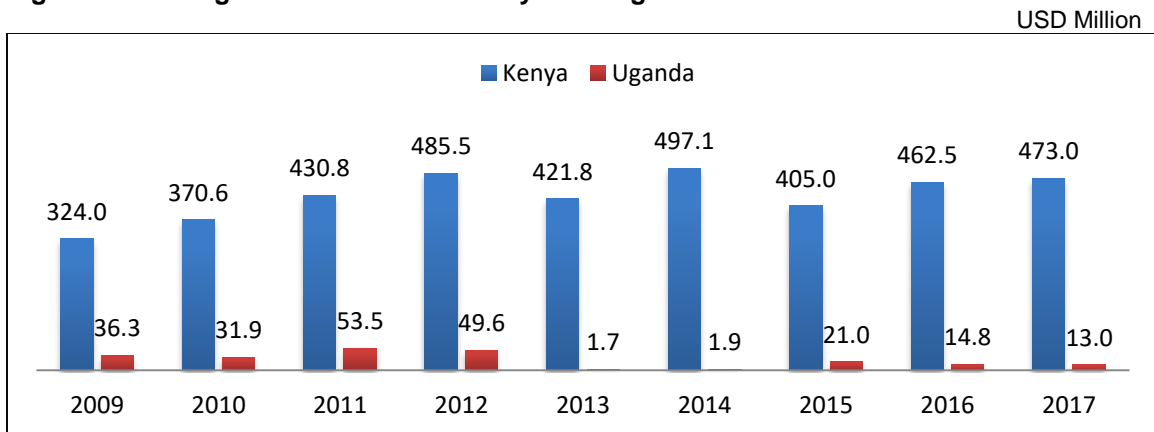


Source: Bank of Tanzania

1.6.2 Stock of foreign investment from EAC countries

Stock of foreign investment from EAC countries has generally been rising, dominated by Kenya. Over the period 2013-2017, stock of investment increased by 15 percent to USD 486 million in 2017 from USD 422.5 million in 2013. Most investments are destined to financial, insurance and manufacturing sectors.

Figure 1.2: Foreign investment from Kenya and Uganda



Source: Bank of Tanzania

1.7 Methodology

The study targeted commercial banks and BDCs based in Dar es Salaam region. The choice of Dar es Salaam region was based on the fact that it is the country's commercial city and trade hub where most financial institutions have their headquarters. Sample selection was purposive in which case thirty-nine commercial banks and fifty-five BDCs in Dar es Salaam were sampled. Notwithstanding, the responses provided covered information for both headquarters and all the branches in the country.

The study utilized both primary and secondary data. The secondary data focused on review of EAC reports and protocols mainly sourced from the website. The primary data involved face to face interviews between researchers from the Bank of Tanzania and principal officials of the sampled financial institutions. For data collection, a harmonized questionnaire for the EAC region was used. Thirty-five out of thirty-nine commercial banks and all the BDCs sampled, dully completed and returned the questionnaires supplied to them implying a response rate of 89.7 percent for commercial banks and 100.0 percent for BDCs. For data analysis, a Statistical Package for Social Sciences (SPSS) was utilized.

2.0 Findings on prevalence of EAC currencies in Tanzania

2.1 Implementation of MOU

In implementing the MOU, the Bank of Tanzania (BOT) has already opened currency collection and operation accounts and so far, there has not been any challenges in the operationalization of these accounts. The Bank has also acquired counting machine dedicated to scan and authenticate all currencies received from EAC Partner States. Further, the Bank has conducted training on identification of the security features of the EAC currencies to staff and participating financial institutions.

During 2018, the BOT repatriated KES 150.7 million, the only EAC currency held by the Bank since the signing of the MOU. According to BOT officials, the arrangement of shifting the entire cost of currency repatriation to a country with surplus EAC currencies is burdensome. Statistics shows that most times BOT has surplus of KES and thus has to repatriate to CBK. On the contrary, CBK hardly has surplus TZS for repatriation to BOT. This imbalance imposes repatriation costs on BOT than it does to CBK. Similar imbalance is experienced with BOU which has surplus TZS and hence has to bear the costs of repatriation to BOT. It thus, important for the Partner States to agree on modality of sharing currency repatriation cost. The use of country's reserves in offsetting balances is another

area of concern taking into account the scarcity of foreign currency reserves and its competing uses.

