



Eastern and Southern African Trade and Development Bank 22nd and 23rd Floors, NSSF Building, Bishops Road P.O. Box 48596, GPO 00100 Nairobi, Kenya

Tel: +254 (0) 20 2712250
Fax: +254 (0) 2711510
Telex: 22826 PTA BANK
Email: official@ptabank
Website www.ptabank.org

2007

annual report

# **Our Vision**

To be the Preferred Development Financial Institution in the region.



## **Our Mission**

To be at the forefront of providing development capital in the sub-region, through customer focused and innovative financing instruments backed by competitively priced funds, mobilised from international capital markets in order to maximise returns to our shareholders.

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The Chairman

Board of Governors

Eastern and Southern African

Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 35 (2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit herewith the Annual Report of the Bank for the period 1 January to 31 December 2007.

The report covers the year's activities and audited financial statements as well as the administrative budget for the period 1 January to 31 December 2008.

Mr. Chairman, please accept the assurances of my highest consideration.

Jo- Los

Mohit Dhoorundhur

**Chairman of the Board of Directors** 



2007 was a year of significant progress during which a number of milestones and achievements were attained. On behalf of the Board, I am pleased to present this Annual Report which chronicles several of these achievements.

At the global level, the world economy remained resilient and, despite global oil prices impacting negatively on global production, real GDP grew at 5.0%. This growth was largely driven by strong expansions in China, India and Russia which effectively mitigated the lower growth recorded in the advanced economies. In the United States, growth was constrained by the down turn occasioned by the sub-prime mortgage crisis. Commodity prices were driven upwards mainly as a result of strong demand especially from China and high oil prices which breached the US\$ 100 mark during the year.

Africa continued to experience buoyant economic performance with the continent posting real GDP growth of 6%. Sub-Saharan Africa recorded a real GDP growth rate of 6.1%, an increase of 0.4 percentage points above the 2006 level. The continent's impressive economic performance, for the seventh year in a row, was sustained by external and domestic factors including favourable terms

M. Dhoorundhur, Chairman, Board of Directors

of trade, a supportive global economic environment, prudent policy frameworks and improved business climate.

In addition to impacting positively on the sub-region's terms of trade, the growth in the global and Member States' economies provided increased business and development financing opportunities for the Bank. The improved business environment yielded improved operational and financial performance as evidenced by higher loan approvals, commitments, disbursements and recoveries. As a result, the Bank recorded increased net profits of US\$ 6.65 million, a 45% improvement over the 2006 level.

In spite of the favourable macro-economic environment and the satisfactory performance levels attained in 2007, various challenges remain. These include increased competition, instability in global financial markets and the negative perceptions of African risk. The Bank's strategies for addressing these and other challenges are well articulated in its 2008-2012 Corporate Plan which was approved by the Board of Governors in June, 2007. In this





Plan, the Bank seeks to promote rapid private sector development in its Member States through increased trade and project financing, attracting increased external capital flows, fostering increased regional economic integration through trade and investments, and promoting the development and deepening of local and regional financial markets.

A major milestone in respect to the implementation of the Corporate Plan was attained in June, 2007 when the Bank's shareholders approved the first ever General Capital Increase. The decision, which demonstrates the strong support that the Bank commands from its shareholders, entails an increase of the Bank's authorized capital to US\$ 2 billion while the paid-in capital is expected to increase to US\$ 236 million over a five year period. In addition to strengthening the Bank's resource capacity, the capital increase lays a strong foundation for the Bank's growth momentum and positions the Bank among the elite group of respected Development Financial Institutions in Africa.

In line with the decision of the Eleventh Summit of the COMESA Authority held in Djibouti in 2006, the Board put in place arrangements to relocate its Principal Office to Bujumbura, Burundi. Pursuant to this decision, several senior staff were redeployed to the Bujumbura office in March, 2007 thereby elevating the stature of the office considerably. In addition, during the year, the Board initiated arrangements for the establishment of a Representative Office in Harare, Zimbabwe, pursuant to a decision taken by the Board of Governors in 1998. The Harare Representative Office is expected to be ready in 2008 and will facilitate access to the Bank's services for clients and other stakeholders from the southern Africa region. The Representative Office is also expected to contribute to the effective management of the Bank's portfolio in the region.

In many ways, therefore, 2007 was a successful year and the achievements enumerated elsewhere in this Annual Report bear clear testimony to this success. It is the year when the Board, Management and Staff charted a clear vision of where the Bank should be in the next five years, a vision well embraced by Shareholders as evidenced by their overwhelming support for the capital increase proposals. It is also the year when the Bank started implementing its "decentralisation" strategy in order to be closer to its markets. These and other accomplishments for the year lay a firm foundation for improved delivery and results in the years ahead.

The good results and achievements would not have been possible without teamwork and commitment by various stakeholders. I wish to thank each one of them and request for continued support in the years ahead. I would like to recognize the excellent leadership, guidance and support provided by the Board of Governors in steering the affairs of the Bank. I wish to also thank my Board colleagues and, in particular, my predecessor, Mr. W. Mlaki for the excellent leadership, inspiration and guidance extended to the Bank during the year. I also extend my appreciation to the Bank's Management and Staff for the commendable achievements and satisfactory performance and urge them to aim higher in order to surpass the expectations and targets set out in the 2008-2012 Corporate Plan.

On behalf of the Board, I wish to convey our appreciation to all shareholders for supporting the capital increase

proposals and for their confidence in the affairs of the Bank. Finally, I extend my sincere appreciation to our valued clients and financial partners for supporting the Bank as it strives to achieve its strategic vision of becoming "The Preferred Development Financial Institution" in the region.

M. Dhoorundhur

Chairman, Board of Directors



### **Strategic Overview**

The last five years have been an exciting period for the Bank. The period, which provided the backdrop for the implementation of the 2002 - 2007 Corporate Plan, witnessed the strategic transformation and repositioning of the Bank following its successful restructuring. Since then, the Bank has enjoyed increased levels of activity with annual project approvals and commitments doubling while trade finance volumes have more than trebled. The increased demand for financing is attributed to the buoyant business and economic environment that continues to prevail within the sub-region and the macro-economic and structural reforms that were implemented by many of the Bank's Member States.

In order to cope with the increased demand, the Bank has continued to diversify its sources of funding by establishing new relationships both within and outside the region. In this regard, local capital markets have proven to be a reliable source of medium and long term funding and, during the period, the Bank played a visible role as an issuer of local currency bonds and notes in a number of these markets. The Bank hopes to continue exploiting these markets as a source of development capital while efforts to tap into the international capital markets will be intensified in the years ahead.

The Bank has evolved into a learning organization and its

knowledge base expanded considerably through the lessons learnt during the last five years. These lessons proved useful during the process of formulating the Corporate Plan covering the period 2008-2012. Key among the lessons learnt is the significant level of demand for development capital in the region which is expected to grow at rates beyond current ones. Therefore, for the Bank to remain visible and relevant, it has to increase its levels of intervention, innovate on its products and be responsive to other changes in the market place. Given its strengths and strategic positioning, I have no doubt that the Bank will be able to deal with these challenges and meet the expectations of its stakeholders.

The Bank remains fully committed to implementing continuous improvement initiatives. It will continue to improve its business processes so as to enhance efficiency and effectiveness. It will also continue to invest in its human resources through training and other forms of development so as to enable its staff to deal with the challenges of modern day development banking. We are grateful, in this regard, to have received valuable support from the African Development Bank in the form of a US\$ 1.0 million technical assistance grant. Through this grant, the Bank has been able to

comprehensively revamp its risk management capacity and augment the development of its staff through various forms of training.

## **Lending Operations**

Financial Year 2007 recorded the highest number and value of projects submitted and approved by the Board of Directors since inception. The Bank financed several projects in the key sectors of aviation, telecommunication, manufacturing, housing and tourism. The Bank also witnessed improved geographic diversification of its activities with two sizeable projects being approved for Seychelles, the newest Member of the Bank.

## **Project Finance**

A total of 29 projects worth US\$ 169 million were approved during the year compared to 23 projects worth US\$ 103 million in the previous year. This represents a 26% increase in number of projects approved during the year and a 64% increase in value terms. Compared to the budget of US\$ 100 million, the approvals were 69% above target.

Of more significance, however, is the level of disbursements recorded during the year which increased to US\$ 54 million in 2007 from US\$ 45.2 million in 2006, the highest level ever attained. The 2007 disbursements represent a 20% growth and are attributed to the favorable business environment and improved loan processes. The latter ensured that the commitment processes in respect of approved projects were expedited thereby shortening considerably the lead time between loan approval and disbursement.

In an effort to improve portfolio quality and performance, the Bank undertook a policy shift aimed at blending the financing of start-ups and expansion projects. In terms of size, the Bank financed small and medium scale projects as well as large syndicated projects. Through syndications with a number of financial institutions, corporations and entrepreneurs in the region are able to implement large projects that would otherwise be difficult to finance as a single institution.

### **Trade Finance**

Consistent with the improved economic performance, Member States' absorption of the Bank's trade finance facilities posted a marked increase during the year. Significant growth in transaction volumes was recorded with letters of credit opened during the year increasing to US\$ 223 million from the US\$ 176.6 million recorded in 2006. Trade finance disbursements, however, reduced from the US\$ 207.3 million recorded in 2006 to US\$ 155.5 million mainly as a result of the significant levels of letters of credit outstanding at the end of the year. Disbursements in respect of most of these letters of credit were expected in early 2008.

The Bank's export finance facilities facilitated the export of various commodities such as cotton, gold and tobacco while its import finance facilities were utilized for the procurement of essential inputs such as oil, chemicals and fertilizer.

#### **Portfolio Management**

The Bank continued to strengthen its portfolio management processes during the year. Project site visits, quarterly reports, post completion evaluations and sharing of credit information with co-financiers were some of the mechanisms used in portfolio management.

# PRESIDENT'S

Statement

PRESIDENT'S
Statement

With a view to improving its environmental and social risk management practices, the Bank reviewed and upgraded its Environmental Risk Management guidelines during the year. As part of this exercise, a senior officer was assigned the responsibility of an Environmental and Social Coordinator and will oversee the establishment of a formal environmental and social risk management system. In addition to monitoring the environmental risk, the system will enable the Bank to capture and evaluate the developmental impact of its financed projects in a timely manner.

### **Risk Management**

A key milestone was attained following the Board's approval, in September 2007 of a new risk management framework. This framework is the product of a diagnostic study conducted by an international management consultancy firm into the Bank's risk management processes and procedures. The framework covers all main areas of financial risk, credit risk, market risk and operational risk.

Implementation of the new framework began in 2007 and is expected to continue into 2008. As part of the implementation, the Bank has already established a Compliance and Risk Management Unit whose role is to coordinate the risk management function. Acquisition of a credit risk scoring system is expected to be made in 2008 while other credit, market and operational risk processes will be continuously upgraded during implementation. The implementation process is largely funded from the technical assistance grant provided by the African Development Bank.

### **Resource Mobilisation**

The Bank continued its resource mobilization efforts so as to effectively fund the rapidly growing volumes of project and trade finance transactions.

At the beginning of the year, the Bank signed a JPY 1.50 billion (US\$ 12.57 million) medium-term loan facility with the Japan Bank for International Cooperation. This facility will be used to finance equipment, machinery, goods and services from Japan. Other facilities secured in 2007 include a US\$ 15 million line of credit from the Export-Import Bank of India, a US\$ 7.5 million medium term facility from Ceskoslovenska Obchodni Banka AS of the Czech Republic in addition to other facilities from Dresdner Bank, DZ Bank and BHF Bank. Existing facilities with Standard Bank of South Africa, Fortis Bank and Barclays Bank were significantly increased.

The Bank also successfully issued and listed its second seven-year Kenya shilling 1.0 billion (US\$ 15 million) bond on the Nairobi Stock Exchange. The bond proceeds will be used to fund the local currency requirements of Kenyan businesses thereby mitigating foreign exchange risk. By year-end, the Bank had in excess of US\$ 165 million of resources available for further lending. These resources will be used to fund the Bank's project and trade finance business.

### **General Capital Increase**

In support of the strategic objectives and targets outlined in the 2008-2012 Corporate Plan, shareholders approved the Bank's First General Capital Increase in June, 2007. This decision marks a major milestone in the evolution of the Bank and places it among the largest of development financial institutions in Africa. The key elements of the capital increase include an increase in the authorised capital from US\$ 544 million to US\$ 2.0 billion, an increase in the subscribed capital from US\$ 345 million to US\$ 1.08 billion and an increase in the paid-in capital from US\$ 118 million to US\$ 236 million.

The additional paid-in capital is to be paid over a five year period beginning 2009. As at 31 December, 2007, the Bank's callable, payable and paid-in capital amounted to US\$ 857 million, US\$ 222 million and US\$ 117.55 million respectively.

Besides boosting capital adequacy, the increased capital will go a long way to enhance the confidence levels of the Bank's business partners and facilitate increased business collaboration.

## **Financial Management**

In 2007, the Bank continued to improve its financial track record. Interest income amounted to US\$ 26.23 million, a 12% increase from the US\$ 23.52 million recorded in 2006. The increase is attributable to increased disbursement levels for both project and trade finance transactions in addition to the modest increase in US dollar interest rates experienced during the year.

The Bank's fees and commission income continued to grow substantially, reaching US\$ 9.97 million from US\$ 7.22 million in 2006. This 38% increase in fees and commission income is attributable to the significant volume of trade and project finance business underwritten and the improved quality of projects appraised in 2007.

Operating expenses increased minimally to US\$ 7.45 million from the 2006 level of US\$ 7.03 million. The increase was mainly attributable to the relocation activities carried out during the year coupled with increased staff costs.

Consistent with the policy of reflecting fair and realistic values of the loan portfolio, the Bank increased its provisions from US\$ 7.81 million in 2006 to US\$ 8.17 million in 2007. By the end of the year, cumulative loan loss provisions stood at US\$ 32.53 million, a level which provides adequate cover against potential losses emanating from the Bank's non-performing loan portfolio.

From a growth perspective however, the Bank's Balance Sheet remained almost unchanged at US\$ 352.56 million from US\$ 351.22 million in 2006. This position was largely attributable to the fact that US\$145.08 million (2006 - US\$31.05 million) of lending was categorized as "off balance sheet" at year-end because the underlying letters of credit remained un-drawn. The significant accumulation of LCs in 2007 was also partly responsible for the reduction in trade finance loans from US\$ 112.46 million in 2006 to US\$ 103.56 million in 2007.

Overall, the Bank posted a net profit of US\$ 6.65 million, representing a significant increase of 45% from the US\$ 4.57 million recorded in 2006. The improved profitability in 2007 is attributable to the favourable business environment, which resulted in increased business volumes being transacted at higher levels of efficiency, as well as significant recoveries made during the year.

### **Human Resources and Administration**

The Bank's activities in Burundi were significantly boosted following the deployment of several senior staff to the Bujumbura Headquarters office in keeping with the decision reached by the COMESA Authority in Djibouti in 2006. To facilitate operations at the Headquarters, the Bank made substantial investments and upgrades in its information technology and communication infrastructure. VSAT connectivity was established ensuring real time communication between the Bujumbura and the Nairobi offices.



The Bank continued to invest heavily in its staff. A review of the compensation levels was undertaken during the year and adjustments made to compensate for the significant decline in value of the US dollar, the Bank's reporting currency, against other major international and local currencies. On staff development, extensive training was carried out at the group and individual levels. The training programmes covered a variety of areas including strategic leadership, risk management, project management, environment risk management and balanced score card. Board members participated in a number of the training courses offered during the year.

#### **Information Services**

In 2007, several areas of ICT infrastructure were either upgraded or entirely re-engineered. This was done as part of a comprehensive exercise to address obsolescence as well as provide for the computing and connectivity requirements arising from the full-fledged revival of the Bujumbura Headquarters office. The new hardware and software systems deployed have gone a long way in ensuring efficient and effective access to end-user applications and communication within, and between, the Bank's two offices.

As in previous years, emphasis continued to be given to improvements in SAP system functionality, with development of enhanced and new reporting capabilities. Further investment in in-house skills in the area of SAP was undertaken resulting in the commencement of key implementations that are due to come on-line in 2008.

#### **Conclusion**

The resurgence of business confidence and improved economic outlook for Africa and, in particular, the Eastern and Southern African region enabled the Bank to, once again, underwrite increased business volumes in 2007. The soundness and effectiveness of the operational strategies which the Bank pursued relentlessly over the period of the 2003-2007 Corporate Plan saw a marked improvement in performance, with net profitability increasing by 45% compared to 42% the previous year.

I thank the Board of Governors for their counsel and guidance in the affairs of the Bank and the Board of Directors for their vision and strategic leadership during the year. I also recognize the untiring efforts and commitment of Staff, the Bank's key resource, towards the achievement of the Bank's set goals. I have all the confidence that with the continued dedication of the Board of Directors and the Staff, the performance of the Bank will continue to improve even further as we embark on the 2008-2012 Corporate Plan.

Finally, my gratitude goes to our valued Clients and Business Partners for their continued loyalty and commitment which contributed to our successes during the year. We will continue to count on all of you as we forge ahead with the pursuit of our strategic priorities.



PRESIDENT





# **Economic Environment**

WORLD

The world economy has been experiencing the strongest sustained growth recently and this momentum was carried into the first half of 2007 where growth remained above 5%. This growth, particularly in recent years, has been driven by emerging and developing countries. China is estimated to have grown by 12% in the first half while India continued to grow at 9%, with Russia closely behind at 8%. These three countries accounted for one-half of the global growth over the past year.

The rapid growth helped counter the slowing growth in the United States which is estimated to have grown by 2.25% in the first half of 2007. Growth in Japan and the euro area grew in the first quarter of 2007 but slowed down in the second quarter. Annual estimates indicate that global growth will be at 4.9% in 2007 compared to 5.0% in 2006. In line with global trends, advanced economies are estimated to have had slow growth of 2.6% in 2007 compared to 3.0% in the previous year. However, in emerging and developing economies, growth was expected to be 7.8% in 2007 compared to 7.7% in 2006.

The inflation rate varied among the different regions of the globe. In the advanced economies, inflation was contained, with United States and the euro zone posting inflation rates of below 2% although some inflationary pressure was present as energy and food prices rose causing inflation to climb in September. In Japan, inflation remained static reflecting fairly constant prices. As a

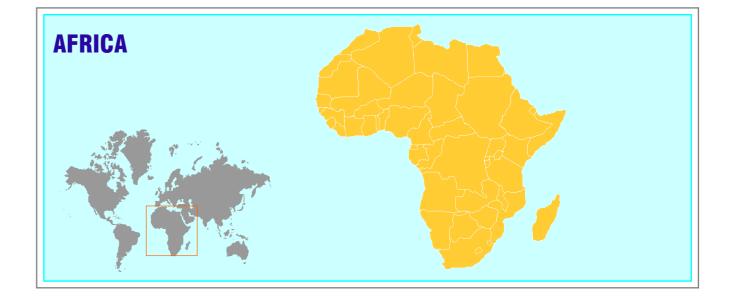
whole, inflation in the advanced economies is estimated to have declined to 2.1% in 2007 from 2.3% in the previous year.

