Chairman's statement

Christopher M. Kassami

The year 2012 marked a key milestone as the Bank celebrated its 45th Anniversary. Our present and future success draws from key inspirational achievements in the past four and half decades. We pioneered equity financing and leasing in the region, we took leadership in issuing corporate regional bonds; contributed in deepening domestic capital and financial markets; and, most importantly, we have financed transformative projects ranging from small to medium-size enterprises to sovereign financing. We have been resilient and reinvented ourselves over time as we weathered storm after storm, ranging from economic, political and financial crises to institutional and legal challenges.

It is against this background that the Bank and its Member States have remained optimistic in the midst of a slowing global economy and uncertainties. In 2012, global output grew by 3.2 percent. This improvement was largely driven by growth in emerging and developing economies. The Euro zone was in recession as output is estimated to have declined by 0.4 percent. Advanced economies are grappling with high unemployment and fiscal instability. Fiscal consolidation mainly through austerity measures as opposed to stimulus has become the order of the day. As a result, the region's external sector has deteriorated significantly. Exports, remittances and foreign direct investment have declined. The year 2013 is not likely to be much different; world economic output will increase gradually by 3.4 percent (IMF, March, 2013). It is expected that the Euro region will still be in a recession and the US recovery will be compromised by high taxes and spending cuts.

We are witnessing a new dawn as emerging and developing economies outpaced the advanced industrialised countries to register a robust growth of 5.1 percent in 2012. East Africa has shown even more resilience as it consistently registers higher growth rates than the rest of Sub-Saharan Countries. The average growth for the EADB Member States in 2012 was around 5.8 percent as compared to 4.8 percent growth for Sub-Saharan Africa. The growth momentum will be maintained going forward as the region makes significant discoveries of hydrocarbons.

The year 2012 did not pass without its challenges as East Africa experienced high inflation rates. Although disinflationary policies were successful in reducing inflation by the fourth quarter of 2012, for some Member States rapid monetary tightening dampened credit growth and slowed economic growth. Besides, some of our Member States have had to delay Government spending and were even forced into spending cuts on account of aid unpredictability. While most of our members maintained overall balance of payment surplus and optimal foreign reserves, our current account deficits have widened on account of increased imports and declining external demand.

Furthermore, there has been mixed outcome on revenue mobilisation. Some of our Member States have enjoyed impressive revenue collection, while others experienced less dramatic improvement in revenue collection. Strained relationship with development partners has led to reduction of aid for some of our Member States. Growth prospects for 2013 remain high with GDP for EADB Member States expected to grow at an average rate of 6.7 percent for three years from 2013.

Foreign direct investment will boost infrastructure particularly in the energy sector as some of our members continue to make world-class discoveries of hydrocarbons. Risks to growth remain elevated for some Member States. Following aid reduction, some of our Member States will have to delay some investments or adopt austerity measures. Alternatively, these States will have to look for new financing sources without compromising debt sustainability or bringing distortions in the monetary sector. We have learned hard lessons from the global economic crisis in addition to our own domestic challenges. These lessons will be informative as we move towards a sustainable growth path and closer integration.

Global and regional economic developments continue to impact the Bank's operational performance. On account of high yields in the markets in 2012, we delayed the process of issuing a multi-currency bond in the East African capital markets.

Overall, we have maintained robust shape and the Bank is well-positioned to consolidate gains achieved in the past three years. The income of USD 7.3 million in 2012 represents an increase of 9 percent over 2011. Our portfolio continues to perform well as we grew our loans by 11 per cent and reduced non-performing loans by 38 percent from 2011. Through best practices in corporate governance and financial management, we have continued to receive unqualified opinion for our financial accounts. Our international credit rating has improved from "B minus" with stable outlook to "B" with stable outlook.

With regard to resource mobilisation, the Bank has secured concessional financing of EUR 25 million from the European Investment Bank (EIB) with prospects for further funding from the AFD, the African Development Bank and Exim Bank of India. Our shareholders have fulfilled their obligations and continue to provide the necessary support through regular subscriptions of equity.

The most important achievement during the year was the legal battle with one of our former clients, Blueline Limited, which came to its logical conclusion following a landmark ruling in favour of the Bank. The impact has been tremendous. In the course of the year, we have improved our business processes and legal framework as we made amendments to improve our Charter. Our partnership with EAC and other regional players has strengthened as we work towards greater regional integration. Today, we are a stronger Bank, in many respects, than yesterday. We look into the future with renewed optimism.

I take this opportunity, in a special way, to thank my fellow Board Members for their unwavering support throughout the year. On behalf of my colleagues, I thank the Governing Council and the Advisory Panel for their valuable guidance and oversight. I thank all our shareholders and development partners for supporting the Bank in resource mobilisation activities. I thank our clients for their continued cooperation and support. I appreciate the tireless work of the Management and staff which has enabled the Bank to excel to new heights of performance in the face of growing regional and global challenges.

Christopher M. Kassami

CHAIRMAN
BOARD OF DIRECTORS