2.2 Currency repatriation and EAPS

The East Africa Cross Border Payment System (EAPS) is an integrated regional payments system which also links the Real Time Gross Settlement System (RTGS) of the Partner States. The system which went live on Monday 25th November, 2013 was intended to make cross border payments easier and facilitate safe and efficient transfer of money across the Partner States. Convertibility and acceptance of EAC currencies is key in promoting the use of EAPS and trade in the region. However, as shown in **Table 2.1**, EAPS uptake has been very slow for most Partner States except Kenya which accounts for about 88 percent of both incoming and outgoing transactions to and from Tanzania followed by Uganda with about 11 percent for both incoming and outgoing currencies. The slow uptake suggests the need for enhanced awareness of the facility among players.

Table 2.1: Value of transactions through EAPS in USD

		2015	2016	2017	2018	Percentage share in 2018
KES	Incoming	18,160,178.2	19,864,278.6	20,532,815.3	21,883,550.6	88.0
	Outgoing	18,716,054.5	19,103,929.1	22,604,155.8	23,367,322.5	88.2
UGX	Incoming	1,030,010.6	3,770,661.0	1,919,880.2	2,763,875.5	11.1
	Outgoing	1,171,012.8	3,724,015.6	1,938,066.2	2,929,328.3	11.1
RWF	Incoming	0.0	0.0	7,099.8	211,578.3	0.9
	Outgoing	0.0	0.0	7,099.8	196,821.3	0.7
BFI	Incoming	0.0	0.0	0.0	0.0	0.0
	Outgoing	0.0	0.0	0.0	0.0	0.0
Total incoming					24,859,004.4	100.0
Total outgoing					26,493,472.1	100.0

Source: BOT

2.3 Transactions and convertibility among EAC currencies

Transactions on EAC currencies show high preference for Kenyan shilling over other EAC currencies. When responding to the questions, 82 financial institutions indicated dealing in Kenyan shillings (KES), 50 institutions in Ugandan shillings (UGX), 13 in Rwanda Franc (RWF) and 5 in Burundian Franc (BIF).

There is high awareness among banks than BDCs on the existence of the MOU on EAC currency convertibility. The survey results show that out of the 90 financial institutions, 58 participants (or 64.4 percent) are aware of the existence of the MOU. The awareness on the MOU was higher for banks than BDCs. Thirty-four out of thirty-five banks respondents (97.1 percent) are aware of the

MOU compared with twenty-four out of fifty-five BDCs (43.6 percent). One of the elements in the MOU to facilitate the convertibility of the EAC currencies is the requirement for central banks to open collection and operational accounts for all EAC currencies whereby financial institutions involved in the purchases and sales of EAC currencies can sell any surplus amount or buy in case of shortage. The study has established that banks are major players in the EAC currency convertibility operation (**Table 2.2**). During the year 2015 - 2017, the share of banks in the total value of transactions in the EAC currencies (buying and selling) averaged 94.5 percent dominating over the transactions by BDCs.

Table 2.2: Purchases and sales of EAC currencies by banks and BDC (in thousands)