However, in a number of emerging and developing economies inflation rose reflecting the strong domestic demand, increase in food prices and the rising oil prices. The nature of the weights of the consumer price index is greater for food and a change in weather will impact on food supply thereby affecting the price and inflation rate in the emerging markets and particularly in the developing countries. As a whole, inflation in the emerging and developing countries is estimated to have increased to 5.9% in 2007 compared to 5.1% in the previous year.

On global currencies, the US dollar continued on its downward trend in 2007 although it gained marginally in August. The weakening was behind a growing current account deficit, an economic growth slowdown and a cut in the federal rate in the United States. The euro on the other hand strengthened in effective terms and the Sterling pound and the Canadian dollar also strengthened in real effective terms. The yen depreciated despite its rising current account surplus although it gained in the latter part of 2007. The renminbi appreciated with China's current account surplus widening and international reserves rising significantly to US\$ 1.4 trillion at the end of August.

The world trade volume grew but at a lower level compared to 2006. Imports in 2007 grew by 4.3% compared to a growth of 7.4% in 2006, while exports grew by 12.5% from 14.9% The same was the case in

the emerging and developing economies with imports growing at 5.4% in 2007 compared to 8.2% in 2006 while exports grew by 9.2% compared to 11% in the previous year.



Unlike the global trend, the African continent in 2007 grew at a higher rate, from 5.8% in 2006 to 6.0% in 2007. However Sub-Saharan Africa (SSA) showed an even bigger growth with real GDP estimated at 6% in 2007 compared to 5.7% in the previous year. This expansion reflects rising oil production in the oil exporting countries and strong domestic investments in the oil importing countries. SSA is now reaping the benefits of continued progress with macro-economic stability and reforms in most countries.

In the various country groups of SSA, the oil exporters were expected to grow the strongest at an estimated 7.5% in 2007 led by Angola and the Equatorial Guinea where new oil fields came on stream. The middle income countries were expected to grow at an average of 4.75%, with South Africa leading this group. In the low income group, growth will reach about 7% mainly fueled by the agriculture and construction sectors.

Domestic investment has grown to its highest levels to approximately 22% of GDP, particularly in the middle income and low income groups. The rise in investment was from the implementation of macro-economic policies, improvement in financial management, trade policy and improved business environment.

Excluding Zimbabwe, the region's inflation rate is expected to have averaged 7.5% in 2007, with inflation in 32 out of 44 countries at single digit levels. Oil exporting countries average inflation is estimated to have fallen. Inflation in the middle income groups is estimated to have risen to 6.75% in 2007. The reason behind this was higher food and energy prices in South Africa. In the low income groups, inflationary pressures were slightly lower than 2006 from increased food supply and monetary policies targeted at reducing inflation.

The current account deficit in SSA widened in 2007 to about 2.5% of GDP. In the oil exporting countries, the current account surplus narrowed to 3.5% of GDP reflecting smaller surpluses in Angola and Nigeria. In middle income countries, it is estimated to have remained at 5% of GDP, while in low income countries the deficit widened to 7% of GDP reflecting higher imports. In the fragile countries, the deficit was expected to widen to 3.25% of GDP.

Below are brief highlights of economic developments in the Bank's Member Countries.

## BURUNDI





The structure of the Burundian economy is built around the agriculture sector and with the reduced performance of the sector - particularly coffee - in 2007, real GDP grew modestly at 3.6%. This was lower than the earlier forecast growth of 5.5%. Also contributing to the dampening of growth in 2007 were the delays in implementing structural reforms during the year. With Burundi becoming a member of the East African Community (EAC) starting July 1, 2007, it is expected that there will be greater trading opportunities which will help spur growth within the economy from increased regional ties in the years to come.

### **Monetary Policy**

The Banque de la Republique du Burundi (BRB) (central bank) continued its prudent monetary management, with the principal objective being that of containing inflation. The money supply growth is estimated to have risen by 14.9% for both M2 and M3 in 2007, significantly above nominal GDP growth (13.4%), reflecting the continued monetization of the economy. Although the inflation rate had declined significantly to 2.2% by June 2007, it rose again to 11% in September as a result of higher taxes and price adjustments. Also adding to the upward inflation pressure was the soaring international price of fuel. By the second half of the year, prices of beverages and food had surged upwards from a supply shortage due to poor food harvests in both January and May harvests. It is thus estimated that the annual average inflation rate is expected to be significantly higher in 2007 at 7.1% compared to 2.6% in 2006.

### **Fiscal Policy**

In 2007, revenues underperformed on the back of increased expenditure pressures. Fiscal performance was

further affected by a cut in petroleum taxation in July from 20% to 10% as a result of large increases in world market prices.

Available data indicate that government expenditure is estimated to have declined in 2007 largely due to a decrease in donor funds. As a result, total recorded expenditure during the first three quarters of 2007 was Bufr265bn (US\$ 249 million), which represents only 79% of the expected budgeted expenditure for the first three quarters of 2007. The 2008 budget announced in late December 2007 forecasts that there will be a 16.9% increase in nominal expenditure based on the assumption that donors will contribute Bufr248.8bn. The government also forecasts a 16% annual increase in tax receipts in 2008.

### **Real Sector**

The real sector performance was mixed, with the manufacturing sector and construction industry recording higher growth in 2007 compared to 2006. The chemical sector also recorded lower growth while cotton output ceased after the bankruptcy of the cotton manufacturing company. The construction sector is also estimated to have grown compared to 2006. In the agriculture sector, the 2007/2008 coffee season saw a drastic fall in production to only 10,433 tonnes by December 2007 compared to 37,135 tonnes in December 2006. The quantity of coffee exported was however slightly higher at 19,948 tons in 2007 compared to 16,152 tons in 2006.

### **BOP and Foreign Exchange**

BRB figures for the first ten months of 2007 show that total exports rose marginally to US\$ 44.9 million compared to US\$ 41.2 million during the same period in

2006. Of this, coffee constituted the largest portion of exports and during the first ten months of 2007 exports rose by 7% to US\$ 27 million compared to US\$ 24.7 million in the previous year. Tea exports on the other hand declined marginally to US\$ 8.6 million compared to US\$ 9.6 million in the first ten months of 2006. Hides and skins also showed a marginal increase, with exports growing to US\$ 3.1 million from US\$ 1.1 million representing a 220% increase. Imports rose significantly to US\$ 307 million causing the trade deficit to widen to US\$ 195.7 million in the first ten months of 2007 from US\$ 154.7 million.

The current account deficit for the same period of 2007 narrowed to US\$ 71.6 million compared to US\$ 126.9 million behind a significant increase in donor inflow during the year. The overall balance of payment deficit narrowed significantly to US\$ 6.2 million from US\$ 56.3 million. Gross international reserves declined to about 2.8 months of imports by September 2007 owing to delays in external budget support. Although fairly stable, the Burundi franc depreciated against the US dollar in 2007 to exchange at Bufr1,065 compared to Bufr1,028 in 2006.

## **CHINA**





In 2007 China's economy grew steadily and rapidly. Industrial production growth accelerated while consumer demand was strong. Household income, corporate profits, and fiscal revenue all increased substantially. GDP stood at 24.7 trillion yuan, up 11.4 percent, and CPI rose by 4.8 percent.

The value added of the primary industry was 2,891.0 billion yuan, up by 3.7 percent while that of the secondary industry was 12,138.1 billion yuan, up by 13.4 percent. The tertiary industry posted 9,632.8 billion yuan, up 11.4 percent. The value added of the primary industry accounted for 11.7 percent of the GDP, maintaining the same level of the previous year, that of the secondary industry accounted for 49.2 percent, up by 0.3 percent and that of the tertiary industry accounted for 39.1 percent, down by 0.3 percent.

### **Monetary Policy**

In 2007, given the excess liquidity in the banking system, huge pressures on money and credit expansion, and the rise in inflation, the monetary policy stance was gradually

shifted from "a sound policy" to "a tight policy." The People's Bank of China (PBC), according to the State Council's overall arrangement, made efforts to take comprehensive measures to maintain a balance at an aggregate level. The PBC strengthened liquidity management in the banking system, raised the reserve requirement ratios on ten occasions, with a cumulative increase of 5.5 percentage points, and hiked the RMB benchmark deposit and lending rates on six occasions, while maintaining open market operations.

The PBC also endeavored to guide the optimization of the credit structure, steadily promote financial institutional reform, further enhance the flexibility of the RMB exchange rate, and speed up foreign exchange administrative reform so as to promote harmonious economic and financial development. At the end of 2007 outstanding broad money M2 amounted to 40.3 trillion yuan, an increase of 16.7 percent year on year.

### **Fiscal Policy**

In the first eleven months of 2007, total fiscal revenues (excluding debt income) totaled 4817.7 billion yuan, up 33.5 percent year-on-year and representing an acceleration of 8.8 percent compared with the same period of 2006. Leading this growth were domestic VAT revenue which increased by 21.4 percent year-on-year while domestic consumption tax revenue increased by 17.6 percent, enterprise income tax revenue by 39.2 percent, and personal income tax revenue by 30.1 percent. In the context of brisk trading in the capital market and higher stamp duty, revenue from the securities transaction stamp tax surged, as reflected in the 11.5-fold growth in the first eleven months of 2007 over the same period of 2006.

Tax revenue from land and resources increased massively, with the urban land-use tax income, the land value added tax, and the income from the compensated use of state-owned resources up 102.7 percent, 80.3 percent, and 123.5 percent respectively in the first eleven months of 2007 over the same period of 2006.

From January through November, total fiscal expenditures amounted to 3,708.5 billion yuan, up 25.2 percent year-on-year and an acceleration of 8.3 percent. Expenditures for transportation, medical services, science and technology, and industrial, commercial, and financial sectors witnessed large growth.

In the first eleven months, transportation expenditures totaled 150.3 billion yuan, medical service expenditures totaled 141.9 billion yuan, expenditures for industrial, commercial, and financial sectors totaled 312.4 billion yuan, and science and technology expenditures totaled 117.4 billion yuan, up 61.7 percent, 40.6 percent, 36.6 percent, and 33.0 percent year-on-year from the same period of 2006.

## **Real Sector**

Household income grew rapidly, and domestic consumer demand was relatively strong. In 2007 the per capita disposable income of urban residents was 13,786 yuan, up 12.2 percent in real terms, an acceleration of 1.8 percentage points over 2006. The per capita cash earnings

of rural residents was 4,140 yuan, an increase of 9.5 percent in real terms and an acceleration of 2.1 percent.

## **BOP and Exchange Rates**

The total value of imports and exports in 2007 reached US\$ 2,173.8 billion, up 23.5 percent over the previous year. Of this total, the value of exports was US\$ 1,218.0 billion, up 25.7 percent, and the value of imports was US\$ 955.8 billion, up 20.8 percent. China had a trade surplus of US\$ 262.2 billion, an increase of US\$ 84.7 billion over the previous year.

In 2007 the balance of payments account registered large-scale "twin surpluses." The current account surplus expanded rapidly, with the trade in goods remaining the major contributor. In 2007, the number of newly established foreign-invested enterprises (full coverage statistics, including those in the banking and securities sectors) totaled 37,888, a year-on-year decline of 8.7 percent; the actual utilization of foreign capital grew 13.8 percent to US\$ 82.7 billion. At end-2007, official foreign exchange reserves were US\$ 1,528.2 billion, an increase of US\$ 461.9 billion from end-2006.

At end-September 2007, the outstanding external debt totaled US\$ 345.7 billion, up 7 percent from the end of 2007, including US\$ 119.7 billion of trade credits (up 15.1 percent from end-2007). The outstanding short-term debt amounted to US\$ 197.7 billion and accounted for 57.2 percent of the outstanding external debt.

The fundamental role of market supply and demand continued to function well, and in general the RMB appreciated in 2007. At end-2007, the central parity of the RMB against the US dollar was 7.3046 yuan per US dollar, an appreciation of 6.90 percent over the end of 2006; the central parity of the RMB against the euro and the Japanese yen was 10.6669 yuan per euro, and 6.4064 yuan per 100 Japanese yen, a depreciation of 3.75 percent and an appreciation of 2.44 percent over end-2006 respectively. Beginning with the exchange rate regime reform up until end-2007, the RMB cumulatively appreciated by 13.31 percent and 14.04 percent against the US dollar and the Japanese yen respectively, but it cumulatively depreciated by 6.12 percent against the euro.

## **COMOROS**





The Union of Comoros' economy is mainly driven by the agricultural sector, and produces the main export commodity vanilla. Real GDP growth is estimated to have declined in 2007 to an estimated 1% from 1.3% in 2006. The cause of the contraction which has been the case for the past few years is due to the low international prices of vanilla. The decline in growth can also be attributed to a fall in tourism receipts and a decline in foreign investment caused by the political uncertainty following elections.

## **Monetary Policy**

Monetary policy in the Union is managed within the regulations and framework of the Franc Zone. The membership limits the ability of the government to finance its budget deficits through the printing of more money and ensures a more efficient and effective management and operations of the central bank. Narrow money supply grew at 7.1% in the first quarter before contracting sharply in the second quarter to grow at negative 1.4%. M2, broad money also followed the same pattern during the first half of 2007. The annual average inflation is expected to be higher in 2007 and is estimated to have reached 3.7% compared to 3.4% in 2006. Forecasts show that, inflation will remain within the 3 - 4% region for 2008.

## **Fiscal Policy**

Fiscal policy continues to be challenging given the problematic revenue sharing arrangement that is in place between the union and island governments. In an effort to enhance the revenue sharing mechanism, the government took steps in 2006 to open a single account at the central bank to channel all revenues from the three islands. A rise in expenditure in 2006 was seen following

the run up to the presidential elections in May 2006 – expenditure is estimated to have gone up by 22.1% of GDP during the year – while 2007 expenditure is expected to have declined.

## **Real Sector**

Prices of the island's main export commodity have continued to remain depressed due to over supply in the market from other world producers. Other cash crops include cloves - of which Comoros is the largest world producer - and ylang ylang. Both crops, like vanilla, are susceptible to usual market dynamics. However in 2007 the political situation further adversely impacted the agricultural sector, dampening growth.

Production of vanilla has been hit by the continued weakness of international prices and is set to drop to 50 tonnes in 2007 from 75 tonnes in 2006. Vanilla has also been affected by the availability of cheaper synthetic alternatives while the strength of the Comoran franc has diminished its competitiveness.

The production and exports of ylang-ylang remained steady and production is expected to remain at 50 tonnes for 2007, reflecting no change from 2006 and 2005. Clove on the other hand is expected to do better in 2007, with estimated production at 3,500 tonnes compared to 2,500 tonnes in 2006. The reason behind the increase is the decline in the global supply due to unfavorable weather in the main producing countries which has led to an increase in the global price of cloves. These higher prices have acted as an incentive to the local producers in Comoros, hence the increase in production. However the heavy rains might hamper the crop and the political situation on the Island of Anjouan, the main grower of cloves, might also see production declining.

According to a report issued in 2007 by UNCTAD, Comoros recorded low investment flows at only US\$ 1 million which is significantly below the regional average. The reason for the low levels of investments has been the impact of political instability which has made investors shy away from investing in the islands. The tourism industry has also been adversely affected by the political situation in the country.

### **BOP and Foreign Exchange**

The structure of exports is very narrow and mainly limited to the agriculture sector, with vanilla as the main export commodity. Vanilla is highly susceptible to weather variations and the prevailing international prices. The low prices of vanilla continued into 2007 as a result of increased supply on the global market and export revenues will continue to decline. For the first six months of 2007, exports declined significantly to US\$ 12.36

million from US\$ 32.85 million in the first half of 2006. Imports however increased to US\$ 78.72 million in the first half of 2007 compared to US\$ 66.51 million in the first half of 2006. The increase in imports was associated with the increase in the importation of processed goods as the manufacturing sector is not very well developed. Also adding to the import bill was an increase in the international oil prices and the pegging of the Comoran franc to the euro. The trade deficit therefore rose to US\$ 66.36 million from US\$ 43.66 million in the previous year.

The overall current account balance is estimated to have widened to US\$ 18.4 million in 2007 from US\$ 17.6 million in the previous year. Remittances from the diaspora continued to be high accounting for about 50% of current account receipts. The Comorian franc strengthened to exchange at an average of Cfr370.2 against the dollar in 2007 compared to Cfr393.2 against the dollar in 2006.

## **DJIBOUTI**





GDP growth registered an improvement in 2007 to expand at 5.1% compared to 4.8% in 2006. Growth mainly emanated from the significant investments in the port infrastructure at Doraleh from both the public and the private sectors. Although growth in 2007 was strong, it was much less than the 7.1 percent earlier predicted for the year. In May 2007 the IMF refused Djibouti's request for a new Poverty Reduction and Growth Facility (PRGF). The reason behind the refusal was due to the slow progress made by the government in implementing economic and structural reforms and tightening of the country's fiscal policy under previous Staff-Monitored Programmes (SMP).

### **Monetary Policy**

In 2007, inflation rate was considerably stable despite the poor rains which caused food shortages and subsequently

pushed up food prices. This did not impact on inflation due to the fact that a lot of Djibouti's food is imported and thus unaffected by the local weather conditions. Inflation is estimated to have declined marginally to 3.5% in 2007 compared to 3.6% in 2006.

### Fiscal Policy

The government embarked on an expansionary policy in 2007 similar to the stance in 2006 despite IMF's calls to tighten fiscal policy. Expenditure is expected to grow significantly by 80% despite the government's pledge to reduce spending. The fiscal deficit is thus expected to have grown by approximately 54% to reach Dfr5.01billion, equivalent to an expansion from 2.4% of GDP to 3.4% in 2007. The government has continued to pledge that it will tighten controls particularly on expenditure and increase revenue collection. However,



Cement production is a key driver of most Member States economies. The Bank has supported various projects in these sectors such as the one above.

budgeted total expenditure was expected to increase by 11.5% while capital expenditure was targeted to increase by almost 80%. Domestic financing of capital investment was budgeted to fall by 19.5%, while foreign financing was to go up by 156%. Tax revenue was to increase by 8.6%.

#### **Real Sector**

The investments at the port are expected to alleviate a lot of the handling problems at the port. The new complex at Doraleh is estimated to cost US\$ 400 million and is to be built over a five to seven year period. It will comprise a commercial and industrial tax-free zone, a container terminal and an oil terminal. The oil terminal is due to be completed by 2008 and thus the forecast for real GDP growth will accelerate over the forecast period to 5.7% and 6% in 2008.

Foreign Direct Investment (FDI) continued on its rising trend to reach an estimated US\$ 135 million in 2007 compared to US\$ 108 million in 2006. The investments were mainly in the development of the new port and airport facilities at Doraleh mainly financed by the United Arab Emirates. The government is keen to make Djibouti an attractive destination for FDI and has recently joined the World Bank's Multilateral Investment Guarantee Agency (MIGA) to provide guarantees to international investors.

