

Catalysing regional development

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VIVIENNE YEDA APOPO has been Director General of the East African Development Bank since January 15, 2009. Prior to that she worked in the legal and administrative affairs department of the bank. She joined the EADB from the African Development Bank Group where she was the permanent representative in Zambia. A Kenyan national, she previously worked with REA Vipingo Plantations Limited until 2006, a company which engages in the cultivation, manufacture, spinning, and export of sisal fibre and twines in Kenya and Tanzania.

The East African Community was established ten years ago following the signing of the Treaty for the establishment of the EAC on 30th November 1999. Since its establishment, the original partner states of Kenya, Tanzania and Uganda have remained focused on the integration of the regional economy. The integration process has not only seen the membership expand through the republics of Rwanda and Burundi joining the EAC in 2007, but has also realised noticeable strides toward the five Member States' ultimate objective of a monetary union and political federation. Cross-border economic activity and consequently increased demand for financial resources to support such activities is envisaged.

The East African Development Bank (EADB) is expected to continue playing a leading role in the integration process generally, and contributing towards meeting the financial resources requirements in particular. As the premier regional Development Finance Institution (DFI) in EAC and an institution of the EAC, the bank is focused on taking a lead role in providing and mobilising financial resources to key areas with a view to meeting stakeholders' expectations.

The EADB's intervention mechanism is through its range of services which include long-term lending, equity investment, short-term lending, guarantees, asset lease finance, trade finance, and research and advisory services. The bank invests across all the sectors of the regional economy, with the overriding consideration being the impact of such investment on economic performance. The bank takes particular cognisance of, and supports, the sectors that are key drivers of the regional economy but are perceived by other financial sector players to be too risky for investment. In particular, the bank supports projects in agriculture and fisheries, agro-processing so as to enable businesses to participate in regional and international trade through value addition.

It is widely acknowledged that the region's sustainable development crucially depends on a thriving private sector taking the lead and governments providing a conducive regulatory environment. It is similarly acknowledged that while a conducive environment is necessary for private sector growth, it is not sufficient if financial resources constraint remain binding.

Consequently, the bank recognises that lack of

easy access to long-term credit is a major constraint to business growth in the region. Even with the liberalisation of financial markets, the rapid increase in the number of commercial banks in the financial system has largely improved availability of short-term credit as opposed to long-term credit. In this regard, the bank's long-term loan finance accounts for well over 80 per cent of the investment approvals in any given year.

From the array of EADB's services outlined above, it is evident that the bank's intervention in the region extends beyond credit provision. The bank recognises that growth in businesses is constrained by reliance on credit or internally generated funds, important as these two sources of investment resources may be. Accordingly, the bank is among the few institutions in the region that have considered risk capital investment as an inhibiting factor to enterprise growth, occasioning continued investment in equity in carefully selected projects. It is the bank's intention to consolidate its leadership position in this regard through:

- substantially increasing its equity investment operations
- mobilising other stakeholders towards establishment of equity funds in the respective member states.

It is similarly evident that the poor state of infrastructure in the region is a major development constraint. The structural and policy reforms undertaken by the EAC member states have resulted in the change in perception regarding the private sector's role in infrastructure provision. There has been a shift from the notion that infrastructure is a strategic sector best managed by government monopolies to the realisation that some infrastructure services are best provided by, or in partnership with, the private sector.

There is scope for private sector participation in infrastructure investments. However, some sub-sectors are more amenable to such participation and can be operated on purely commercial principles. These include telecommunication, energy, and information technology. The bank currently supports such investments as a means of complementing the member states' endeavour to provide reliable infrastructure as a foreign direct investment attracting strategy. The bank will also endeavour to support the public sector in the development of infrastructure such as rail, road and water and sanitation projects that are important for the economic and social development of the partner states.

The bank's support of infrastructure projects is on the backdrop of the consideration that such investments require significant resource outlay. The bank stands ready to increase its participation in the sector through:

- mobilising adequate resources of its own for such investments
- co-financing such projects with other financial institutions
- in supporting investments in infrastructure, EADB accords priority to projects with a regional orientation as such investments enhance regional integration.

As earlier observed, a number of financial market reforms have been undertaken by EAC member states. However, financial markets in the region are still shallow and are characterised by a number of bottlenecks and imperfections. The EADB recognises the limitations of shallow financial markets and has made deliberate interventions towards their deepening, including the following:

- pioneering the issuance of corporate bonds in the region. So far the bank has issued nine bonds: four in Kenya, three in Tanzania and two in Uganda. The EADB Bond was the first listed bond to be traded on the Uganda Securities Exchange. The issuance of corporate bonds has now become popular amongst well-managed companies in the region that seek to raise long-term financing directly from investors.
- channelling resources, especially foreign currency, to commercial banks to support their trade finance operations.
- financing efficiency promoting projects in the sector – computerisation, and acquisition and installation of ATMs.

The EADB is committed to continuing to contribute to the deepening of the financial sector as a development-promoting strategy.

While undertaking its operations pursuant to its mandate, the bank recognises the vulnerabilities of its member states. The EAC members are, for instance, heavily dependent on the agricultural sector. The sector is leading in terms of contribution to GDP, employment and export earnings. Such structure makes the economies vulnerable to external shocks. In this regard, the bank supports the regional economies' diversification efforts through financing manufacturing, agro-processing, and the service sector that supports manufacturing.

The bank further recognises the significant role played by SMEs in economic growth and poverty alleviation in the EAC member states. Accordingly, the bank has continued to support such enterprises through lending directly to those SMEs that meet its criteria as well as lending to micro-finance institutions that are managed on a self-sustaining basis.


As the bank strives to enhance its development

promoting momentum, it works closely with the EAC secretariat, in many instances directly participating in programmes/activities relating to the region's integration efforts. Some of these activities include:

- activities relating to the sustainable development of Lake Victoria Basin where the bank has made financial contribution to the Strategic Partnership Fund for the Lake Victoria Basin Development
- participation in a number of EAC committees that have a bearing on the bank's mandate.

With some of these programmes being dynamic, the bank is keen on continued participation.

In line with the expectations of the stakeholders, the bank has over the years increased its level of operations in order to enhance its developmental impact. The cumulative approvals of about US\$600 million over the last ten years are an illustration of the bank's role in catalysing the region's development through supporting ventures that result in job creation, foreign exchange earning/ saving, and increased tax collection as a result of the thriving of such ventures. With the EADB's strategic direction envisaging significant growth, and the member states' continued confidence and support, the bank is poised to continue promoting the region's development.

The bank strives to meet expectations on its role in the enhancement of regional integration under the EAC and those of stakeholders generally. The challenges that lie ahead cannot be understated. The Bank will nonetheless continue tackling these challenges, especially those limiting optimal operation of the business community, while viewing them as potential opportunities and accordingly playing a bigger role towards their mitigation, consequently enhancing the revitalised EAC. 

The East African Development Bank is expected to continue playing a leading role in the integration process

Poor infrastructure is a major development constraint