		Purchases			Sales		
		2015	2016	2017	2015	2016	2017
KES	Banks	4,370,743.2	13,821,905.9	12,460,520.1	4,103,217.5	13,583,798.8	11,376,431.6
	BDCs	120,687.0	138,566.6	251,587.4	112,929.3	144,347.8	247,865.3
	Total	4,491,430.2	13,960,472.4	12,712,107.6	4,216,146.8	13,728,146.7	11,624,296.9
	<i>Bank % Total</i>	<i>97.3</i>	<i>99.0</i>	<i>98.0</i>	<i>97.3</i>	<i>98.9</i>	<i>97.9</i>
UGX	Banks	7,904,324.6	10,609,152.5	10,826,088.4	7,969,427.6	10,201,961.0	10,959,095.9
	BDCs	70,083.5	54,777.9	149,013.9	65,139.2	59,355.7	152,444.3
	Total	7,974,408.1	10,663,930.4	10,975,102.3	8,034,566.7	10,261,316.7	11,111,540.3
	<i>Bank % Total</i>	<i>99.1</i>	<i>99.5</i>	<i>98.6</i>	<i>99.2</i>	<i>99.4</i>	<i>98.6</i>
RFW	Banks	42,000.0	120,000.0	125,000.0	42,000.0	138,000.0	140,000.0
	BDCs	304.0	774.0	4,752.3	339.0	1,043.2	5,071.8
	Total	42,304.0	120,774.0	129,752.3	42,339.0	139,043.2	145,071.8
	<i>Bank % Total</i>	<i>99.3</i>	<i>99.4</i>	<i>96.3</i>	<i>99.2</i>	<i>99.2</i>	<i>96.5</i>
BIF	Banks	10,916.7	58.3	-	10,916.7	58.3	1,666.7
	BDCs	-	5,371.8	4,005.7	-	2,685.9	6,259.0
	Total	10,916.7	5,430.1	4,005.7	10,916.7	2,744.2	7,925.7
	<i>Bank % Total</i>	<i>100.0</i>	<i>1.1</i>	<i>-</i>	<i>100.0</i>	<i>2.1</i>	<i>21.0</i>

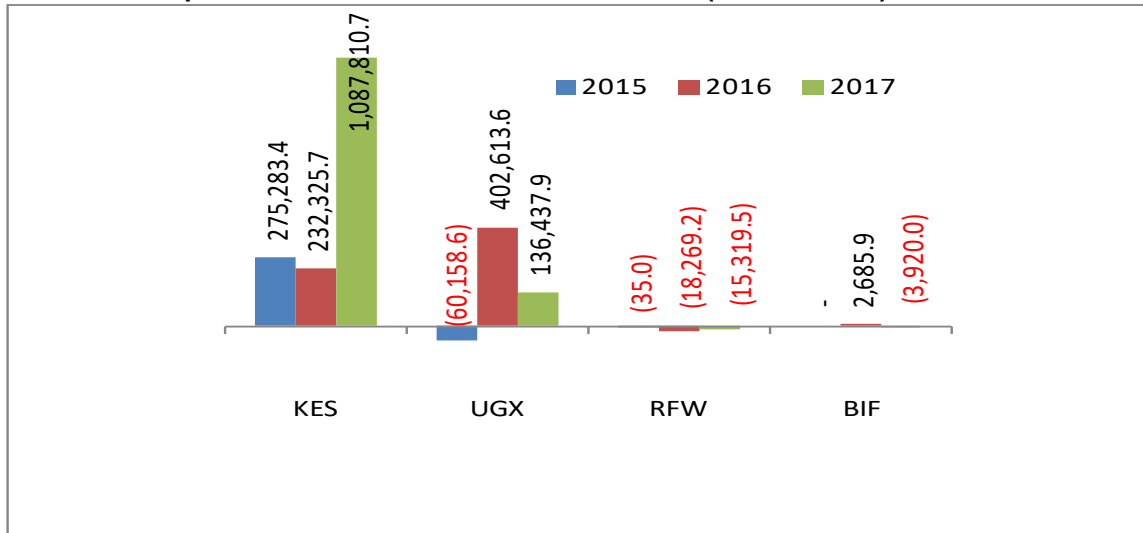
Source: Field data

The total value of EAC currencies purchased during 2015 to 2017, increased by more than two-folds from United States Dollar (USD) 48.3 million in 2015 to USD 126.2 million in 2017 (an increase of 161.4 percent), at the same time sales increased from USD 45.5 million to USD115.6 million (which is 154.3 percent) in the same period. This implies that there is an increase in transactions involving use of EAC currencies and hence enhancing convertibility operations through financial institutions.