The agriculture sector continued to suffer as a result of poor rains in the first half of 2007. Both crop production and livestock were adversely affected and according to the Famine Early Warning Systems Network (Fewsnet) most pastoralist households faced food insecurity. This followed the severe drought and famine experienced in 2006.

## **External Sector and Exchange Rates**

The trade deficit continued to widen in 2007 mainly as a result of a significant increase in imports of capital goods needed for the developments at the Port Doraleh Complex. Estimates indicate that imports stood at US\$ 514 million in 2007 compared to US\$ 346 million in 2006. Exports on the other hand rose in 2007 to stand at US\$ 146 million compared to US\$ 50 million in 2006. The trade deficit therefore is expected to widen to US\$ 368 million compared to US\$ 296 million in 2006. Despite the growing surplus in the services account from an increase in the volume of goods passing through the port, the current account deficit is estimated to have widened significantly to US\$ 116 million representing 13.9% of GDP in 2007 compared to US\$ 68 million representing 8.9% of GDP in 2006.

No movement occurred on the exchange rates and the Djibouti franc continued to exchange at Dfr 177.72 to the US dollar.

## **EGYPT**





Egypt registered an annual real growth rate of 7.1% in fiscal year 2006/07, an increase from the growth registered in 2005/06 of 6.9%. The robust performance in 2007 emanated from the non oil sector with double digit growth registered in the tourism, construction and building sectors and the Suez Canal. Economic reforms by

the government are also paying dividends and strong domestic demand also contributed to the growth impetus. In the first quarter, of 2007/08 real GDP growth slowed down slightly to 6.9% driven by decline in the agriculture and mining sectors. The non oil sectors however continued with their strong performance in this quarter.

### **Monetary Policy**

Within the framework of diversifying the monetary policy instruments, the CBE started holding auctions for accepting deposits from banks, along with certificates of deposits (CDs) and notes. Inflationary pressures eased somewhat during 2007, declining from double digits particularly in the first half of 2007, with inflation hitting 12.9% in March, then on to single digits during the second half and thereafter falling to 6.9% in November 2007. The decline in inflationary pressures was as a result of a decline in food inflation.

During the first half of 2007 money supply as measured by M1 (narrow money) declined only marginally by 20.1% at the end of June 2007 compared to 21.8% in June 2006. Domestic liquidity rose by 18.3% in June 2007 compared to 13.5% in June 2006 and grew even further by 20.1% in November 2007. Reserve money grew by 15.6% in June 2007 compared to 14.8% from an increase in currency circulation and an increase in local currency bank deposits.

## **Fiscal Policy**

Government expenditure was up 33.4% of GDP or LE244 billion in fiscal year 2006/07 compared to 33.6% of GDP or LE224 billion in fiscal year 2005/06. Government revenues and grants also rose marginally to stand at 24.6 % of GDP or LE206 billion from the previous fiscal year. Of the total revenue, tax revenues rose to LE 114 billion from LE97 billion while non-tax revenues rose to LE87 billion from LE76 billion. The increase in revenue reflects both stronger growth in the Egyptian economy and the implementation of tax reforms which broadened the tax base and increased compliance despite the reduction in the income tax. There was a general improvement in government operations as both the overall fiscal balance as a percentage of GDP declined to 7.5% of GDP in fiscal year 2006/07 compared to 8.2% of GDP in fiscal year 2005/06.

#### Real Sector

According to the CBE, growth in the Egyptian economy continued in its strong performance during fiscal year 2006/07 despite a significant decline in the growth of the mining sector which includes oil, natural gas and other mining growing by 3.9% compared to 20.8% in the previous fiscal year. The decline in the sector was due to a

reduction in natural gas extraction from 50.2% in fiscal year 2005/06 to only 7.5% in fiscal year 2006/07, while the oil industry continued to contract albeit at a lower rate of negative 0.7% in 2006/07 compared to a negative growth of 2.1% in 2005/06.

Therefore, growth in fiscal year 2006/07 was spurred by the non oil sector, with significant increase noted in the tourism sector which is estimated to have grown by 13.2% in 2006/07 compared to only 4.3% in the previous fiscal year. This momentum continued into the first quarter of 2007/08, with growth expanding by 16.1%. In line with this expansion, tourist revenue rose to US\$ 6.5 billion in the first nine months of 2007 compared to US\$ 5.6 billion in the same period of the previous year. Other sectors that spurred growth were the construction and building industries which grew by 15.8% in fiscal year 2006/07 from 14% in the previous year with momentum continuing into fiscal year 2007/08, and growth expanding to 16.2%. The Suez Canal also registered strong growth, rising by 14.9% in 2006/07 compared to the previous year and grew even further by 17.5% in fiscal year 2007/08.

## **BOP** and Foreign Exchange

Total exports for the first nine months of 2007 rose significantly to US\$ 17.3 billion from US\$ 15.2 billion in the first nine months of 2006. Although exports of crude and petroleum products constitute the bulk of total exports, they declined marginally to US\$ 2.3 billion and US\$ 5.1 billion in the first nine months of 2007 from US\$ 2.5 billion and US\$ 5.5 billion respectively in the same period of 2006. Exports of finished goods rose to US\$ 6.6 billion from US\$ 4.6 billion while exports of semi finished goods rose to US\$ 1.5 billion from US\$ 1.1 billion.

Exports of raw materials which comprise mainly agricultural products rose in the first nine months to US\$ 0.6 billion from US\$ 0.4 billion in the first nine months of the previous year, while cotton exports also rose to US\$161.7 million from US\$ 116.2 million in the previous year. Imports rose to US\$ 31.8 billion compared to US\$ 24.3 billion in the first nine months of 2006. This led to the widening of the trade deficit to US\$ 14.4 billion from US\$ 9.0 billion. The current account surplus narrowed from US\$ 2.2 billion to US\$ 654.2 million while the overall balance of payment surplus increased to 5.4% of GDP compared to 4% of GDP.

Robust performance was noted throughout fiscal year 2006/07, with the overall surplus growing from US\$ 3.3 billion in 2005/06 to US\$ 5.3 billion in 2006/07, due to a record rise in the current account surplus and net inflows in the capital and financial account. The current account surplus improved significantly from US\$ 1.8 billion in 2005/06 to US\$ 2.7 billion in 2006/07 from a surplus of US\$ 11.5 billion on services, and an attainment of net unrequited transfers amounting to US\$ 7.1 billion despite a trade deficit of US\$ 15.8 million. The services surplus was largely attributed to a rise in travel revenues and Suez Canal proceeds by 10.7% and 17.2% respectively.

In fiscal year 2006/07, Net International Reserves increased by US\$ 5.6 billion, against US\$ 3.6 billion previously, to reach US\$ 28.6 billion at end of June 2007. In terms of months, this represents 9.1 import months at the end of June 2007. Reserves declined marginally in the second half of 2007 to stand at 8.5 months in December 2007. The Egyptian pound appreciated slightly against the US dollar with the weighted average U.S. dollar exchange rate in the interbank foreign exchange market reaching EGP 5.6967 at the end of June 2007, against EGP 5.7579 at the end of June 2006.

## **ERITREA**





Real GDP growth in Eritrea remained at 2% in 2007, the same level as in 2006. The sluggish growth rate was attributed to the continued divided attention of the government between the border dispute with its neighbour Ethiopia and concentrating on returning the economy to normalcy to stimulate growth. Eritrea's largest source of foreign exchange is the remittances from Eritreans in the diaspora. Inflation in 2007 is estimated to have risen marginally to 15.5% compared to 15% in the previous year.

### **Real Sector**

The real sector showed some significant progress in 2007 particularly in the mining sector. The government is keen to develop the sector as part of its efforts to stimulate and diversify the economy in order to alleviate the foreign currency shortage. In late 2007, the Eritrean government awarded two exploration licences to Chinese firms. The prospects of mineral deposits in various parts of Eritrea include iron and base metals in the central and southern regions and gold and base metals in the Gash-Barka region.

However the agriculture sector, mainly pastoralism and fishing continues to remain the sole source of livelihood for approximately 70% of the population. The improvement and development of the country's infrastructure has also played a big role in the government's development efforts. In 2007, upgrading of the two major ports - Massawa and Assab on the Red Sea - commenced and boosted growth in the construction industry.

### **External Sector and Exchange Rates**

The current account deficit continued to widen in 2007 to US\$ 347 million from US\$ 325 million in 2006. The widening was from a significant increase in imports which are estimated to have risen to US\$ 647.2 million from US\$ 622.5 million.

Exports are also estimated to have risen marginally to US\$ 16.8 million from US\$ 14.4 million. Prospects for increased exports in 2008 are expected to come from the mining sector and will result in the trade deficit declining subsequently. Foreign reserves declined to US\$ 22.2 million in 2007 from US\$ 25.4 million in 2006. The Nafka declined marginally against the US dollar and exchanged at Nfa15.5 in 2007 compared to Nfa15.4 in 2006.



## **ETHIOPIA**





The Ethiopian economy has continued to register robust growth with estimates indicating that real GDP growth for 2006/07 grew by 11.1%, double digits for the fourth year in a row. Behind this growth was the good performance of the agricultural sector which is Ethiopia's economic mainstay. Good weather since 2002/03 has greatly added to the good performance of the sector. Other factors that have supported the sector's growth include the availability of steady institutional support for farming, the gradual expansion of roads and markets, and consistently strong producer prices. Spill over effects from good agricultural production also helped provide inputs which assisted the expansion of both the industry and services sector.

### **Monetary Policy**

Broad money supply (M2) rose by 22.2% on annual basis respectively in June 2007 as a result of both the expansion of domestic credit and the build up of net foreign assets. Similarly, reserve money, which is composed of currency in circulation and deposits of commercial banks expanded by 29.4% on an annual basis, mainly due to increases in commercial banks' deposit at the National Bank of Ethiopia, the central bank.

The second quarter of 2007 saw the general level of inflation rising to 5.3% from 3.6% registered in the first quarter of 2007. For the remainder of the year, inflation remained very high, rising to 18.1% year-on-year in November 2007, mainly because of rising food prices, which jumped by 24.8% year-on-year in November 2007. Real interest rate continued to remain negative due to higher inflation while the average commercial banks lending rate remained the same as the previous year at 10.5%.

## **Fiscal Policy**

During the second quarter of 2007, total government revenue and grants surged by 28.7% year-on-year while total expenditure rose by 27.7%. Total expenditure, mainly on recurrent and capital expenditure, exceeded total revenue and grants and resulted in a wider overall deficit which was largely financed by net domestic borrowing. The overall fiscal balance (including grants) recorded a total deficit of Birr 1848.6 million.

#### **Real Sector**

The agriculture sector accounted for an estimated 47% of GDP in 2005/06 with crop production growing the fastest and contributing the largest share to GDP at approximately 30% followed by livestock at 9% and then forestry at 4%. In 2006/07, the agricultural sector grew by 9.5%, lower than the 10.9% growth posted in 2005/06. Behind this sustained growth has been the ongoing movement of subsistence farmers into the commercial economy which will augur well for the economy in the coming years.

In the 2006/2007 year, the industry and services sector grew by 11.1% and 13.5% from 10.2% and 13.4% respectively in the previous fiscal year. Behind the growth was rapid expansion in construction (mainly public-sector infrastructure projects) and manufacturing (especially agro-processing), although utilities (electricity and water) grew particularly rapidly in 2006/07, reflecting the spread of the national power grid. In the services industry, the growth was from rapid expansion in hotels and restaurants which was up by 25%, wholesale and retail trade by 17.7%, and real estate and business services by 15% reflecting the solid rise in household and private-sector demand.

### **BOP** and Foreign Exchange

The overall balance of payments improved significantly, to a surplus of US\$ 35 million in 2006/07, compared with a deficit of US\$ 208 million in 2005/06, while Ethiopia's current-account deficit narrowed in 2006/07 to US\$ 1billion or 6.1 % of GDP.

The trade deficit in 2006/07 is estimated to have widened to US\$ 4 billion from a substantial increase in imports to US\$ 5.1 billion due to increased economic activity and the high price of oil. Exports also rose by 17% to US\$ 1.2 billion supported by increases in coffee, which rose to US\$ 426 million and gold exports, which rose to US\$ 97 million.

The surplus on the services and income account declined to US\$124 million in 2006/07. In the capital and financial account however the surplus rose in 2006/07 by 37%, to US\$ 721 million. This was largely attributed to a 30% rise in foreign direct investment, to US\$ 475 million, from US\$ 365 million in 2005/06.

The birr weakened during the first half of 2007 to stand at Birr9.01 in June 2007 *vis a vis* the US dollar but stabilized in the second half reflecting the improvement in the balance of payments, due to the rise in private and public transfers, as well as US-dollar weakness. On an annual basis the birr is expected to depreciate to Birr8.96 against the US dollar in 2007 compared to Birr8.7 in 2006.

## **KENYA**





Growth in the Kenyan economy is projected to have been strong in 2007 spurred on by the momentum of the past two years. Statistics indicate that real GDP growth for the first nine months of 2007 grew by 6.9%. Growth mainly emanated from the tourism, agriculture, forestry and fishing, agriculture, building and construction and manufacturing sectors.

### **Monetary Policy**

The average overall annual inflation started at 13.94% in the year to January 2007 and declined to 9.8% by December 2007. Inflationary pressures eased, particularly food inflation which contributes considerably to overall inflation. Money supply growth in the first half of 2007 rose by more than 18 percent in June 2007 compared to 16% in June 2006. In response to this, the central bank gradually tightened the monetary stance. Money supply (M3) continued to expand in the second half of 2007 with growth above the projected 14% in the fourth

quarter of 2007. M3 grew by 20.9% for the 12 months to December 2007 compared to 17.8% for the 12-months to December 2006. Overall liquidity rose marginally to 19.7% for the 12 months to December 2007 compared to 17% in the same period in 2006.

Interest rates were fairly stable during 2007 and the average commercial bank lending rate started in January 2007 at 13.78% and ended the year at 13.32% in December. The 91-day T-Bill rate was stable throughout 2007 and rose to reach 6.87% compared to 5.71% in December 2006.

### Fiscal Policy

The budget performance in fiscal year 2006/07 resulted in a narrowing of the deficit to 1.2% of GDP on commitment basis compared to 3.3% in 2005/06. The narrowing deficit was as a result of

an increase in government revenue including grants which rose by 15.8%. Government revenue rose from a significant increase in tax revenues to 21.7% in fiscal year 2006/07. Government expenditure and net lending to public institutions increased by 5.8% with both recurrent and development expenditures increasing.

During the first five months of the 2007/08 financial year, expenditure and net lending to public entities totaled Ksh 161.4 billion representing a 16.9% increase of the same period of 2006/07, reflecting a large increase in development expenditure. Revenues plus grants stood at Ksh 137.3 billion, which was higher by 23% compared to the same period of 2006/07. This increase was explained by the 29.4% increase in tax revenues during the period under review. Tax revenue expressed as a percentage of government receipts increased from 83.9% to 88.3% during the period.

The rise in tax revenues rose reflecting improved economic performance and revenue collection efficiency from the successful implementation of tax management reforms. The deficit narrowed and stood at Ksh19.7 billion which is equivalent to 1.0% of GDP on a commitment basis compared to a deficit of Ksh24.1billion or 1.4% of GDP in a similar period of the previous fiscal year.

### **Real Sector**

The real sector continued to perform well in 2007 with good growth registered in the main sectors of the economy. The favourable weather conditions and improved infrastructure saw the agriculture sector growing by 7.6% in the first eleven months of 2007 compared to 5.5% in the same period of 2006. This growth was supported by good performance in the tea and horticulture sectors which grew by 23.4% and 16.8% in the first eleven months of 2007 compared to 7.5% and negative 0.1% during the same period of 2006 respectively.

Tea growing areas saw an increase in output and tea exports rose by 23.4% to 340,774.5 metric tonnes in the first eleven months of 2007, from 276,178.3 metric tonnes in a similar period in 2006. However the lower prices fetched for world tea prices in 2007 in relation to 2006 led to the value of exports declining despite the increase in quantity, with export earnings declining by 17.1% from Ksh 43.9 billion in the first eleven months of

2007 to Ksh 36.4 billion in the first eleven months of 2006

The horticulture sector performed well in 2007 buoyed by good export prices fetched for horticulture commodities compared to 2006. Horticulture exports rose by 16.8% from 150,065.9 metric tones in the first eleven months of 2006 to 175,306.3 metric tonnes in the first eleven months of 2007.

Flower exports, which constitute 47% of total exports, rose by 4.7% to 82,677.4 metric tonnes in the first eleven months of 2007. Vegetables which constituted 43% of exports are estimated to have increased by 37.8% to 77,482.2 metric tonnes, while exports of fruits rose by 2.1% to 15,146.7 metric tonnes in the first eleven months of 2007.

In terms of export earnings, flowers rose by a significant 83.63%, while vegetable earnings rose by 31.1%. Fruits export earnings rose by 19.1% in the first ten months of 2007 compared to the same period of the previous year. Despite this growth, the sector continues to face many challenges, in particular the stringent standards imposed in Europe, the main destination of horticulture products.

The manufacturing sector also performed well in 2007 with good demand from both within and outside Kenya, particularly the COMESA countries. Production of cement, milk, soda ash and galvanized sheets all registered positive growth in the first eleven months of 2007.

The good performance in tourism continues to reflect the success of the vigorous marketing around the globe, with a focus on diversifying into new markets like Asia. Tourist arrivals rose in the first eleven months of 2007 by 11.3% to 952,396 people compared to 855,333 people in the same period of 2006.

### **BOP** and Foreign Exchange

The overall balance of payments surplus for the year to November 2007 narrowed to US\$ 473 million compared to US\$ 722 million in the same period of 2006. The narrowing deficit was due to the significant widening of the current account deficit which more than offset the gains in the capital and financial accounts. The current account deficit which widened to US\$ 1,190 million in the year to November 2007 from US\$ 532 million was as a

result of a significant increase in imports which rose to US\$ 9,041 million from US\$ 7,213 million.

The upsurge in imports was mainly due to a rise in imports of machinery and transport equipment, manufactured goods, chemicals, oil and other miscellaneous goods including wheat, sugar, palm oil, crude materials, and miscellaneous manufactured articles.

Of total imports, machinery and transport equipment and petroleum products made up 31.8% and 21.7% of the total value of merchandise imports, respectively, in the year to November 2007 compared with 29.2% and 24.6% in the previous year. The share of manufactured goods and chemicals in the import bill in the year to November 2007 was 15.5% and 12.6% respectively.

Exports, in line with the expanding economy also rose significantly for the year to November 2007, rising to US\$

4,082 million from US\$ 3,483 million in the same period of 2006.

The increase in exports emanated from increases in exports of coffee, tea, horticulture, oil, manufactured goods and raw materials. Increase in the price of coffee and horticulture products saw exports of these commodities rising by US\$ 22 million and US\$ 126 million respectively, in the year to November 2007. Tea exports on the other hand rose by US\$ 46 million although export prices declined. Manufacturing sector exports rose by US\$ 104 million due to increase in cement, processed leather and steel products.

During 2007, the shilling appreciated against the US dollar to end the year at Ksh63.3 against an exchange rate of Ksh69.3 in December 2006.