Purchases of KES were far greater than sales, suggesting existence to significant trading activities involving use Kenyan shillings. This led to increase in the build-up of surplus of Kenyan shillings from KES 275.3 million in 2015 to KES 1,087.3 million in 2017. Comparing with the statistics from BOT which shows only a surplus KES 150.7 million repatriated in 2018; it is most likely that either

the banks keep the surplus or repatriate directly to their counterparts in Kenya. For the case of UGX, net purchases amounted to UGX 136.4 million in 2017. Records with BOT do not show any repatriation of UGX since the MOU came into operation implying that banks and BDCs are keeping the stock of UGX for further transactions. RWF and BIF recorded net sales throughout 2015-2017 (Charts 2.1).

Chart 2.1: Net purchase of EAC currencies 2015 – 2017 (in thousands)



Source: Field data

Table 2.3 shows dollar value of EAC currencies purchased and sold. The Kenyan shilling has dominated in the convertibility transactions – the dollar value of the purchases and sales of EAC currencies shows that transactions in dollar denominated Kenyan shillings averaged 96.5 percent of the total transactions (purchases and sales).

Table 2.3: Dollar Value of EAC Currencies Purchased and Sold

	USD thousands											
	2015		2016		2017		2015		2016		2017	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
KES	45,737,578.6	94.8	42,934,285.6	94.4	137,001,692.2	97.7	134,721,753.5	97.6	112,420,666.1	97.2	112,420,666.1	97.2
UGX	2,457,035.8	5.1	2,457,035.8	5.4	3,117,698.1	2.2	3,117,698.1	2.3	3,076,829.9	2.7	3,076,829.9	2.7
RWF	60,664.0	0.1	60,664.0	0.1	147,954.8	0.1	147,954.8	0.1	153,534.8	0.1	153,534.8	0.1
BIF	6,944.9	0.0	6,944.9	0.0	3,327.9	0.0	3,327.9	0.0	2,354.0	0.0	2,354.0	0.0
Total	48,262,223.3	100.0	45,458,930.2	100.0	140,270,673.0	100.0	137,990,734.3	100.0	115,653,384.7	100.0	115,653,384.7	100.0

Source: Field data

Survey results show further that individual participants are the main purchasers of EAC currencies (59.7 percent) and also the largest suppliers of the currencies (59.0 percent) to banks and BDCs.

The second largest participants are corporations with a share of 26.4 percent in purchases and 25.7 percent in sales. Inter BDCs transactions were 7.4 percent in purchases and 12.3 percent in sales.

On average, for the period from 2015 to 2017, the major source of inflows of EAC currencies was earnings from sale of goods and services accounting for 61.5 percent followed by proceeds from investment in EAC (21.1 percent). Remittances from relatives living in the Partner States accounted for 17.3 percent.

3.0 Factors contributing to flow of currencies to/from EAC partner states

Several factors were reported to drive the flow of EAC currencies between Tanzania and other member countries. These include the following:

3.1 Trade activities

As indicated in sub-section 2.3, trade activities explained much of the flow of EAC currencies between Tanzania and other partner states. These findings strongly corroborate with the trade statistics summarized in **Table 3.1** and **Table 3.2**. Predominance of KES receipts is well explained by the higher share of exports to Kenya, accounting for 71.0 percent of total export from Tanzania to the EAC.

Table 3.1: Tanzania's goods exports to EAC countries (USD million)

Country	2014	2015	2016	2017	2018	Average	Percentage to total exports
Kenya	446.1	731.4	313.8	175.3	213.8	376.1	7.9
Uganda	73.4	50.3	58.2	60.4	105.8	69.6	1.5
Rwanda	43.0	41.2	52.1	50.8	79.6	53.4	1.1
Burundi	35.8	39.1	6.5	24.1	47.8	30.7	0.6
South Sudan	4.5	0.1	4.8	0.2	1.1	2.1	0.0
Sub total EAC	602.8	862.1	435.5	310.7	448.1	531.8	11.2
Total goods exports	5,741.7	5,775.6	4,740.0	3,869.0	3,664.2	4,758.1	100.0

Source: Bank of Tanzania

Table 3.2: Tanzania's goods imports to EAC countries (USD million)

	2014	2015	2016	2017	2018	Average	Percentage to total imports
Kenya	654.9	238.6	267.7	202.0	249.6	322.6	3.4
Uganda	48.0	39.4	30.7	34.3	53.2	41.1	0.4
Rwanda	3.2	1.1	1.1	1.3	1.4	1.6	0.0
Burundi	0.6	1.1	0.8	0.2	1.0	0.7	0.0
South	0.1	0.0	0.0	0.0	0.2	0.1	0.0
Sub total EAC	706.8	280.3	300.4	237.9	305.4	366.1	3.9
Total goods imports	12,006.7	10,800.5	7,875.6	7,779.3	8,586.0	9,409.6	100.0

Source: Bank of Tanzania

3.2 Financial innovation

Financial innovation (Fintech) in form of mobile money service also contributed to currency convertibility. In particular, this was found in areas bordered with Kenya, namely Arusha, Kilimanjaro and Tanga, with Safaricom and Vodacom being the major mobile money service providers. Other financial innovation which facilitated currency convertibility include EAPS.

3.3 Banking services

Intermediation service by the financial institutions, banks in particular played significant role in facilitating EAC currency convertibility. In the sub-section 2.3, it is revealed that during the year 2015 - 2017, the share of banks in the total value of transactions in the EAC currencies (buying and selling) averaged over 90 percent. It was also found that banks with branches across partner states contributed towards acceptance of EAC currencies. The banks include Kenya Commercial Bank (KCB), Equity Bank, Exim and CRDB. Some of these banks were found having KES denominated accounts.

4.0 Challenges experienced in trading currencies from EAC partner states

a) Longstanding challenges:

- i. Cost of handling EAC currencies is skewed to financial institutions. The survey revealed that 48 interviewed financial institutions equivalent to 52.7 percent had reported that the main challenge in trading currencies from EAC Partner States is that there are no cost effective arrangements for handling of EAC currencies across the region. For instance, the financial institutions have to meet the costs of transporting the accumulated currencies to the central bank at the head office. This is a significant constrain and has motivated some banks to hoard EAC currencies at their branches and some have been mediating with their counterparties in the region. It thus important to consider reviewing the MOU and the Guidelines to ensure fair distribution of cost of handling EAC currencies.
- ii. Transactions involving BIF and RWF currencies are low due less cross border trade with Burundi and Rwanda. This has led to pile-up of BIF and RWF with the institutions.
- iii. Exchange rate fluctuations. Respondents pointed high exchange rate fluctuation of EAC currencies. This creates uncertainties and loss of confidence in dealing the EAC currencies.

b) Medium term challenges:

- i. Limited knowledge on security features of some currencies. Security features especially for BIF and RWF are not well known and as a result constrained its acceptability.

5.0 Measures that would encourage the acceptance and convertibility of EAC currencies

The following policy and administrative measures are recommended for MAC attention:

- i. Promoting cross-border trade among EAC countries through among others, eliminating non-tariff barriers, improving business climate and sensitizing the public to exploit various trade facilitation on offer, for instance the simplified trade regime designed for small-scale businesses.
- ii. Reviewing the MOU and Guidelines to allow for fair distribution of currency repatriation costs. Based on the discussion with BOT officials and review of the MOU and Guidelines for currency convertibility, it was found that cost involved in repatriation of the currencies is likely to limit Partner States participation due to imbalance among the EAC Partner States on the surplus currencies to be repatriated. For example, statistics shows that most times BOT has surplus of KES and thus has to repatriate to CBK. On the contrary, CBK hardly has surplus TZS for repatriation to BOT. This imbalance imposes repatriation costs on BOT than it does to CBK. Similar imbalance is experienced with BOU which has surplus TZS and hence has to bear the costs of repatriation to BOT. It thus, important for the Partner States to agree on modality of sharing currency repatriation cost.
- iii. Resolving likely skepticism on the use of country's reserves in offsetting balances. Based on the discussion with BOT officials and review of the MOU and Guidelines for currency convertibility, it was observed that in the event that one central bank has no surplus of the other country's currency for offsetting, the MOU provides that the excess surplus be settled using USD. This forces a country to resort to using its scarce foreign currency reserves which has competing uses.