## **MALAWI**





The Malawian economy was buoyant in 2007, building on the impressive growth in 2006 on the back of good production in the agricultural sector which made a remarkable rebound from improved harvests due to conducive weather conditions. Malawi is a predominantly agricultural economy and growth in this sector impacts significantly on the Gross Domestic Product.

The continued growth impetus from this sector is expected to see real GDP growing by an estimated 5.7% in 2007, lower than the 7.9% registered in 2006. Other driving sectors in the economy in 2007 were the mining, manufacturing, construction, transport and communication, private and government sectors.

### **Monetary Policy**

The seasonal upswing in economic activity saw the money supply growth rate accelerate by 18.9% to K72.9 billion in the first half of 2007 compared to 11.7% during the first six months of 2006. Net Foreign Assets (NFA) largely contributed to the growth of money supply as they rose by 46.8% to K31.0 billion compared to an upturn of 38.1% registered in 2006. The increase in NFA emanated from both monetary authorities and commercial banks.

Expansion in the money supply also emanated from both the narrow money and quasi money. Narrow money recorded an increase of 22.3% to K42.8 billion against an increase of 10.1% recorded in a

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similar period of 2006. Quasi money rose by 14.4% to K30.1 billion compared to 14.0% in a similar period of 2006 largely from time and savings deposits due to agricultural incomes accruing to farmers. During the first half of 2007, there was excess liquidity in the money market as reflected by a drop in the T-Bill yield to 16.59%, compared to 21.14% registered in the same period in 2006.

Lower prices of both food and non-food items resulted in a decline in inflation during the first half of 2007 to average 8.2% compared to 16.3% in the first half of 2006. Inflationary pressures eased during the second half with year-on-year inflation declining to 7.2% in October. However by December 2007 year-on-year inflation rose marginally to 7.5%. The increased availability of cereals following better yields reduced food inflation while the relatively stable oil prices, stable exchange rate and improved fiscal discipline lowered non food inflation.

## **Fiscal Policy**

A significant increase in government revenues during the first half of 2007 resulted in the narrowing of the budget deficit to K1.7 billion from K3.1 billion in the first half of 2006. Total revenues rose to K68.1 billion representing an increase of K16.0 billion from K52.1 billion collected in the first half of 2006. Of these revenues, K44.9 billion was domestically generated while the balance was in form of grants.

Efforts made to improve tax collections paid off as significant improvements were made in the collection of withholding tax, import duties and value added tax which resulted in the tax revenue increasing by K9.1 billion to K41.4 billion. Non-tax revenue however remained relatively stable at K3.4 billion. Foreign grants increased by K6.8 billion to K23.2 billion of which K10.0 billion was earmarked for various projects while K2.2 billion, K2.6 billion and K7.0 billion were for balance of payments support, National Aids Commission and Health Sector Wide Approach, respectively.

Government expenditures rose by 26.5% and amounted to K69.8 billion compared to the first half of 2006. The increase was mainly due to higher development expenditure which amounted to K21.1 billion. This was in line with the government's commitment in implementing poverty reduction programs through expenditures on

long-term projects like development of road infrastructure. Of the total development expenditure, K5.0 billion was domestically financed while the rest was financed through foreign resources.

#### **Real Sector**

The agriculture sector continues to remain the dominant sector in the Malawian economy contributing about 35.5% to GDP. Production for all crops in the sector amounted to10.7 million metric tonnes. Of these, minor crops were estimated at 3.0 million metric tonnes while major crops accounted for 6.7 million metric tonnes. All the major crops except tobacco recorded annual production increases while minor crops such as wheat, millet, cashew nuts, sorghum and sunflower also registered annual production increases.

The sector is estimated to have grown by 7.3% during 2007 compared to a growth of 12.3% registered in 2006. The decline in the growth rate was due to a significant contraction in large-scale agriculture by about 15.4% owing to the contraction in tobacco production as a reaction to low auction prices fetched during the previous tobacco season. However, small scale agriculture grew by 14%, slightly lower than the 14.4% registered in 2006.

Tobacco is the main cash crop and the auction floors officially opened on 4th April 2007. During the first half of 2007 a total of 80 million kilograms were sold compared to 61 million kilograms sold in a similar period of 2006. Better prices averaging US\$1.67/kg as at end-June 2007 compared to US\$ 0.96/kg fetched in a corresponding period of 2006 ensured a more steady supply. Statistics from the Tobacco Control Commission (TCC) indicate that 107.7 million kilograms of tobacco are expected to be produced in 2007 compared to the actual production of K153.5 million kilograms.

During the first six months of 2007, tea production, the second major cash crop amounted to 32.7 million kilograms compared to 31.1 million kilograms produced in a comparable period of 2006. Of the total, 13.1 million kilograms were auctioned at Limbe Market compared to 12.6 million sold in a similar period of 2006. Prices were slightly lower averaging US\$1.02/kg in the first half of 2007 compared to US\$ 1.18/kg fetched in the same period of 2006. Earnings amounted to US\$ 13.5 million and US\$ 14.9 million during the first half of 2007 and

2006, respectively. Yearly estimates show that from the beginning of the year to December 2007, 17.6 million kilograms of tea had been sold at an average price of US\$1.05/kg, realizing US\$18.5 million compared to 17.4 million kilograms that fetched an average price of US\$1.23/kg and total earnings of US\$21.4 million in the same period of 2006.

The mining sector is expected to rebound modestly in 2007 growing at an estimated 2.7%. The construction industry is forecast to continue on its growth path at an estimated 14.9% in 2007 compared to 12.7% in 2006 due to the on-going road construction works and recovery of the mining sector, which provides intermediary inputs into construction while the manufacturing sector is expected to grow by 9.1% in 2007 compared to 5.8% in 2006. However, the distribution sector is forecast to slow down to 2.3% in 2007 from 7.6% in 2006. Activity in the transport sector is expected to grow by 11.9% in 2007 from 6.4% in 2006. The increase will be premised on improved telecommunication and road networks.

## **BOP and Foreign Exchange**

Performance of Malawi's merchandise trade during the first half of 2007 saw a rise in exports stemming from an increase in the value of export commodities particularly maize while imports also rose reflecting the depreciation of the Malawi Kwacha. During the first half of 2007 the

high prices fetched for tobacco resulted in a substantial increase in proceeds to US\$ 134 million compared to US\$ 58.2 million realised in a comparable period of 2006. The 2007 tobacco earnings estimate was revised to US\$ 173.4 million, according to TCC's market report, compared to US\$ 168.9 million earned in 2006.

On an annual basis, estimates indicate that exports for 2007 rose to US\$ 604 million compared to US\$ 539 million in 2006. Imports also rose to US\$ 863 million in 2007 compared to US\$ 805 million resulting in the trade balance deficit narrowing slightly to US\$ 259 million. The current account deficit is also estimated to have narrowed partly due to an increase in current transfers to US\$ 314 million or 13.3% of GDP.

The kwacha was stable during the first half of 2007 and exchanged at K140.6576 to the dollar as at end June 2007 from K139.4660 as at end-January, 2007. This was mainly as a result of foreign exchange availability on the market from tobacco and maize export proceeds. The inflow of donor capital also helped stabilise the kwacha. For the remainder of 2007 the kwacha continued to be stable and is expected to exchange at around Mk140 to the dollar, reflecting an extended period of tobacco exports. By end December 2007 gross foreign reserves stood at US\$ 252.9 million representing 2.9 import months compared to 2.1 months at end December 2006.

## **MAURITIUS**





The GDP growth rate for COMESA's most diversified economy is expected at 5.6% for 2007, marginally higher than the 5% growth recorded in 2006. Initial forecasts had indicated a higher growth for Mauritius at 5.8% but this has since been revised downwards due to slower than anticipated growth in the manufacturing sector and

a more pronounced decline in the agricultural sector. Growth in 2007 was mainly driven by service industries, particularly tourism and financial intermediation. Good performance was also noted in the construction and manufacturing sectors.

Excluding the sugar industry, GDP growth in 2007 is estimated at 6.3%. Of the total GDP in 2007, 68.9% was generated by the tertiary sector, while the secondary sector generated 26.6% of GDP. The primary sector contributed the remainder at 4.5% mainly from agricultural activities. Forecasts by the National Statistics Office indicate that in 2008, the GDP will grow by around 6% and, exclusive of sugar, the growth rate will be around 5.6%.

## **Monetary Policy**

Money and credit growth, in comparison to nominal GDP growth, were subdued in efforts to contain inflation. In a bid to increase the effectiveness of monetary policy, the Bank of Mauritius established a Monetary Policy Committee to set the Repo rate in response to emerging economic conditions. Expectations of rising interest rates among Mauritius' trading partners saw the Bank of Mauritius (Central Bank) raise the repurchase rate by 75 basis points to 9.25% in July 2007. Inflationary pressures increased in the early part of 2007 with annual inflation reaching 11.1% in May due to an increase in the price of basic foodstuff. However inflation started to decline in the beginning of the second quarter of 2007, and the annual 2007 average is expected to be at 9.1% compared to 8.9% in 2006. Inflation is expected to double in fiscal year 2006/07 to stand at 10.5%, the highest rate in 16 years compared to 5.1% in the previous fiscal year.

### **Fiscal Policy**

In year 2006/07, the fiscal deficit narrowed to 4.3% of GDP at Rs 1.1 billion compared to 5.3% in 2005/06. In comparison to the budget, revenues were not far off target and declined by 1.1% to stand at Rs 42,187 million in 2006/07 due to delays in disbursements of foreign grants. Current expenditure was slightly above budget by 1.1% and stood at Rs52,218 million reflecting an increase in spending in the health and education sectors.

### **Real Sector**

The tertiary sector which is the largest in the Mauritian economy grew by 6.6% in 2007, compared to 5.8% in 2006. Growth was noted in all the service industries during the year. The biggest growth was in the hotel and restaurants industry which rebounded by 13.1% after a low growth of 3.5% in 2006. Tourist numbers rose significantly to an estimated 900,000 compared to

788,276 in 2006 and is estimated to have generated earnings of R38,840 million compared to R31,942 million in 2006. The financial intermediation sector also grew significantly at 7.3% in 2007 compared to 7% in 2006. The growth was from a 5.1%, 7.6% and 11.1% in insurance, banks and other financial intermediation activities respectively. Other segments of the tertiary sector which recorded high growth rates in 2007 were the transport, storage and communications industry which grew by 7.7% and the real estate industry which grew by 7.5%

The secondary sector which constitutes manufacturing, electricity, gas and water supply and construction industries grew by 5.8% in 2007 compared to 4.2% in 2006. Leading growth was the construction industry which is estimated to have grown impressively by 15% in 2007. Growth mainly emanated from the construction and renovation of hotels, projects under the Integrated Resort Scheme and expansion of textile and wearing apparel industries.

The manufacturing sector grew at a slower pace of 3.5% in 2007 compared to 4% in 2006. The slow down in growth was attributed to a decline of 12.8% in sugar production at 440,000 tonnes compared to a decline of 2.9% in 2006. The textile industry however grew by 10.1% following a rebound of 2.9% in 2006 after negative growths of 7.2% and 14.7% in 2004 and 2005 respectively. Manufacturing industries formerly operating with an EPZ certificate grew at a higher rate of 8.0% in 2007 compared to a growth of 4.6% in 2006. The Electricity, gas and water supply industry also grew at a slower rate of 3.1% in 2007 compared to 4.0% in 2006.

The primary sector in 2007 did not perform as expected and contracted significantly. The main activities include agriculture and mining and quarrying which contracted by 6.8% and 5% in 2007 compared to growth rates of 0.6% and 9.1% in 2006 respectively. Under the agricultural sector, sugarcane growing, the main activity declined by 12.8% due to unfavourable weather conditions.

In terms of investments, private sector investment grew by 17.5% in real terms compared to 15.3% in 2006. This investment was mainly directed to the hotel industry and to a lesser extent the textile and apparel industries. Public sector investment on the other hand declined by negative



A street in Mauritius. The Bank has been exploring potential areas of financial support in this highly diversified economy.

24.6% in real terms compared to a growth of 28.4% in 2006 owing to a drop in investments in aircrafts.

## **BOP** and Foreign Exchange

Total exports for 2007 reached Rs 69,482 million, a decrease of 6.2% over the same period in 2006. The decline was from a 53.5% decline in re-exports although domestic exports rose by 5.6%. The decline in re-exports was attributed to a significant drop in re-exports of mobile phones to the United Arab Emirates. The domestic exports increase was attributed to a 10.6% increase in the "Miscellaneous manufactured articles" which accounted for 50.0% of total exports, in particular apparel and clothing accessories. Also increasing was the "Manufactured goods classified chiefly by material" which stood at Rs 5,685 million, showing an increase of 2.8% compared to the same period in 2006. However there was a decline in "Food and live animals" exports which went down by 4.0% to reach Rs 19.380 million due to a decrease of 17.2% in the exports of sugar.

Total imports for 2007 amounted to Rs 121,081 million, showing an increase of 4.8% over the same period of

2006. The increase was attributed to an increase in all the different segments of imports. Food and live animals imports rose by 16.0% to Rs 20,037 million. Mineral fuels, lubricants, and related products rose to Rs 22,184 million representing a rise of 14.8% compared to the corresponding period of last year. Manufactured goods classified chiefly by material increased by 13.7% to reach Rs 24,793 million while machinery & transport equipment imports were valued at Rs 28,487 million, 20.7% lower as a result of a sharp decrease in the imports of cellular phones.

This resulted in the trade deficit widening significantly to Rs 51,599 million, 24.4 % higher than a trade deficit of Rs 41,465 million in 2006. The current account deficit is estimated to have narrowed significantly to 4.9% of GDP compared to 9.4% of GDP in 2006. International reserves increased to Rs89,512 million as at end December 2007 compared to Rs74,192 million end December 2006. The rupee is estimated to have appreciated marginally against the US dollar to exchange at Rs 31.33 in 2007 compared to an average of Rs 31.70 previously, mainly reflecting a weaker dollar.

## **RWANDA**





Rwanda is mainly an agrarian economy, with the agriculture sector accounting for 40% of GDP. The economy in 2007 grew by 6.6% despite an expected lower output in the agriculture sector. The main drivers of the economy were the industry and services sectors which are estimated to have both grown by over 10%.

## **Monetary Policy**

Inflation is estimated to have declined to 10% in April 2007. However, inflation excluding food and energy increased to 7%, owing to increases in health and

education fees and the pass-through of higher food prices to restaurants. During the first half of 2007, harvests were below the 2006 level leading to a reduction in agricultural production. This will have an upward impetus on inflationary pressures in the second half of 2007. However rains for the mid-year harvest so far have been favorable and this will help abate this upward pressure, with inflation estimated to reach 5% in the second half of the year while the annual average is expected to reach 8% for 2007.

### **Fiscal Policy**

Fiscal policy was expansionary in 2007 with the domestic deficit expected to increase by 1.3% of GDP compared to 2006. Data for the first quarter of 2007 indicate that the targets on net credit to the government and the domestic fiscal balance were exceeded because grants from the World Bank and the European Union (EU) were delayed. This was despite the high revenues mainly attributed to good collection by the Rwanda Revenue Authority. Rwanda continues to be highly dependent on donor assistance, with the budget support and external grants estimated to contribute more than 50% of government revenue.

#### **Real Sector**

The domestic economy in 2007 was mainly driven by the services and industrial sector which are estimated to have grown by 12.3% and 13.1% respectively. Under the industrial sector, growth largely emanated from mining and quarrying which is built around deposits of cassiterite, Colombo-tantalite (coltan), wolfram, gold and sapphires all of which are mined artisanally. It is estimated to have grown by 40% in 2007. Also contributing to growth in the industrial sector was the manufacturing sector, which is mainly agro-based, which grew by 8.7% and the construction industry which is estimated to have grown by 15.8% in 2007. The agriculture sector on the other hand is estimated to have declined by 2%.

Tea production is forecast by the Rwanda Tea Authority to rise from 20,500 tonnes in 2007 to over 22,000 tonnes in 2008, and the Authority anticipates that earnings will rise from US\$ 22.8 million in 2007 to US\$ 26 million in 2008.

## **BOP and Foreign Exchange**

Half year figures for 2007 indicate that exports were not adversely affected by the 79% decline in coffee exports which amounted to only US\$ 5.4 million as a result of a drastic drop in production and low international prices. Total exports thus rose by 7.2% to reach US\$ 73.1 million compared to the first half of 2006. Tea export volumes on the other hand recorded a 14% increase over the first half of 2007 compared to the same period of 2006 but the depressed international price resulted in a 2.3% decline in values exported. In line with the good performance, exports from the mining sector rose to US\$ 22 million in the first half of 2007 compared to US\$ 16.5 million.

Although official statistics are yet to be published mineral exports have been forecast at US\$ 60 million almost 56% higher than 2006 earnings. This was as a result of an increase in the international price of cassiterite.

Annually the trade deficit is expected to widen due to higher imports of construction materials and fuel. Strong economic growth, coupled with Rwanda's landlocked position, will see the services account deficit widen but strong tourism growth will partly offset this. Current transfers will record a large surplus owing to substantial financial inflows from donors. Overall, the current-account deficit is expected to decline slightly in 2007, to 6.4% of GDP.

The Rwandan franc depreciated slightly against the US dollar in 2007 as a result of the worsening trade deficit. It averaged about Rwfr585 to the US dollar in 2007 compared to Rwfr553 to the US dollar in 2006.

## **SEYCHELLES**





Seychelles' Real GDP in 2007 is estimated to have grown by 5.8%. The main driver of growth was the tourism sector which is the most important sector economically. Behind this growth in tourism was also the boom in tourism related construction, with new hotels and luxury resorts opening to cater for the increasing tourist numbers. Growth in the tourism industry is key to Seychelles because it has close links with the wider services sector which spills over to the entire economy.

## **Monetary Policy**

The rate of inflation as measured by the Consumer Price Index (CPI) started the first quarter of 2007 at 0.3% and ended the year as at December 2007 at 3.9%. 2007 inflation averaged 1.2% compared to 0.27% during the same period in 2006. The rise in inflation was mainly as a result of rising inflationary pressures, especially after the increase in the domestic price of fuel and higher prices of key imported commodities which was further compounded by a weaker rupee *vis a vis* major trading currencies.

During the third quarter however, M2 declined significantly by 13% causing a sharp correction in domestic liquidity. The decline was in line with the Central Bank's consolidation strategy in providing an enabling environment for more effective use of monetary policy tools.

The average lending rate rose from 10.69% in the first quarter to 10.83% in the second quarter to 11.00% in the third quarter and to 11.23% by end December 2007. This was not consistent with the relatively tighter monetary conditions in the market. The treasury bills also showed a similar trend during the year.

## **Fiscal Policy**

According to data for the first three quarters of 2007, year-on-year revenues remained static. Government spending on the other hand was estimated to be higher by 4.5% year-on-year. This led to a fiscal deficit of Rs202 million which exceeded the deficit of Rs132 million in the first three quarters of 2006 year-on-year. Despite this deficit in the first three quarters, the annual fiscal performance for Seychelles in 2007 is expected to show a budget surplus for the fourth year in a row, albeit at a lower level of 2.5% of GDP. This is considerably lower than the official target of 7% of GDP expected in 2007. In an effort to reduce spending, the government embarked on downsizing the public sector workforce in line with the conditions tied to a World Bank loan.