Bank of Tanzania is advised on the following:

- i. Putting in place cost effective mechanism for buying surplus EAC currencies from stakeholders. Currency collection cost should be fairly distributed across participating institutions. The use of BOT branches as EAC currency collection centre is strongly recommended.
- ii. Enhancing awareness to the general public on the acceptance and usage of EAC currencies for business transactions as well as on other related facilities such as EAPS.

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Annexes

Annex Table 1: Purchases and Sales of EAC Currencies

		Kenyan Shillings					
		Purchases			Sales		
		2015	2016	2017	2015	2016	2017
Banks		93,270,743,222.0	153,821,905,877.6	318,660,520,119.5	9,583,217,533.3	16,383,798,839.5	19,476,431,577.6
BDC		120,686,998.2	138,566,555.3	251,587,437.3	112,929,307.8	144,347,845.3	247,865,296.1
Total (EAC currencies)		93,391,430,220.2	153,960,472,432.9	318,912,107,556.8	9,696,146,841.1	16,528,146,684.9	19,724,296,873.7
Total USD		951,032,894.3	1,510,897,668.6	3,084,256,359.4	98,738,766.2	162,199,673.1	190,757,223.1
Exchange rate (KES/USD)		98.2	101.9	103.4	98.2	101.9	103.4

		Uganda Shillings					
		Purchases			Sales		
		2015	2016	2017	2015	2016	2017
Banks		16,804,324,580.4	18,109,152,512.1	22,726,088,447.5	8,069,427,564.0	10,201,961,029.9	11,459,095,921.4
BDC		70,083,535.0	54,777,858.0	149,013,883.6	65,139,185.0	59,355,693.0	152,444,331.9
Total (EAC currencies)		16,874,408,115.4	18,163,930,370.1	22,875,102,331.1	8,134,566,749.0	10,261,316,722.9	11,611,540,253.3
Total USD		5,199,260.6	5,310,392.0	6,334,207.1	2,506,383.1	2,999,990.3	3,215,281.8
Exchange rate (UGX/USD)		3,245.5	3,420.5	3,611.4	3,245.5	3,420.5	3,611.4

		Rwanda Franc					
		Purchases			Sales		
		2015	2016	2017	2015	2016	2017
Banks		42,000,000.0	120,000,000.0	125,000,000.0	42,000,000.0	138,000,000.0	140,000,000.0
BDC		304,015.0	774,028.0	4,752,288.0	339,013.0	1,043,219.0	5,071,773.0
Total (EAC currencies)		42,304,015.0	120,774,028.0	129,752,288.0	42,339,013.0	139,043,219.0	145,071,773.0
Total USD		60,664.0	147,954.8	153,534.8	60,714.2	170,335.6	171,662.3
Exchange rate (RWF/USD)		697.4	816.3	845.1	697.4	816.3	845.1

		Burundi Franc					
		Purchases			Sales		
		2015	2016	2017	2015	2016	2017
Banks		10,916,666.7	58,333.3	-	10,916,666.7	58,333.3	1,666,666.7
DBC		-	5,371,810.0	4,005,745.0	-	2,685,905.0	6,259,045.0
Total (EAC currencies)		10,916,666.7	5,430,143.3	4,005,745.0	10,916,666.7	2,744,238.3	7,925,711.7
Total USD		6,944.9	3,327.9	2,354.0	6,944.9	1,681.8	4,657.5
Exchange rate (BIF/USD)		1,571.9	1,631.7	1,701.7	1,571.9	1,631.7	1,701.7

Annex Table 2: Questionnaires

Questionnaire on the Status of implementation of Memorandum of Understanding amongst East African Community Central Banks on currency convertibility and repatriation

I. Introduction

During the 22nd Ordinary Meeting of the Monetary Affairs Committee (MAC) held in Kampala, Uganda on 24th August, 2018, the EAC Central Bank Governors underscored the need for Partners States' Central Banks to conduct a survey on the extent of currency convertibility in the EAC region. The Governors also requested the National Bank of Rwanda to take the lead in this activity, in collaboration with the EAC secretariat.