### **Real Sector**

The domestic sector performed well in 2007 mainly because the key sector of the economy, tourism, experienced a boom. Visitor arrivals in the first three quarters of 2007 are estimated to have risen by 14.3% year-on-year, at 116,622. Earnings from tourism were up by an impressive 51%, to Srs763 million, partly reflecting the sharp depreciation of the rupee, while tourism earnings in US dollars rose by 32% year-on-year, to US\$121 million in the first three quarters of 2007. In line with the boom in the tourism sector, the construction industry, particularly tourism related also grew strongly.

### **BOP** and Foreign Exchange

The first nine months of 2007 had export declining marginally to US\$ 154.4 million compared to US\$ 169.9 million in the first nine months of 2006. The decline was from the depreciation of the Rupee in 2007 compared to 2006. The composition of exports is mainly divided



Tea exports serve as a key earner of foreign exchange for some of the Bank's Member States.

The Bank has recently provided financial support to a tea processing company in Burundi.

between canned tuna which constitutes over 90% of all merchandise exports and re-exports of petroleum products. Imports for the first nine months of 2007 rose to US\$ 512.16 million compared to US\$ 492.7 million during the same period of 2006. The current account deficit during the first nine months of 2007 widened to US\$ 172.4 million compared to US\$ 103.4 million in a similar period of 2006. The widening deficit was attributed to an upsurge in imports as a result of increased economic activity particularly in the construction industry which was the source of most imports.

In October 2007, the Central Bank announced a change in the exchange rate with the Seychelles Rupee to trade at

Srs 8.00 to the US Dollar. The move was to bring greater The change concludes a series of exchange rate the international competitiveness of the country's economic mainstay activities - industrial fishing and tourism - as well as creating a more stable economic environment to facilitate both local and international investment. The Central Bank is expected to continue with the process of foreign exchange liberalization. Reserves declined steadily throughout 2007 and stood at 4.1 import weeks or R332.9 million as at December 2007 2007.

stability and competitiveness to the national economy. movements begun in October 2006 intended to enhance compared to 8.6 imports weeks or R701.2 million in June

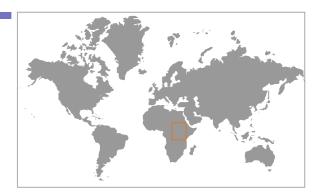
## **Economic Environment**

However, much of Somaliland, a break-away state which is yet to be internationally recognized and situated in the northern parts of Somalia has enjoyed relative calm and peace and this has reflected in positive gains in the economic activity and growth relative to the other parts of Somalia.

The main source of revenue remains the activity at the port of Berbera which accounts for about 80% of government revenue. Available data indicates that the Somaliland shilling on the other hand remained fairly stable against the US dollar during the first nine months of 2007.

## **SUDAN**





## **SOMALIA**





The political instability resulting from the civil war which broke out in 1991 has continued to impact adversely on economic growth throughout Somalia. More recently the political instability created by the rift between the President Mr Abdullahi Yusuf Ahmed and the then Prime Minister Ali Mohamed Ghedi continued to undermine the existence of the Transitional Federal Government in 2007.

A stable government is pivotal to the commencement of any positive gains in economic activity and growth in Somalia. The country depends heavily on the annual remittances of approximately US\$ 825 million from Somalis in the diaspora.

There is little or no economic data or statistics on the country. An analysis done by the UN's Food Security Analysis Unit (FSAU) indicated that the Somali shilling continued to depreciate against the US dollar throughout the various parts of the country.

The Somali shilling was exchanging at SoSh16,200 vis a vis the US dollar in May 2007. It is estimated to have depreciated by 45% in the Shabelle valley regions and approximately 49% in the central regions during the first nine months of 2007. The depreciation was due to the government printing more shillings which had the effect of reducing confidence in local notes.

Inflation in 2007 was expected to be very high due to the high prices of major food commodities which are imported. The price of imported rice is estimated to have risen by over 125% standing at 132% above the five-year average. Sugar and vegetable oil prices rose by 24% and 83% respectively during the first nine months of 2007.

The high inflationary pressures mainly emanated from the devaluation of the shilling and high costs of transport as well as the disruption in the delivery of goods due to conflicts in the various parts of the country.

Sudan's economy is expected to expand significantly from a strong 9.3% in 2006 to an impressive 12.8% in 2007. The growth is led by the oil industry which accounts for 16% of GDP as a result of the coming on stream of new oil capacity. Also adding to the impetus of growth is the non oil sector particularly from the services and agricultural sector.

## **Monetary Policy**

During the first half of 2007 money supply including quasi-money rose from SDD 1,768,378 million by the end of the first quarter of 2007 to SDD 1,786,861million by the end of second quarter of 2007 representing an increase of 1%. Quasi - money on the other hand decreased by 3.15% from SDD 781,459 million by the end of the first quarter of 2007 to SDD 756,817 million by the end of second quarter of 2007.

Inflation started the year at 12.9% and declined during the first half of 2007. The decline during the first half was behind a fall in import costs as a result of the strengthening of the dinar vis a vis the US dollar. Inflation was negative in September 2007 at -1.1%. It then rose sharply in October to stand at 12.2% and the rate remained at 12.2% by mid November 2007. The annual average inflation is expected to have declined to 5.3% in 2007 compared to 15.7% in 2006.

"Murabaha" margin average rate and bank participation average rate "Musharaka" declined to 11.7% and 33.7% respectively by the end of the second guarter of 2007 compared to 11.8% and 35.2% by the end of the first quarter of 2007. At the end of the third guarter of 2007 the Murabaha remained at 11.8% while the Musharaka declined to 32%.

## **Fiscal Policy**

Government revenue is estimated to have increased by 25% in 2007, to over SP17.5 billion (US\$ 8.7 billion) while expenditure is also expected to have increased by 23% in 2007. The increase in revenue is due to an increase in economic activity from an increase in oil production as well as an increase in domestic revenue. This is expected to lead to a widening of the fiscal deficit to SP8.2 billion representing 6.1% of GDP in 2007.

## **Real Sector**

The oil industry drives Sudan's economy but production in 2007 is expected to rise despite output falling below government projections of 500,000 b/d. Output in the first half of 2007 is estimated at 480,000 b/d partly due to the lack of production growth in some of the concessions, in particular concessions in Block 3 and 7. The decline

in output is from sub-standard quality of oil produced in some of the blocks and some flooding that caused an estimated 15% drop in output in Blocks 1,2 and 4. Estimates for the first five months of 2007 indicate that production was roughly 255,000 b/d. Overall for the year, Sudan's total oil output is estimated to be around 500,000 b/d in 2007.

In recent years, Sudan has been a major recipient of Foreign Direct Investment (FDI) among COMESA member states. However during the first nine months of 2007, FDI to the country declined to US\$ 1,835.7 million compared to US\$ 2,859.6 million in the first nine months of 2006.

## **BOP and Exchange Rates**

Estimates from the Bank of Sudan indicate that for the first nine months of 2007, total exports amounted to US\$ 6,027 million compared to US\$ 4,179.1 million in the same period of the previous year. Exports earnings from petroleum products, predominantly crude oil and benzene, rose to US\$ 5,677.6 million during the first nine months of 2007 compared to US\$ 3,743.3 million during the first nine months of 2006. During this period, crude exports alone were estimated to account for nearly 93.9% of total export earnings and rose by an estimated 52%. The increase in export revenues was due to the rising oil prices and an expansion in average oil output during 2007.

However, in the first nine months of 2007, non-oil exports registered a significant decline to US\$ 350.5 million

compared to US\$ 435.8 million in the first nine months of 2006. Non-oil export commodities mainly include livestock, sesame seeds, gum arabica and gold. The significant increase in exports was largely from high international oil prices which led to an increase in export receipts from Sudan's main export earner.

Total imports rose marginally to US\$ 5,480.7 million during the first nine months of 2007 compared to US\$ 5,253.2 million in the first nine months on 2006 driven by both government and private sector purchases. The trade deficit recorded in the first nine months of 2006 of US\$ 1,074.1 million turned into a trade surplus during the first nine months of 2007 to stand at US\$ 547.4 million. The current-account deficit is estimated to have narrowed to around US\$ 2,097.6 million from US\$ 3,321 million in the previous year.

A new national currency, the Sudanese pound, began replacing the existing Sudanese dinar at the beginning of July 2007 to become the sole legal currency at a fixed rate of SP1:SD100. Before the conversion of the currency the average exchange rate of the Sudanese Dinar depreciated to 200.52 per US dollar by the end of the second quarter of 2007 compared to 200.51per US dollar at the end of the first quarter. After the conversion the average exchange rate of the Sudanese pound stood at 2.0381 to US dollar by the end of the third quarter in 2007 compared to 2.0052 to US dollar by the end of the second quarter.

## **TANZANIA**





Tanzania's economy performed well in 2007 fuelled by a rebound in the agriculture sector and improved electricity supply and is estimated to have grown by 7.7% in 2007. Other sectors driving growth during the year were the mining, tourism and manufacturing sectors. The source of the growth impetus was supported by the continued strong growth in credit extended to the economy. The economic reforms that have been implemented over the last ten years in Tanzania helped create an enabling and conducive environment to foster economic growth.

## **Monetary Policy**

Monetary policy implemented by the Bank of Tanzania (central bank) over recent years has been to control the growth of broad money M2 while expanding credit to the private sector and maintaining an inflation target of 5%. In September, there was a change in the bank's policy for controlling excess liquidity. The central bank decided to sell foreign exchange instead of using domestic debt instruments. This resulted in the appreciation of the shilling in October and early November.

Inflation during the year was erratic and was higher than the targeted rate due to higher inflationary pressures arising from high food and fuel prices. Headline inflation rose from 5.9% in June 2007 to 9% in July. It declined to 8.3% in September and then declined further to 6.4% in December. The decline in inflation in the latter part of the year was due to improved supply of food resulting in a decline in prices. Inflation is expected to average 7% in 2007 compared to 6.2% in 2006.

## **Fiscal Policy**

The continued improvements in fiscal management in Tanzania through an improvement in tax administration

and on going widening of the tax base boosted domestic revenues for 2007. Revenues were also boosted by the upsurge of the economy after the drought and energy crisis in 2006. Government expenditure was fairly contained and stood at 23.6% of GDP in 2006/07. The budget deficit is estimated to have declined in fiscal year 2006/07 to 3.8% of GDP.

Spending is forecast to rise to TSh5.2trn (US\$4bn) in 2007/08 from TSh4.5trn in 2006/07, with money directed towards poverty reduction programmes in agriculture, education and healthcare. Revenues are expected to increase and the budget deficit is expected to narrow to 3% of GDP in fiscal year 2007/08.

### **Real Sector**

The domestic sector was buoyant in 2007, with productivity enhancing growth in the economy. The government's efforts to strengthen the business environment and thus increase investor confidence and investor interest in the country has continued to pay off with foreign direct investment averaging 4% of GDP over the last four years. The construction and mining sectors showed the strongest growth. The sectors' growth was driven by donor funded infrastructure development, particularly road building and power sector. In the mining sector an increase in gold production was the main source of growth due to the coming on stream of new projects in late 2007. The tourism sector also performed well.

## **BOP** and Foreign Exchange

The current account deficit widened in the year to December 2007 to US\$ 2,056.2 million compared to US\$ 1,379.3 million in the year ending December 2006 reflecting the upsurge in imports which more than offset

the increase in exports. Imports are estimated to have grown by 26.4% in the year ending December 2007 to US\$ 4,826.9 million largely due to increases in the imports of consumer goods.

For the year ending December 2007, total exports of goods and services rose by 15.4% to US\$ 3,711.5 million, which was an increase from US\$ 3,215 million recorded in the year to December 2006. Exports continued to be dominated by tourism and gold receipts constituting about 38.2% and 28.9% respectively. Exports of goods rose in the year to December 2007 by 15.4% to US\$ 2,006.6 million.

This growth was on the back of an increase in non-traditional exports particularly gold which accounts for 44.4% of non-traditional exports followed by manufactured goods which account for 18%. Traditional

exports rose by 8.6% to US\$ 290.1 million due to an increase in the prices of coffee, cotton and sisal which led to increased export earnings.

Services receipts rose by 13.5% to US\$ 1,697 million mainly due to an increase in transportation, travel, insurance services and other business. Tourism receipts rose significantly to US\$ 985.3 million from US\$ 914.2 million in the year ending December 2006.

The Tanzanian shilling was fairly stable during the first eight months of 2007 against the US dollar before it began to appreciate in October and November from the impact of Central Bank's monetary policies to control liquidity. In terms of the annual average, the shilling is expected to depreciate only marginally to exchange at Tsh1,257 for 2007 compared to Tsh1,251 to the US dollar for 2006.

## **UGANDA**





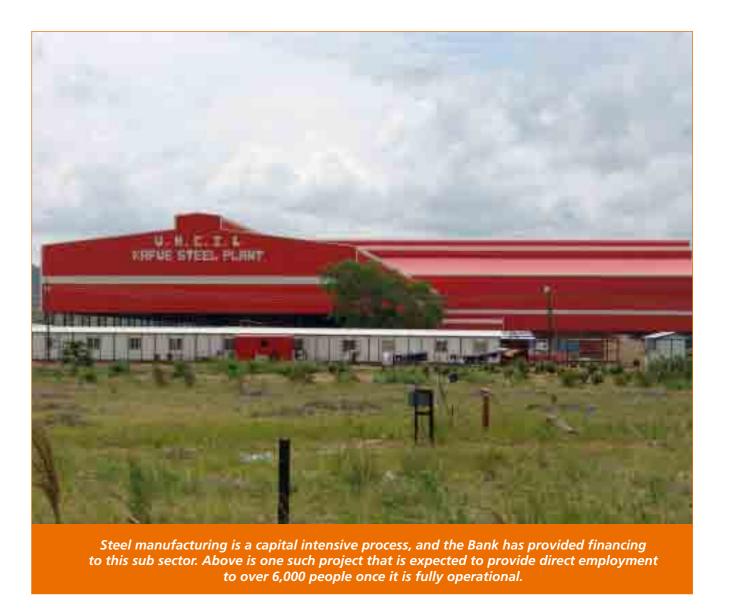
Uganda has continued to record strong growth over the last few years with GDP growth for the last eight years averaging over 6%. In fiscal year 2006/07, this trend continued with the economy registering growth of 6.5% from 5.1% in fiscal year 2005/06. This growth was mainly from the good performance in the transport and communication, mining and quarrying, construction, wholesale and retail services sectors. Also adding impetus to the real GDP growth was the government's response to factors that slowed down economic growth in 2005/06. Good weather conditions also resulted in the growth of the agriculture sector after a bad performance in the previous fiscal year.

## **Monetary Policy**

The macro-economic and prudent management policies that were implemented in 2007 resulted in stable

weighted average interest rates. The lending rates ranged from 18% to 19% throughout 2007, similar to the levels of 2006. Inflationary pressures eased during 2007 with the annual quarterly headline inflation falling to 4.8% from 6.8% in the quarter ended March 2007. This downward trend continued through the remainder of the year and headline inflation finally ended the year at 5.1% in December 2007. This was significantly lower than the 11.2% recorded in December 2006. The decline in inflation was attributed to lower prices of food as a result of the improved weather conditions which saw an increase in the supply of food.

Interest rates were relatively higher in 2006/07 compared to the previous fiscal year. Treasury bills were higher in 2006/7 averaging 11.5% for 364 days compared to 10.2% in 2005/06. The increased sale maintained the



rates for Government bonds of all maturities - 13.37% for 5 years and 13.48% for the 10 year bond. Commercial banks effective lending rate also remained high and averaged 19% as at April 2007.

### **Fiscal Policy**

The projected fiscal deficit excluding grants of 8.3% is expected to be lower than the target of 8.8% in fiscal year 2006/07. This was a result of an increase in domestic revenue which is estimated to have been Ushs 2,711 billion due to an increase in tax revenue which grew by 4% from improved administration coupled with streamlining of collection of non tax revenue.

Government expenditure for 2006/07 including donor financed projects is projected to be Ushs 4,352 billion representing 99% of the approved budget while the total domestic budget expenditure in 2006/7 is projected to be Ushs 3,153 billion, which is 2.8% above the budget of Ushs 3.068 billion.

#### Real Sector

The real sector in Uganda performed strongly as reflected in the real GDP growth from fiscal year 2006/07. The main drivers of this growth were the Transport and Communication sector which grew from 19.8% in 2005/06 to 22.3% in 2006/7. Mining and Quarrying grew from 8.5% in 2005/06 to 14.2% in 2006/07 due to increased demand in the construction and services sector, while the wholesale and retail services grew from 6.6% in 2005/06 to 9.7% in 2006/07. Growth was also noted in the industrial sector which went up by 21% in 2006/07 from 20.9% in the previous fiscal year.

After the poor performance of the agriculture sector in 2005/06, it showed some recovery in 2006/07 with yields of food crops and some cash crops increasing as a result of favourable weather. Although the Ugandan economy is mainly agricultural, the contribution to GDP by the sector has declined over the years, from 33.3% in 2005/06 to

31.9% in 2006/07. On the other hand the contribution of the service sector has been on the rise from 42.9% in 2005/06 to 47.1% in 2006/07.

## **BOP** and Foreign Exchange

Total exports for 2007 rose significantly to stand at US\$ 1,568 million compared to US\$ 1,003.8 million in the same period of 2006, of which non-coffee exports constituted US\$ 1,301 million. Behind this increase was an almost 50% rise in tobacco exports which amounted to US\$ 65.3 million in 2007. Tea exports also rose during this period to stand at US\$ 47.9 million. Coffee is estimated to be the main export earner with receipts of US\$ 266.5 million compared to US\$ 212.3 million for 2006

Fish and its products showed a decline in the period under review although it was the second highest export earner for Uganda, with earnings of US\$ 168 million while gold receipts also declined to stand at US\$ 65.8 million for 2007. Total imports for 2007 rose to US\$ 3,033.9 million compared to US\$ 2,251.8 million mainly driven by increase in capital imports to support the construction industry. The current account deficit narrowed to US\$ 207.6 million for 2007 or 1.7% of GDP from US\$ 240.9 million or 2.4% of GDP in the previous year.

The Uganda shilling continued to appreciate against the US dollar making imports cheaper and exports expensive during 2006/07. It is estimated to have gradually appreciated against the US dollar in the fiscal year 2006/07 (June 2006 to April 2007), by 7.6% while the mid- exchange rate appreciated from Ush1,860 per US dollar in June 2006 to Ush1,729 per US dollar in April 2007. The strengthening of the shilling against the US dollar was supported by stronger inflows from NGOs and exports, portfolio flows particularly to the securities market, the hosting of the Commonwealth Meeting and overall weakening of the US dollar on the global financial market.

## **ZAMBIA**





Real GDP growth in Zambia continued to be strong and was estimated to have expanded by 6.2% in 2007. This was however lower than the earlier anticipated growth of 7% but was better than 2006 with a growth rate of 5.8%. The downward revision on the 2007 growth was attributed to a lower than expected growth in primary and secondary sectors. The agriculture, mining, construction and manufacturing sectors all recorded positive growth in 2007 albeit at lower levels compared to 2006. The transport, tourism and energy sectors also recorded positive growth and at higher levels than 2006 level.

## **Monetary Policy**

Developments in inflation were favourable during the first half of 2007 as seen in a downward trend in inflation reflecting the lower inflationary pressures from both food and non - food inflation. It declined from 12.7% at the end of the first quarter to 11.1% as at June 2007. The good 2006/2007 agriculture season resulted in seasonal improvements in the food supply which assisted in lowering food inflation. Also contributing to lower inflation was the fall in the money supply and the appreciation of the kwacha against major currencies.

The second half of 2007 also saw a similar downward trend in inflation ending the year at 8.9% though this was higher than the 8.2% achieved in December 2006. The average commercial banks' lending rate has continued on its downward trend although it remained relatively high compared to expectations. The rate fell from 27.3% in January 2007 to 24.3% in April 2007 and ended the year at 24.4% which was however lower than the 27.9% for year end 2006. On an annual basis lending rates averaged 24.9% in 2007 compared to 29.4% in 2006. The average TB rate rose from 10.3% in

2006 to 12.2% in 2007.

Estimates indicate that annual money supply growth slowed to 25.9% in December 2007 from 45.1% in December 2006. The decline was largely due to the reduction in Government borrowing from the banking system by 21.6%. However, lending to the private sector registered a strong growth of 44.5%.

## **Fiscal Policy**

The Government's objective in 2007 was to consolidate fiscal discipline by maintaining lower levels of borrowing and prudent budget execution. The performance was encouraging, with significant increases in the collection of revenue. Revenues and grants accounted for K10,176.1 billion, of which domestic revenue collections stood at K8,522.1 billion and were above target by K405.0 billion or 5%. This was due to higher receipts from company tax and import VAT. Total expenditure was lower during 2007 and amounted to K10,720.1 billion, accounting for 89.7% of the budget. An amount of K8,794.1 billion or 81% of the total expenditure was directed towards current expenditure while K1,926.0 billion or 19% was directed towards capital expenditures.

## **Real Sector**

The domestic economy continued to show positive growth during 2007 although some sectors registered lower growth compared to 2006, with the agriculture sector estimated to have grown by 2.8% in 2007 compared to 3% in 2006. The poor prices fetched for major cash crops like cotton and tobacco were behind the slower growth. However, the good weather conditions resulted in the country having food surplus for the second year in a row with cumulative stocks reaching 628,396 metric tonnes in

2007. The mining sector also grew at a slower pace, with copper production growing by 1.5% to 523,435 metric tonnes from 515,618 metric tonnes in 2006. Cobalt production, on the other hand, declined by 9% to 4,229 metric tonnes in 2007 from 4,648 metric tonnes the previous year.

The reduction in production was due to disruptions in supply caused by the heavy rains which led to flooding in some of the mines. Growth in the manufacturing sector emanated from increased value additions across the various industries and was estimated at 3.4% in 2007, considerably lower than the 5.4% registered in 2006. The lower growth was attributed to negative growth recorded in the textile and leather industries. The construction industry continued its double digits growth at 13.3% in 2007 compared to 14.4% in 2006 owing to the upward momentum in the construction of residential housing, investments in mines, road construction and other civil works.

The energy sector faced significant challenges in 2007 due to increased demand for electricity and petroleum products as a result of increased economic activity both domestically and particularly the industrial sector. Electricity generation only rose marginally to 9.7 million megawatts from 9.6 million megawatts in 2006 due to the rehabilitation of works carried out by the main electricity generation company.

The tourism industry continued its vibrant path reaping the benefits of the on-going marketing strategies and improved infrastructure country wide which led to an estimated 6.4% increase in the number of tourist arrivals to 805,059 in 2007. Earnings also moved in tandem and rose to US\$ 188 million in 2007 compared to US\$ 177 million in the previous year. Also the transport, storage and communications sector grew very strongly by 22.5% compared to 22.1% in 2006 with all the sub-sectors performing well except rail transport, which recorded

negative growth, due to the poor state of the rail infrastructure.

## **BOP** and Foreign Exchange

The external sector performed strongly in 2007 with the overall balance of payment recording a positive balance albeit at a lower level of US\$ 266.3 million compared to US\$ 821 million in 2006. The current account balance on the other hand moved from a surplus of US\$ 120 million in 2006 to a deficit of US\$ 856 million in 2007 largely reflecting a larger deficit in the income account. The trade surplus in 2007 declined to US\$ 686.4 million from US\$ 1,183 million in the previous year.

This was as a result of a 37.4% increase in imports which rose to US\$ 3,622.3 million reflecting the continued investments in the mining sector. Exports also performed well and increased by 11.9% to US\$ 4,273.4 million in 2007 compared to US\$ 3,819 million in the previous year. This was supported by metal exports which rose by 10.2% to US\$ 3,400.3 million and an impressive 24.5% increase in the non-traditional exports to US\$ 924.4 million. Burley tobacco and cotton lint have had a significant contribution to the non-traditional export in the years 2005 and 2006. However, indications are that for the year 2007, the figures will be lower after farmers opted to plant maize given the lower prices offered for their tobacco and cotton produce.

The Zambian kwacha exchanged against the US dollar at above K4,000 mark after appreciating considerably in 2006. In January 2007, it exchanged at a monthly average of K4,221.06 to the US dollar and depreciated marginally in the first quarter. At the start of the second quarter the kwacha started to appreciate and exchanged at a monthly average of K3,827.21 to the US dollar in July and ended the year exchanging at an average of K3,835.97 in December.

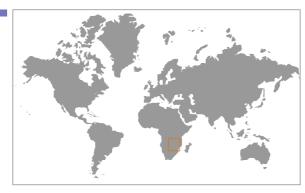


Tourism is a key foreign exchange earner for a number of the Bank's Member States.

This beautiful beach scene acts to attract tourists.

## **ZIMBABWE**





The Zimbabwean economy registered negative growth in 2007, with the economy contracting by about 6%. The contraction was on the back of continued decline in economic activity in key sectors of the economy, with the exception of the agriculture sector. Production was mainly hampered by a shortage of foreign exchange which is needed to procure essential raw materials, equipment and machinery while frequent power cuts and high production costs continued to adversely impact economic activity.

## **Monetary Policy**

Inflation continues to be arguably the most devastating macro-economic imbalance in the country, as its adverse effects cut across all sectors. According to the Central Statistical Office (CSO) inflation reached 26,470.8%, in November, 2007 although unofficial forecasts indicate that inflation may have been higher. Annual broad money supply (M3) growth continued on its significant upward trend, increasing from 1,638.4% in January 2007, to 24,463.6% in October 2007.

### **Real Sector**

The domestic economy suffered setbacks as a result of the economic conditions in the country. However the agriculture sector is estimated to have grown by 1.4% despite the drought conditions in the 2006/2007 cropping season. Contributing to the positive growth was an increase in tobacco and soya beans output.

Despite the high global price of minerals, the mining sector in Zimbabwe continued to under-perform in 2007. The challenges underpinning this reduced performance were escalating costs, inadequate foreign exchange, fuel shortages, and frequent electricity supply interruptions.

Gold production was estimated at 6,798 tonnes. Gold deliveries are estimated to have declined by 38% from 10.9 tonnes in 2006 to 6.8 tonnes in 2007. However platinum production was maintained at 2006 levels of 5,300kgs. Nickel production on the other hand benefitted from the opening up of new mines, with production estimated to have increased to 9,000 tonnes in 2007 from 8,800 tonnes in 2006.

The manufacturing sector in 2007 was once again negatively impacted by capacity underutilization, raw material shortage and power cuts. This saw companies operating at capacity levels of below 30%. However the introduction of the Basic Commodity Supply Side Intervention Facility (BACOSSI) on October 1, 2007 led to increased capacity utilisation from levels well below 30% to around 50% for companies under this facility.

Receipts from tourism declined by 17% in 2007 to US\$ 49.3 million compared to US\$ 59.2 million. This decline was recorded despite the upsurge in tourism numbers, with tourist arrivals for the first three quarters of 2007 growing by 25% compared to the same period in 2006.

## **BOP and Foreign Exchange**

In 2007 total exports amounted to US\$1,680.4 million representing a 9.6% increase over the previous year, which recorded US\$1,533.2 million . The increase was supported by an increase in mining exports which rose by 21% to US\$ 849.6 million, while agriculture exports rose by 3.7% to US\$ 224 million. Tobacco exports rose only marginally by 0.37% to earn US\$ 280.8 million. Decline in exports by sector were noted in the horticulture exports which declined by 6.14% to US\$ 30.2 million while manufactured exports declined by 2.76% to US\$ 282.8 million in 2007.



## Economic Indicators: 2006 - 2007

	Real GDP Growth %		Consumer Price Inflation %		Exchange Rate (Ave: US\$)	
	2007	2006	2007	2006	2007	2006
Burundi	3.6	3.8	7.0	2.8	1,100.0	1,028.4
China	12	10.7	1.6	1.5	7.3	7.8
Comoros	1	1.3	3.7	3.4	359.5	392.2
Djibouti	5.1	4.8	3.5	3.6	177.7	177.7
Egypt <sup>F</sup>	7.1	6.9	9.5	7.6	5.63	5.73
Eritrea	2.0	2.0	15.5	15.0	15.4	15.4
Ethiopia <sup>F</sup>	9.8	8.5	18.7	12.2	13.7	12.8
Kenya	6.5	6.1	9.7	14.5	67.3	72.1
Malawi	5.7	7.9	8.0	14.0	141.0	136.0
Mauritius	5.6	5	8.8	8.9	31.3	31.7
Rwanda	6.6	5.3	8.0	8.9	551.0	552.6
Seychelles	5.3	5.3	5.3	-0.3	6.7	5.5
Somalia		n/a		n/a		n/a
Sudan	12.4	11.8	8.3	7.2	2.02	2.17
Tanzania	7.2	7	7.0	6.2	1,259	1,254
Uganda <sup>F</sup>	6	5.8	5.5	6.8	1,723.50	1,831.50
Zambia	6.4	6.2	10.6	9.0	4,003.0	3,603.0
Zimbabwe	-2.8	-4.6	11,324.0	1,050.8	30,000.00	250.0

## F - Fiscal year ending June

Economic Indicators Economic Indicators

External Trade: 2006 - 2007

	Exports fob (US\$ m)		Imports fob (US\$ m)		Current Account Balance (US\$ m)	
	2007	2006	2007	2006	2007	2006
Burundi	44.5	58.6	271.6	239.7	-112.7	-131.7
China(bn)	1,218.0	969.1	955.80	791.60	262.2	184.2
Comoros	9.5	11.1	140.1	138.5	-18.4	-17.6
Djibouti	146.0	50.0	514.0	346.0	-116.0	-68.0
Egypt <sup>F</sup>	22,017.5	18,455.1	37,834.2	30,441.0	2,695.6	1,751.9
Eritrea	16.8	14.4	647.2	622.5	-347.0	-325.0
Ethiopia	1,211.7	1,024.7	4,775.5	4,105.5	-1,585.5	-1,785.9
Kenya	4,082.0	3,437.0	9,041.0	7,213.0	-1,190.0	-532.0
Malawi	603.6	539.5	863.0	805.0	-314.0	-320.0
Mauritius	2,217.7	2,334.1	3,864.7	3,641.3	-398.9	-611.6
Rwanda	165.6	145.0	585.4	488.0	-210.7	-180.0
Seychelles	400.1	422.8	719.9	710.1	-165.7	-175.5
Somalia		n/a		n/a		n/a
Sudan	96,027.0	4,179.1	5,480.7	5,253.2	-2,097.6	-3,321.0
Tanzania	3,711.5	3,215.0	4,791.4	3,864.1	-1,775.4	-1,442.3
Uganda	1,568.0	1,003.8	3,033.9	2,251.8	-207.6	-240.9
Zambia	4,273.4	3,819.0	3,622.3	2,336.0	-165.1	322.6
Zimbabwe	1,680.4	1,533.2	2,200.0	2,040.2	-519.6	-327.3

All figures estimates
F - Fiscal year ending July

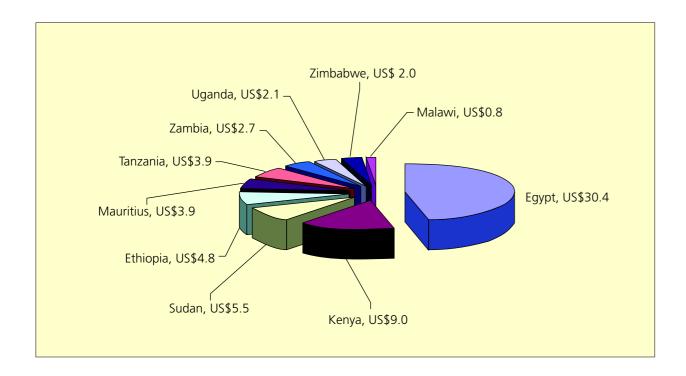
## Exports Under AGOA/GSP for PTA Bank Member States (US \$ '000) 2006-2007

Country	2007	2006	% Change	% Share 2007
Burundi	1,111	1,866	-40%	0%
Djibouti	4,484	3,295	36%	1%
Ethiopia	88,238	81,120	9%	11%
Kenya	326,086	352,804	-8%	40%
Malawi	69,007	79,010	-13%	8%
Mauritius	187,020	218,649	-14%	23%
Rwanda	12,675	8,854	43%	2%
Seychelles	10,332	10,121	2%	1%
Tanzania	46,196	34,567	34%	6%
Uganda	26,662	21,787	22%	3%
Zambia	48,780	28,969	68%	6%
TOTALS	820,591	841,042		100%

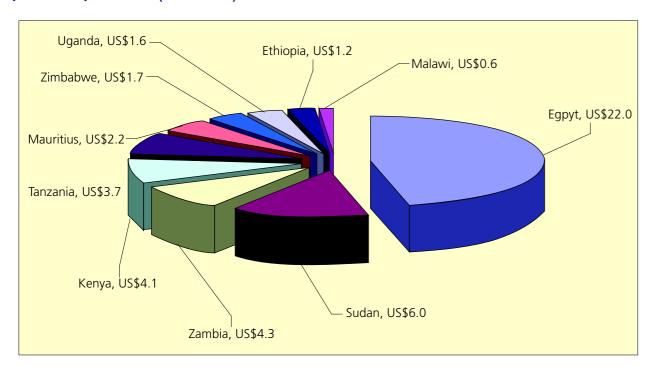
Source: www.Agoa.info

<sup>\*</sup> Eritrea is eligible to export under AGOA but is yet to do so All figures are aggregated from January to December

## Top ten importers (USD bn) 2007



## Top ten exporters (USD bn) 2007





**Operations** 

## **Business Development**

The year saw increased marketing efforts directed at strenthening the Bank's foothold in the growth sectors of power, agribusiness and telecommunications. In this regard, increased leverage on co-financing arrangements with local commercial banks assisted in securing new businesses. Emphasis on repeat business from existing clients also helped the Bank to increase the demand for its financial products during the year. Portfolio diversification remained a key pillar of the Bank's business development strategies in 2007.

## **Loans Approved**

In 2007, a total of US\$ 169 million was approved for project finance while in trade finance, letters of credit amounting to US\$ 223 million and disbursements worth US\$ 155.5 million inclusive of rollovers were recorded. The aggregate approval for project and trade finance transactions, standing at US\$ 547.5 million, represents a 12% increase over the US\$ 487 million recorded in 2006.

As at the end of 2007, cumulative values of approved investments were over US\$ 3.1 billion in project finance and trade finance, representing an increase of 19% over the cumulative figures as at end of 2006.

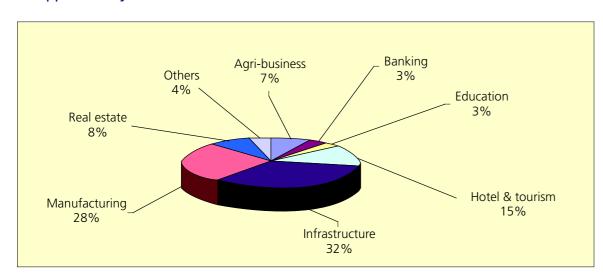
Further details of the Bank's interventions in project finance and trade finance windows are given as follows.

## **Project Finance**

The sectoral distribution of approved interventions were as follows: infrastructure - US\$ 53.6 million (32%); manufacturing - US\$ 47.7 million (28%); tourism - US\$ 25 million (15%); real estate - US\$ 13 million (8%); agribusiness - US\$ 12.2 million (7%); banking and finance - US\$ 5.4 million (3%); education - US\$ 5 million (3%); and others - US\$ 6.4 million (4%).

Chart 1 shows the sectoral distribution of approved project finance.

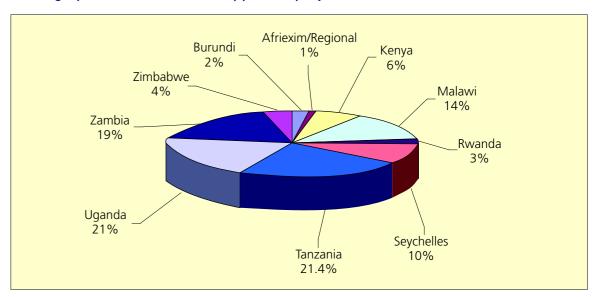
## Chart 1: Approvals by Sector



The geographical distribution of approved project finance interventions were as follows: Tanzania - US\$ 36 million (21%), Uganda - US\$ 35.7 million (21%), Zambia - US\$ 31.4 million (19%), Seychelles - US\$ 16 million (10%), Kenya - US\$ 10.7 million (6%), Burundi - US\$ 3.6 million (2%), Malawi - US\$ 22.9 million (14%), Zimbabwe - US\$ 6 million (4%), Rwanda - US\$ 4.6 million (3%), and others - US\$ 1.4 million (1%).

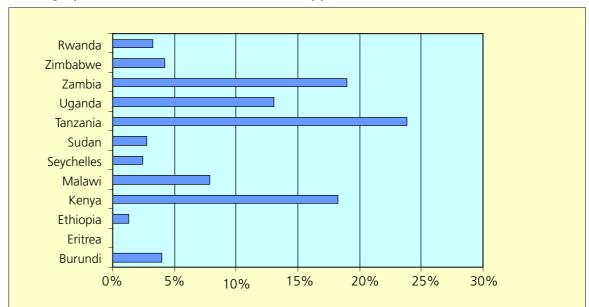
Chart 2 below shows the geographical distribution of the approved project finance loans.

Chart 2: Geographical distribution of approved project finance loans.



At year end, the cumulative project finance approvals were distributed by country, as shown in chart 3.

Chart 3: Geographical distribution of cumulative approvals



The overall distribution of the Bank's intervention reflects the opportunities available from time to time in each Member State. The Bank, however, strives to diversify its intervention across its Member States and across various sectors so as to mitigate concentration risk.