Following the 22nd Ordinary Meeting of the Monetary Affairs Committee (MAC) held in Kampala, on 24th August, 2018 and Economic Affairs and Co-ordination sub-committee of the MAC held from 12th to 16th November 2018 in Arusha, the National Bank of Rwanda in collaboration with EAC secretariat, will visit Partner States, to discuss with Central Banks, Bankers Association and Forex Bureau Associations.

In order to assess the implementation of the MOU signed by Partner States Central Banks in 2014, National Bank of Rwanda has prepared a questionnaire for Partner States Central Banks. The information gathered will help in successfully conducting the above said study.

II. Identification

1. Identification

Institution:

2. Identification of the Respondent

Name:

Position:

Work Telephone: Number:

Mobile Number:

E-mail:

[Note: Your name and contact information will remain confidential].

III. Questions

1. Has the Central Bank opened the Currency Collection Accounts for respective Partner States' currencies as specified in the MOU?

(a) Yes (b) No

If Yes, specify challenges encountered if any

.....
.....

If No, why?

.....

2. Has the Central Bank opened the Operational Accounts for other Central Banks and for the purpose as specified in the MOU?

(a) Yes (b) No

If Yes, specify challenges encountered if any

.....
.....

If No, why?

.....
.....

3. Has the Central Bank encountered any issue of authenticity of currency surrendered by other Central Bank?

(a) Yes (b) No **NO**.....

If Yes, what are the challenges

.....
.....

If No, why?

.....
.....

Has the Central Bank encountered any issue of discrepancies (shorts/overs) in repatriated lot?

(a) Yes (b) NoNO.....

If Yes, what are the challenges?
.....
.....

If No, why?

.....
.....

Has the Central Bank encountered any issue of mutilated currencies in repatriated lot?

(a) Yes (b) No

If Yes, what are the challenges?
.....
.....

If No, why?

.....
.....

Is there common operational guidelines to facilitate the convertibility and repatriation balances of the currencies?

(a) Yes (b) No

If Yes, what are the challenges?
.....
.....

If No, why?

.....
.....

Has the Central Bank conducted public awareness programs on the issues, denominations and security features of Partner States' currencies?

(a) Yes (b) No

If Yes, what are the challenges?
.....
.....

If No, why?

.....
.....

4. Has there been any major changes in Central Bank law or banking law, which may affect the implementation of the MOU?

(a) Yes (b) No

If Yes, what are the challenges?

.....
.....

5. Has the change(s) been communicated to Partner Central Banks and EAC secretariat?

(a) Yes (b) No

If Yes, what are the challenges?

.....
.....

If No, why?

.....
.....

6. Has there been any other challenge in implementation of the MOU?

(a) Yes (b) No

If Yes, what are the challenges?

.....
.....

If No, why?

.....
.....

7. Have you put in place infrastructures needed (e.g. Testing machines and staff training) to ensure implementation of MOU?

(a) Yes(b) No

If Yes, what are the challenges?

.....
.....

If No, why?

.....
.....

8. In your opinion, what are the implications of East African Payment system (EAPS) in your country vis a vis implementation of currency convertibility MOU?

9. How much have you been able to repatriate since you enter into an agreement for currency repatriation per currency of denomination?

Period	Amount (in billion)				
	Franc Burundais	Kenyan Shilling	Franc Rwandais	Tanzanian Shilling	Ugandan Shilling
2014					
2015					
2016					
2017					
2018					

10. Any additional comment or suggestion (please specify whether a comment is specifically for one of the questions above)

.....