## **Project commitments**

A significant milestone in project finance is commitment and disbursement. However, commitments always fall short of approvals due to the time lag in the implementation of various projects. In 2007, the value of projects committed amounted to US\$ 46.8 million, which compares with 2006 commitments amounting to US\$ 48.5 million. The decline is mainly due to long lead-time required for big projects to finalize negotiations.

## **Project disbursements**

An amount of US\$ 54.01 million was disbursed in the year, which is US\$ 8.81 million more than disbursements in 2006 of US\$ 45.2 million. Comparatively, this represented an increase of 20% over disbursements in 2006.

## Profiles of projects approved

The Bank approved the following projects in 2007:

## Civil Aviation Authority of Uganda - Uganda

The Bank participated in a syndication arrangement to finance Uganda Civil Aviation Authority for the rehabilitation and expansion of Entebbe International Airport, Kasese Aerodrome and other selected facilities. The Bank's participation was US\$ 10 million out of a total loan requirement of approximately US\$ 40 million.

#### Zambia National Building Society - Zambia

The Bank approved a US\$ 10 million term loan to Zambia National Building Society for the construction of an ultra modern office complex to replace Central Arcade Building on Cairo Road in down-town Lusaka.

### Gourock Industries Limited - Zambia

A term loan of US\$ 6 million was approved to Gourock Industries Limited. This is a company incorporated by Gourock Ropes & Canvas (Zambia) Limited, Kapa Oil Refineries Limited and Pwani Oils Limited to produce edible oil and other products. Kapa Oil and Pwani Oil are Kenyan companies. The project is expected to promote regional trade within COMESA.

#### Africa Online (T) Limited - Tanzania

The approved term loan of US\$ 620,000 to Africa Online Limited (Tanzania) will be used to part finance the setting up of a wireless local loop to provide its consumers broadband at affordable rates.

#### Kigali Bus Service - Rwanda

The term loan of US\$ 570,000 to Kigali Bus Service Limited will be used to procure additional buses to expand the company's fleet.

### RIOZIM Limited - Zimbabwe

The Bank approved a term loan of US\$ 3.31 million to Rio Zim Limited to enable the company undertake the commissioning of mine project. The project entails opening of an opencast gold mine in Kadoma in Zimbabwe.

### Finance Building Society - Zambia

The additional term loan of US\$ 2 million to Finance Building Society will be used to fund its mortgage operations. The loan was necessitated by growing demand for housing units in Zambia especially in Lusaka, the Copperbelt and in the other newly opened mining areas.

#### Societe Hoteliere Nouvelle Du Burundi - Burundi

The term loan of US\$ 3.6 million to Societe Hoteliere Nouvelle Du Burundi will be used to part finance the renovation and refurbishment of an existing hotel in Bujumbura, Burundi.

### Kigali Investment Company - Rwanda

The Bank approved a term loan of US\$ 3 million to Kigali Investment Company to finance, in part, the construction of Kigali City Market, a project located at Nyarugenge in Kigali, Rwanda.

#### Snowcrest Hotel and Wildlife Safaris Limited - Tanzania

A term loan of US\$ 2.5 million was approved to Snowcrest Hotel and Wildlife Safaris Limited of Tanzania to part finance establishment of a 66-room hotel in Arusha, Tanzania.

### New Donnington Farm - Zimbabwe

The Bank's loan of US\$ 1 million will be used to finance the procurement of broiler slaughter equipment and refrigerated trucks to be used for distribution.

### Africa Online (K) Limited - Kenya

Africa Online (K) Limited, an existing client received an additional term loan of US\$ 1 million to finance its second-phase expansion project.

#### Serengeti Breweries Limited. - Tanzania

The Bank approved a term loan of US\$ 12 million through a co-financing arrangement with a local Bank in Tanzania. The loan will be utilized to purchase machinery and equipment for establishment of a brewery in Moshi, Tanzania.

### Seychelles International Mercantile Banking Corporation (Nouvobanq) - Seychelles

The Bank approved a US\$ 2 million facility to Nouvobanq for on lending to Seychelles Civil Aviation Authority for the purposes of upgrading the country's Mahel and Praslin Airports.

### Uganda Telecom Limited Uganda

Following the successful conclusion of its first loan to Uganda Telecom Limited, the Bank approved a further term loan of US\$ 15 million to finance the importation, installation and commissioning of additional telecommunication equipment. The project will enable the company to undertake a major network expansion to improve its coverage and subscriber base in Uganda.

### Kafue River Cliff Limited - Zambia

The Bank's loan of US\$ 4.87 million to Kafue River Cliff Limited is to part finance the establishment of a 27-chalet three-star Lodge on the banks of Kafue River in Zambia.

### Kenya Pipeline Limited - Kenya

The Bank approved a term loan of US\$ 4.7 million to Kenya Pipeline Limited for the installation of a parallel pipeline from Mombasa to Nairobi and from Nairobi to Eldoret. The project also involves augmentation of existing pumping stations to cope with parallel operation of the two pipelines.

#### Malawi Telecommunications Limited - Malawi

The Bank approved a term loan of US\$ 22.9 million to Malawi Telecommunications Limited to finance the importation, installation and commissioning of fibre optic telecommunication equipment. The project will enable the company to undertake a major network expansion to improve its coverage and subscriber base.

### Port Launay Resort Limited - Seychelles

Through a syndication arrangement, the Bank approved a loan of US\$ 14 million to Port Launay Resort Limited of Seychelles. The loan will be utilized to develop a 268-roomed prime hotel on the South Western coast of Mahe in Seychelles.

### Universal Mining and Chemical Industries Limited - Zambia

The Bank approved a Shariah compliant US\$ 8.5 million to Universal Mining and Chemical Industries Limited. The project involves establishing a steel rolling mill to process iron and steel from scrap metal and iron ore. The Bank's loan will partly finance the plant and equipment requirements of the project.

#### Luuka General Enterprises - Uganda

A term loan of US\$ 600,000 to Luuka General Enterprises will part finance the installation and commissioning of additional polypropylene bags manufacturing line.

#### Coastal Travels - Tanzania

The Bank approved a lease finance of US\$ 1.503 million to Coastal Travels Limited to enable the company procure one 12-seater Cessna Caravan aircraft from United States of America.

#### Kinyara Sugar Limited - Uganda

The Bank's US\$ 9.5 million participation in a syndicated loan facility to Kinyara Sugar Limited is to part finance the expansion of the sugar manufacturing facility in Masindi, Uganda. The facility will be utilized to import additional plant and machinery for the rehabilitation and expansion of the sugar mill.

### Kenya School of Professional Studies Limited - Kenya

The Bank's loan of Kshs 320 million (equivalent to US\$ 5 million) to Kenya School of Professional Studies Limited is to part finance the conversion of the college into a university. The loan will be utilised for the construction of buildings and purchase of educational and office equipment such as computers, equipment, teaching aids and furniture and fittings.

### Tanganda Tea Company Limited - Zimbabwe

The Bank approved a loan of US\$ 1.676 million to Tanganda Tea Company Limited to finance purchase of mechanical plucking machines, tractors, other farm equipment and motor vehicles.

### Biomass and Renewable Energy - Rwanda

The Bank approved a loan of US\$ 1 million to Biomass and Renewable Energy of Rwanda to finance the procurement of machinery and equipment to set up an ultra modern biogas energy generation plant for Bralirwa Brewery located in Gisenyi Province of Rwanda.

#### Maweni Limestone Limited - Tanzania

The US\$ 20 million term loan approved to Maweni Limestone Limited of Tanzania is to finance the establishment of a clinker plant in Tanga and a cement plant in Dar-es-Salaam. The project is being funded through a co-financing arrangement with other lenders.

#### African Export-Import Bank - Headquartered in Egypt

The Bank approved subscription of an additional 100 shares in African Export-Import Bank at a value of US\$ 1.38 million. The proposed investment will double the current shareholding of the Bank in Afrexim.

## Trade Finance

Member States' absorption of the Bank's trade finance facilities saw a marked increase during the year consistent with the improved economic performance. Significant growth in transaction volumes was recorded with letters of credit opened during the year increasing to US\$ 223 million from the US\$ 176.6 million recorded in 2006. Trade finance disbursements, however, reduced from the US\$ 207.3 million recorded in 2006 to US\$ 155.5 million mainly as a result of the significant levels of letters of credit outstanding at the end of the year. Disbursements in respect of most of these letters of credit were expected in early 2008.

The Bank's export finance facilities facilitated the export of various commodities such as cotton, gold and tobacco while its import finance facilities were utilized for the procurement of essential inputs such as oil, chemicals and fertilizer.

## Portfolio Management

In 2007, the Bank enhanced its borrower-client relationship, improved its client information database, increased monitoring and site inspection visits, and developed closer relations with its co-financiers and local banks for better exchange of information on existing and potential borrowers. The Bank further strengthened the common early warning signs database on its clients on the basis of which it has made tremendous turnaround of defaulting projects and trade finance transactions and achieved major recoveries. The Bank will capitalize on the gains so far achieved in nursing and nurturing borrowers' businesses to maintain the quality of loan portfolios.

#### **Environmental and Social Management System**

Globally, there is growing recognition among financial institutions for sustainable development practices and socially responsible financing. The PTA Bank has over the years, embraced this initiative and has become one of the leaders in implementing environmental and social management policies in all bank financed projects and trade finance transactions. It takes a precautionary approach to environmental and social issues and maintains an institution-wide environmental and social risk management process throughout the lending process.

## Bank-wide Integrated Risk Management

The Bank put in place a Bank-wide Integrated Risk Management (BIRM) Framework keeping in view the Bank's multilateral character and unique position as a self-regulating institution. The framework draws from the principles and global best practices/standards applicable to international banking organizations.

The Board approved a comprehensive Integrated Risk Management Policy as a part of the implementation of a consultant's recommendations. The BIRM Policy articulates the Bank's risk appetite in terms of the overall risk profile is willing to accept in its business operations and covers Credit Risk, Market Risk, Operational Risk and environmental Risk.

The policy also lays down broad guidelines on approach, methodology for the measurement of risks, risk mitigation, computation and maintenance of minimum capital requirements in tune with the risk profile of the Bank.

Operations

## Operations

## Administration and Corporate Services

Administration and Corporate Services ensures the provision of support services through the functions of Corporate Affairs, Human Resources Management, Administration, Legal Services and Compliance with regulations and governance. The department is also responsible for steering the change management process in the Bank.

## **Corporate Affairs**

### The Board of Governors

The Board of Governors held its 23rd Annual Meeting in Mauritius, on 27th June 2007. Hon. Rama Krishna Sithanen, Deputy Prime Minister and Minister of Finance and Economic Development of Mauritius, was appointed as the Chairman of the Board of Governors to succeed Hon. Senator Dr. S.C. Mumbengegwi, the Minister of Finance and Economic Development of Zimbabwe.

During the Annual Meeting, the Board of Governors adopted the 2006 Annual Report and the 2006 Audited Financial Statements and also re-appointed Deloitte and Touche (Nairobi) as the Bank's External Auditors with effect from July 1, 2007. The Board also deliberated on various issues concerning the affairs of the Bank, including the first General Capital Increase, the 2008-2012 Corporate Plan and the relocation of the Bank to its Headquarters.

#### The Board of Directors

During the period under review, the Board of Directors held four regular meetings and made decisions on the Bank's operational activities and on various progress reports including Audit Reports and other policy matters concerning the Bank.

## **Human Resources Management**

The Bank's Human Resources philosophy is to support its short and long term goals and objectives through the development and application of policies and practices which ensure the recruitment and retention of a motivated workforce and the attainment of desirable performance levels in the Bank.

To this end, the Bank introduced improved HR practices, carried out various residential and in-house training programs aimed at improving competencies in various areas including leadership, performance management, project appraisal, environmental management and risk management. The Bank recruited various professional and support staff to meet its staffing needs and successfully carried out the annual staff performance appraisals.

The Bank's staff complement as at December 31, 2007 was 67 out of which 45 were professionals and the rest were support staff.

## Administration

During the year, procurement of goods and services and the provision of other logistical and administrative support services, such as transport, communications, protocol and insurance services were carried out at all levels in the Bank. In carrying out these activities, the emphasis was efficiency and value for money.

## Information services

In 2007, several aspects of ICT infrastructure were either upgraded or entirely re-engineered. The major areas covered include the end-user business suite, telephony, and the local and wide-area networks. This was done as part of a comprehensive exercise to address obsolescence as well as provide for the computing and connectivity requirements arising from the full-fledged revival of the Bujumbura Headquarters office. The new hardware and software systems deployed have gone a long way in ensuring efficient and effective access to end-user applications and communication within, and between, the Bank's two offices.

As in previous years, emphasis continued to be given to improvements in SAP system functionality, with development of enhanced and new reporting capabilities. Further investment in in-house skills in the area of SAP was undertaken resulting in the commencement of key implementations that are due to come on-line in 2008.

Maintenance of the Bank's website was also accorded due prominence that included the development of a version in French.

Earlier in the year, a strategy geared at ensuring alignment of the IT function with the Bank's Fourth Corporate Plan (2008-12) was developed. This is expected to guarantee continued realization of benefit from the Bank's investment in ICT.

## **Public Relations**

The Bank continued its close interaction with the media fraternity, thereby enhancing the positive publicity that it has received in the recent past. Publications were produced to enhance the Bank's image, as well as provide key information about the Bank.

Going forward, a road map to a complete re-branding and repositioning exercise will be explored, with a view to moving the bank onto a new operating platform.

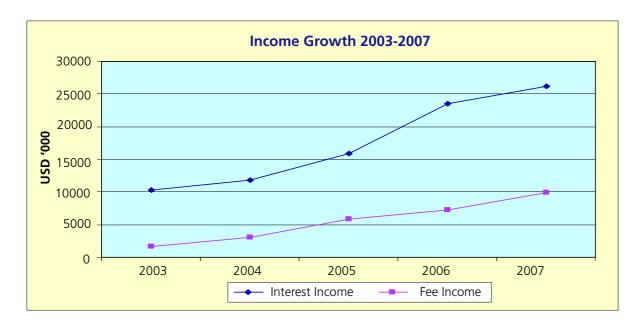
## Financial Management

2007 was the final year in the Bank's Five Year Corporate Plan 2003 to 2007. Besides providing an appropriate time frame to evaluate the Plan against actual performance, the year witnessed the attainment of a number of other important financial milestones. These include the formulation of a successor Plan covering the period 2008 to 2012 and approval by the Board of Governors of the first and major General Capital Increase. The milestones and the Bank's performance over the last five years provide a strong foundation for improved performance for the next Plan Period 2008-2012.

### **Income Growth**

During the year, the Bank earned US\$ 26.24 million as interest income, a 12% increase over the US\$ 23.52 million earned in 2006. This modest increase was realised against the backdrop of declining dollar interest rates triggered by the sub-prime mortgage crisis which occurred in the United States of America. Fees and commission income, however, recorded an impressive 38% growth to reach US\$ 9.97 million up from the US\$ 7.22 million earned in 2006. Higher volumes for letters of credit and increased project approvals realised as part of the Bank's income diversification strategy accounted for this growth.

As the following chart shows, interest income, fees and commission income recorded consistent growth during the plan period 2003 to 2007. An improved business environment and the pursuit of focused business development strategies contributed to these favourable results.



## **Increased Funding Costs**

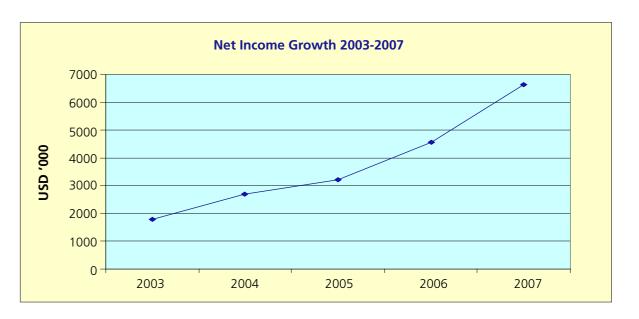
In addition to issuing a local currency bond during the year, the Bank took on new borrowings from Exim Bank of India, M&T Bank of USA, Ceskoslovenska Obchodni Banka AS of the Czech Republic and the Development Bank of South Africa. These borrowings were used to fund the growth of the Bank's project finance portfolio and contributed significantly to the US\$ 14.15 million of borrowing costs for the year.

### **Operating Expenditure and Provisions**

In keeping with established performance standards, operating expenses were well controlled. Despite increases in business volumes, increased staff compensation and the implementation of a new risk management framework, expenses increased by only 6% to US\$ 7.45 million from US\$ 7.03 million in 2006. The charge relating to loan loss provisions also increased marginally to US\$ 8.17 million compared to the US\$ 7.81 million recorded in 2006. By year-end, the cumulative loan loss provisions stood at US\$ 32.53 million, a level which provides adequate cover against potential credit losses on the Bank's non-performing portfolio.

Given the increased incomes and controlled expenditure, the Bank improved its profitability significantly. Net profits grew by an impressive 45% to reach US\$ 6.64 million compared to the US\$ 4.57 million earned in 2006.

The following chart shows the growth in profitability for the period 2003 to 2007.



### **Assets and Liabilities**

Notwithstanding the growth in lending activities, the Bank's balance sheet size remained almost unchanged. Total assets stood at US\$ 352.56 million compared to the US\$ 351.22 million level attained in 2006. A number of factors account for the lack of balance sheet growth, the main one being the significant proportion of lending categorised as "off balance sheet" by year-end because the underlying letters of credit had not been drawn. The un-drawn letters of credit amounted to US\$ 145.08 million compared to US\$ 31.05 million in 2006 and partly contributed to the reduction in trade finance loans from US\$ 112.46 million in 2006 to US\$ 103.56 million in 2007. Project finance loans, however, increased by 7% to reach US\$ 186.00 million.

Significant repayments of short term borrowings as part of the Bank's cost control measures also resulted in considerable balance sheet shrinkage. Short-term borrowings decreased by 31% to US\$ 75.33 million in 2007 from the US\$ 108.47 million level recorded in 2006. Long-term borrowings, however, increased by 25% to reach US\$ 124.90 million.

## Financial Management

#### **Resource Mobilisation**

Mobilisation of competitively priced funds remained a top priority during the year. These efforts continued to be aided by the Bank's positive credit ratings of AA (long term, national) and BB (long term, international) issued by Global Credit Rating of South Africa.

While the bulk of additional resources were provided by existing Lenders, new relationships were established with a view to diversifying the Bank's resource base. The facilities secured in 2007 include US\$ 15 million line of credit from Export Import Bank of India, JPY 1.50 billion (US\$ 12.50 million) line of credit from the Japan Bank for International Cooperation and a US\$ 7.5 million medium term facility from Ceskoslovenska Obchodni Banka AS of the Czech Republic. The Bank also secured short term facilities from Dresdner Bank, DZ Bank and BHF Bank and, in addition, successfully issued a second Ksh 1 billion (equivalent to US\$ 15 million) local currency bond in Kenya. The bonds are listed on the Nairobi Stock Exchange.