Questionnaire for the survey on currency convertibility among EAC currencies (Financial Institutions)

Introduction

The EAC Partner States' Central Banks signed an MOU on currency convertibility and repatriation in May 2014 in order to promote cross-border trade within the EAC region and as part of unification of currencies towards formation of common currency by 2024. Currency Convertibility means the acceptability of currency of a Partner State for exchange with another Partner State's currency. Under the MOU, each EAC Partner States' Central Bank is required to open an operational account for depositing surplus currencies for the purpose of repatriation to the respective countries.

In view of the above, EAC central banks have agreed to conduct a study to assess the degree of convertibility of EAC currencies in each of the partner States. Accordingly, the National Bank of Rwanda is conducting a study on currency convertibility of EAC currencies within EAC region. The main objective is assess the extent to which EAC currencies are accepted and used across the region. As one of the key stakeholders, you are requested to participate in the survey by providing information that will assist to accomplish the study. The information you will provide would be treated as confidential and published in aggregated form.

N.B: For the purpose of this study, EAC countries are Burundi, Kenya, Rwanda, Tanzania and Uganda

Date:

A. Identification

3. Identification of the Company

Name:

Location (street name):

4. Identification of the Respondent

Name:

Position:

Work Telephone number:

Mobile number:

E-mail:

[Note: Your name and contact information will remain confidential].

B. Transactions on currencies

1. Indicate which EAC currencies you buy and/or sell

(Ignore the local currency)

Currency	Yes	No	Not Applicable	If NO, give reason
Tanzania Shilling				
Kenya Shilling				
Uganda Shilling				
Rwanda Franc				
Burundi Franc				

2. On average, what is the volume of EAC currencies you handle per month?

Currency	Period	Volume Bought from you	Volume Sold to you	Not Applicable
Tanzania Shilling	2015			
	2016			
	2017			
Kenya Shilling	2015			
	2016			
	2017			
Uganda Shilling	2015			
	2016			

	2017			
Rwanda Franc	2015			
	2016			
	2017			
Burundi Franc	2015			
	2016			
	2017			

3. Please indicate the category of clients who demand or purchase EAC currencies from you

Clients	Percent		
	2015	2016	2017
Individual clients			
Corporations			
Forex bureau			
Others (please specify)			

4. Please indicate the category of clients who supply or sell EAC currencies to you

Clients	Percent		
	2015	2016	2017
Individual clients			
Corporations			

Forex bureau			
Others (please specify)			

5. How often do clients demand or purchase EAC Currencies from you?

Currency	Very often	Rarely	Never	Not
Tanzania Shilling				
Kenya Shilling				
Uganda Shilling				
Rwanda Franc				
Burundi Franc				

6. How often do clients supply or sell EAC currencies to you?

Currency	Very often	Rarely	Never	Not Applicable
Tanzania Shilling				
Kenya Shilling				
Uganda Shilling				
Rwanda Franc				
Burundi Franc				

7. What are your clients' main reported sources of the EAC currencies?

Sources	Percent		
	2015	2016	2017
Earnings from goods and services sold to the EAC region			
Remittances from relatives living in the EAC region			
Proceeds from investment in the EAC region			
Others (please specify)			

8. Have you ever accumulated surplus of any EAC currencies, which you were unable to sell?

Currency	Period	Yes	No	Not Applicable	If YES, what did you do with the surplus?
Tanzania Shilling	2015				
	2016				
	2017				
Kenya Shilling	2015				
	2016				
	2017				
Uganda Shilling	2015				
	2016				
	2017				
Rwanda Franc	2015				
	2016				
	2017				
Burundi Franc	2015				
	2016				
	2017				

C. Opinion of the respondent

1. Are you aware that there is MOU among EAC Partner States that each Central Bank should open operational accounts for all EAC currencies where you can sell any surplus amount of EAC currencies or buy in case of shortage?

(a) Yes (b) No

2. What challenges do you face in trading currencies from the EAC member states?

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.....

.....

3. In your opinion what policy actions do you think would encourage the acceptance of EAC currencies in your country (If you run out of the space, please continue your response on the back of this page.)

.....
.....
.....

D. Optional response

Use the space below to address a topic related to currency convertibility not covered in this survey. (If you run out of the space, please continue your response on the back of this page.)

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