Notes 23 and 24 to the audited financial statements provide details of the Bank's borrowings while Note 26(e) contains details of the US\$ 160 million worth of facilities available for lending as at 31st December 2007.

## 2008 - 2012 Corporate Plan

The 2008 2012 Corporate Plan was approved by the Board of Governors at its 23rd meeting held on 27th June, 2007 in Mauritius. The Plan outlines various strategic initiatives and contains operational and financial targets which aim to build on the Bank's growth momentum by targeting growth and profitability. The Plan seeks to grow the Bank beyond US\$ 1.0 billion in assets in five years while returns on capital employed are targeted to improve beyond 9% per annum over the period.

## **GCI-1 - First General Capital Increase**

In order to strengthen the Bank's financial capacity and enable it to undertake various programmes outlined in its 2008-2012 Corporate Plan, the Board of Governors at its 23rd Annual Meeting approved the Bank's First General Capital Increase, GCI-1. The key elements of the GCI-1 include an increase in the authorised capital from US\$ 544 million to US\$ 2.0 billion, an increase in the subscribed capital from US\$ 345 million to US\$ 1.08 billion and an increase in the paid in capital from US\$ 118 million to US\$ 236 million. The additional paid in capital is to be paid over a five year period beginning 2009. As at 31st December, 2007, the Bank's callable, payable and paid-in capital amounted to US\$ 857 million, US\$ 222 million and US\$ 117.55 million respectively as detailed in Appendix III to the Audited Financial Statements.

Besides boosting capital adequacy, the increased capital will go a long way to enhance the confidence levels of the Bank's business partners and facilitate increased business collaboration.



Audited Financial
Statements For The Year
Ended December 31, 2007

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## **Board of Governors**

Hon. Rama Krishna Sithanen Deputy Prime Minister and Minister of Finance and Economic Development

Republic of Mauritius

Chairman of the Board of Governors

H.E. Clotilde Nizigama Minister of Finance

Republic of Burundi

H.E. Hassane Hamadi Minister of Finance, Budget, Trade and Investments

Federal Islamic Republic of Comoros

H.E. Ali Farah Assoweh Minister of Economy, Finance and Planning

Republic of Djibouti

H.E. Dr. Rachid Mohamed Rachid Minister of Foreign Trade and Industry

Republic of Egypt

Hon. Sufian Ahmed Minister of Finance and Economic Development

Republic of Ethiopia

Hon. Berhane Abrehe Minister of Finance

State of Eritrea

Hon. Uhuru Kenyatta Deputy Prime Minister and Minister for Trade

Republic of Kenya

Hon. Dr. Goodall Gondwe Minister of Finance

Republic of Malawi

Hon. Dr. Samuel C. Mumbengengwi Minister of Finance and Economic Development

Republic of Zimbabwe

Hon. James Musoni Minister of Finance and Economic Planning

Republic of Rwanda

Hon. Jacquelin Dugasse Minister of National Development

Seychelles

Hon. Dr. Awad Ahmed Aljaz Minister of Finance and National Economy

Republic of Sudan

Hon. Mustafa Mkulo Minister of Finance

United Republic of Tanzania

Hon. Dr. Ezra Suruma Minister of Finance, Planning and Economic Development

Republic of Uganda

Hon. Ng'andu P. Magande Minister of Finance and National Planning

Republic of Zambia

Mr. Mandla Gantsho Vice President - Operations, South, East and North African Region

African Development Bank (AfDB)

H.E. Dr. Zhou Xiaochuan Governor, People's Bank of China

People's Republic of China

## Corporate Information (Continued)

## **Directors**

Mr. M. Dhoorundhur Director for Zimbabwe, Rwanda, Eritrea and Mauritius

Chairman

Mr. Elhafiz A. E. Taha Director for Uganda, Sudan and Comoros

Vice Chairman

Mr. William A. Mlaki Director for Tanzania, Egypt and Djibouti

Mr. Melaku Kifle Director for Burundi, Malawi, Ethiopia and Seychelles

Mr. Moses K. Nawa Director for Kenya, Zambia and Somalia

Mr. Jianjun Xu Director for China

Mr. Bu Yu Alternate Director for China

Dr. Kordje Bedoumra Director for African Development Bank (AfDB)

Dr. M. A. Ojelade Alternate Director for African Development Bank (AfDB)

Dr. Michael Gondwe President

**Auditors** Deloitte & Touche

Certified Public Accountants (Kenya)

Kirungii, Ring Road

Westlands, P O Box 40092 - 00100 Nairobi, Kenya

**Headquarters** Eastern and Southern African Trade and Development Bank

P O Box 1750, Bujumbura, Burundi

Telephone: 257 (22) 4966 / 257 (22) 4625

Fax : 257 (22) 4983

Telex : 5142 Bdi - 5198 ZEP Bdi

Other Office Eastern and Southern African Trade and Development Bank

22nd and 23rd Floors, NSSF Building, Bishops Road

P O Box 48596 - 00100 Nairobi, Kenya Telephone : 254 (20) 2712250 (8 lines)

Fax : 254 (20) 2711510 Swift : ESATKENA

E-mail : Official@ptabank.org
Web-Site : http:\\www.ptabank.org

## Report of the Directors

The Directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December, 2007.

### **Principal Activities**

The principal activity of the Bank is to finance, where possible, viable projects and trade activities which have the potential to make the economies of the Member States increasingly complementary to each other.

The Bank is established by a Charter pursuant to Chapter 9 of the Treaty for the establishment of the Preferential Trade Area (PTA), as subsequently repealed and replaced by the Treaty for the Common Market for the Eastern and Southern African States.

### **Results**

US\$
Profit for the year transferred to revenue reserve 6,644,776

#### Director

In accordance with the Charter of the Bank, the Directors hold office for a term of three years and are, therefore, not subject to retirement by rotation, annually.

### Auditors

Deloitte & Touche have expressed their willingness to continue in office in accordance with Article 26 (2) (e) of the Charter of the Bank.

BY ORDER OF THE BOARD

Jo- ho

Chairman Nairobi

14 March 2008

### Statement of Directors' Responsibilities

### Statement of Directors' Responsibilities

The Bank's Charter requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Bank's Charter. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

\_\_\_

14 Marl 2008

Jo- ho

14 March 2008

### Independent Auditors' Report to the Members of Eastern and Southern African Trade and Development Bank (PTA Bank)

We have audited the financial statements of Eastern and Southern African Trade and Development Bank set out on pages 70 to 111 which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### Respective responsibilities of directors and auditors

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Bank's Charter. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, proper books of account have been kept by the Bank and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Bank at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Bank's Charter.

Delaitertanciae 22 April 2008

	Note	2007 USD	2006 USD
INCOME			
Interest Income	3	26,235,378	23,517,953
Interest Expense	4	(12,922,372)	(10,537,064)
Other Borrowing Costs	5	(1,229,990)	(1,056,344)
		(14,152,362)	(11,593,408)
Net Interest Income		12,083,016	11,924,545
Fees and Commissions Income	6	9,972,144	7,219,485
Other Income	7	783,174	636,105
TOTAL INCOME		22,838,334	19,780,135
EXPENDITURE			
Operating Expenses	8	(7,446,039)	(7,025,715)
Asset Impairment Charges	10	(574,324)	(970,740)
Impairment on Project and Trade			
Finance Loans	17	(8,167,495)	(7,814,344)
Net Foreign Exchange (losses)/gains		(5,700)	601,483
Total Expenditure		(16,193,558)	(15,209,316)
DROEIT FOR THE VEAR		6 644 776	A 570 040
PROFIT FOR THE YEAR		6,644,776	4,570,819

	Note	2007 USD	2006 USD
ASSETS			
Cash and balances with other banks	11	32,709,820	37,753,985
Investment in Government securities	12	3,621,840	2,973,344
Other receivables	14	1,944,389	1,874,639
Trade finance loans	15	103,561,599	112,459,082
Project loans	16	186,003,913	173,138,111
Equity investments	18	6,701,103	4,867,548
Property and equipment	19	17,012,417	17,235,072
Intangible assets	20	31,006	40,723
Deferred expenditure	21	1,337,435	874,758
TOTAL ASSETS		352,923,522	351,217,262
EQUITY AND LIABILITIES			
LIABILITIES			
Other payables	22	20,656,887	17,631,593
Short term borrowings	23	75,543,941	108,466,655
Long term borrowings	24	124,904,783	100,005,879
TOTAL LIABILITIES		221,105,611	226,104,127
CAPITAL AND RESERVES			
Paid up capital	25	117,548,133	117,488,133
Revenue reserve		14,269,778	7,625,002
SHAREHOLDERS' EQUITY		131,817,911	125,113,135
TOTAL EQUITY AND LIABILITIES		352,923,522	351,217,262

The financial statements on pages 70 to 111 were approved by the Board of Directors on March 2008 and were signed on its behalf by:



Director

### Statement of Changes in Equity FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital USD	Revenue reserve USD	Total equity USD
At 1 January 2006	116,581,467	3,054,183	119,635,650
Capital paid	906,666	-	906,666
Profit for the year	-	4,570,819	4,570,819
At 31 December 2006	117,488,133	7,625,002	125,113,135
ACST December 2000	117,400,133	7,023,002	123,113,133
At 1 January 2007	117,488,133	7,625,002	125,113,135
Capital paid	60,000	-	60,000
Profit for the year	-	6,644,776	6,644,776
At 31 December 2007	117,548,133	14,269,778	131,817,911

	Note	2007 USD	2006 USD
OPERATING ACTIVITIES			
Net cash (used in)/generated from operations	26(a)	(2,408,145)	9,036,294
INVESTING ACTIVITIES			
Purchase of property and equipment		(244,291)	(90,504)
Purchase of intangible assets		(12,173)	(8,847)
Proceeds on disposal of property and equipment		42,495	141
Purchase of equity investments		(1,833,555)	(672,109)
Proceeds on disposal of subsidiary company		-	118,115
NET CASH USED IN INVESTING ACTIVITIES		(2,047,524)	(653,204)
FINANCING ACTIVITIES			
Receipt of capital subscriptions		60,000	906,666
(DECREASE)/INCREASE IN CASH		(4.205.660)	0 200 756
AND CASH EQUIVALENTS		(4,395,669)	9,289,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		40,727,329	31,437,573
CASH AND CASH EQUIVALENTS AT END OF YEAR	26(c)	36,331,660	40,727,329
FACILITIES AVAILABLE FOR LENDING	26(e)	159,858,615	115,675,041

### 1 ESTABLISHMENT

Eastern and Southern African Trade and Development Bank ("the Bank") is established by a Charter pursuant to Chapter 9 of the Treaty for the establishment of the Preferential Trade Area (PTA), as subsequently repealed and replaced by the Treaty for the Common Market for the Eastern and Southern African States.

### 2 PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards.

### Adoption of new and revised International Financial Reporting Standards

### Standards and interpretations effective in the current period

In the current year, the Bank has adopted *IFRS 7 Financial Instruments: Disclosures,* which is effective for annual reporting periods beginning on or after 1 January 2007 and the consequential amendments to *IAS 1 Presentation of financial statements.* 

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the bank's financial instruments and management of capital.

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives; and
- IFRIC 10 Interim Financial Reporting and Impairment

The adoption of these interpretations has not led to any changes in the bank's accounting policies.

### Standards and interpretations in issue but not yet adopted

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IAS 23 (Revised) Borrowing costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments 1 (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for accounting periods beginning on or after 1 January 2008);

The directors anticipate that the adoption of the above standards and interpretations will have no material impact on the financial statements of the bank in the period of initial application.

The principal accounting policies adopted remain unchanged from the previous year and are stated below:

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Basis of preparation**

The financial statements are prepared on the historical cost basis of accounting.

### Income recognition

Income from loans and investments is recognised in the income statement when it accrues, by reference to the principal outstanding and the interest rate applicable. Interest on arrears of payable capital is taken to revenue when received.

Fees and commissions are recognised at the time of effecting the transaction.

Dividend from investments is recognized when the bank's right to receive payment has been established.

Grants are accounted for when received or where firm commitment for the grant has been received. However, designated projects (restricted) grants are taken into income on the basis of related expenditure incurred, and any unexpended grants are carried forward as a liability at the year-end.

Unutilised funds are carried forward as unexpended grants.

### **Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

### **Foreign currencies**

Assets and liabilities in foreign currencies are translated into United States Dollars at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated at rates ruling at the dates of the transactions. The resulting exchange differences are dealt with in the income statement.

### Property and equipment

Property and equipment are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment loss.

Depreciation is calculated at rates which are estimated to write-off the cost of property and equipment in equal annual instalments over their expected useful lives. The expected useful life of each class of asset is as follows:

Motor vehicles5 yearsOffice equipment5 yearsFurniture and fittings10 yearsBuildings50 years

Freehold land is not depreciated.

### Intangible assets

Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, generally not exceeding five years.

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

### **Impairment**

At each balance sheet date, the Bank reviews the carrying amounts of its financial, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

### **Deferred expenditure**

Expenditure incurred in relation to a borrowing facility from which the Bank will derive benefits over a period beyond the year in which the facility is secured, if material, is capitalised and amortised over the life of the facility.

### **Provisions for credit risk**

Provisions are made against loans when, in the opinion of the directors, recovery is doubtful. The aggregate provisions which are made during the year, less amounts released and recoveries of bad debts previously written off are dealt with in the income statement. Bad debts are written off in part or in whole when the extent of the loss has been confirmed.

### **Taxation**

In accordance with paragraph 6 of Article 43 of its Charter, the Bank is exempt from all forms of taxation.

### Share capital

In accordance with Article 7 of the Charter, issued and called-up shares are being paid for in instalments by the members. Payable capital is credited as share capital and instalments not yet due and due but not paid at the balance sheet date are deducted there from.

### **Financial instruments**

A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument.

The bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

### Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

### Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Gains and losses arising

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

### **Employee entitlements**

Employee entitlements to annual leave and service pay are recognised when they accrue to employees.

A provision is made for the estimated liability of annual leave and service pay as a result of services rendered by employees up to the balance sheet date.

### **Retirement benefit costs**

The Bank operates a defined contribution provident fund scheme for its employees. The Bank's contributions to the contribution plan are charged to the income statement in the year to which they relate. The funds of the scheme are held independently of the Bank's assets.

### **Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by customers to third parties. The Bank will only be required to meet these obligations in the event of the customers' default. These obligations are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

### Comparatives

When necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

### Critical judgements in applying the Bank's accounting policies

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances of assets and liabilities within the next financial year.

### Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets.

### **Estimates and uncertainties**

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

		2007 USD	2006 USD
3	INTEREST INCOME		
	On loans and facilities:		
	Ordinary trade finance facilities	9,665,967	7,624,750
	Project loans	15,305,613	14,496,135
		24,971,580	22,120,885
	On placements:		
	Foreign investments	1,263,798	1,397,068
		26,235,378	23,517,953
4	INTEREST EXPENSE		
	Interest payable on funds borrowed from:		
	Banks and financial institutions	9,762,161	7,221,579
	Other institutions	3,160,211	3,315,485
		12,922,372,	10,537,064
5	OTHER BORROWING COSTS		
	Arrangement fees	362,083	_
	Facility and management fees	357,486	470,781
	Amortisation of deferred expenditure	298,189	287,291
	Bank commissions and charges	62,582	38,327
	Drawdown fees Others	56,166 93,484	143,551 116,394
	Others	95,464	110,534
		1,229,990	1,056,344
6	FEES AND COMMISSIONS INCOME		
U	Various fees in trade finance	7,144,937	4,858,714
	Appraisal fees on project finance	1,490,981	1,065,096
	Commitment fees on project finance	388,973	573,993
	Other fees	947,253	721,682
		9,972,144	7,219,485

		2007 USD	2006 USD
7	OTHER INCOME		
	Asset recoveries	405,312	177,299
	Grant income *	254,531	192,930
	Dividends receivable	58,144	33,310
	Profit on disposal of property and equipment	41,200	141
	Interest on staff loans	15,131	14,011
	Other	8,856	1,383
	Excess accruals written back	-	138,274
	Refund of receivership fees	-	78,757
		783,174	636,105

<sup>\*</sup> The grant is provided by the African Development Bank (AfDB) to fund various consultancies and training. The proceeds are credited to the AfDB liability account and included in other payables (note 22). Transfers are made to income upon utilisation of the grant funds.

### **8 OPERATING EXPENSES**

	Staff costs (Note 9)	4,839,069	4,788,287
	Consultants and advisers	601,200	444,405
	Other operating expenses	503,543	452,816
	Official missions	476,256	393,805
	Depreciation	465,651	437,491
	Board of directors meetings	252,700	143,823
	Board of governors meetings	169,877	119,088
	Business promotion	85,853	54,146
	Audit fees	30,000	30,000
	Amortisation of intangible assets	21,890	161,854
		7,446,039	7,025,715
9	STAFF COSTS		
	Salaries and wages	2,987,737	2,738,470
	Other costs	954,195	761,510
	Staff provident fund contributions	581,598	563,707
	Provision for service and leave pay	315,539	724,600
		,	
		4 839 069	4 788 287

		2007 USD	2006 USD
10	IMPAIRMENT OF ASSETS		
	Investment in subsidiary	-	281,885
	Equity investments	-	284,074
	Appraisal fees	574,324	254,643
	Project loans	-	149,039
	Others	-	1,099
		574,324	970,740
11	CASH AND BALANCES WITH OTHER BANKS		
	Current account (i)	6,151,907	2,372,070
	Call and term deposits with banks (ii)	26,557,913	35,381,915
		32,709,820	37,753,985
	(i) Current accounts		
	Amounts maintained in USD	5,741,151	2,227,931
	Amounts maintained in other currencies:		
	Ugandan shillings	127,897	53,043
	Kenyan shillings	117,309	60,582
	Euro	110,717	21,417
	Tanzania Shillings	21,056	2,701
	British Pounds	20,121	497
	Burundi Francs	9,909	4,214
	Malawi Kwacha	3,279	721
	Japanese Yen	428	403
	South African Rand	40	561
		410,756	144,139
		6,151,907	2,372,070

The average effective interest rate on current accounts was 3.37% (2006 - 4.06%) per annum.

		2007 USD	2006 USD
	(ii) Call and term deposits with banks		
	United States Dollars	19,955,612	31,330,074
	Amounts maintained in other currencies:		
	Kenya Shillings	6,602,301	2,613,707
	Euro Tanzania Shillings	-	700,591 696,895
	Burundi Francs	-	40,648
		6,602,301	4,051,841
		26,557,913	35,381,915
		2007	2006
	The effective interest rates per annum		
	by currency of deposit were as follows: Tanzania Shillings	5.50%	9.84%
	Burundi Francs	6.68%	8.00%
	Kenya Shillings	6.39%	6.94%
	United States Dollars Euro	4.80% 3.86%	4.53% 2.25%
	Euro	3.80%	2.25%
12	INVESTMENTS IN GOVERNMENT SECURITIES		
	Treasury bills: Held to maturity Maturing within 90 days of the balance sheet date		
	Face value	3,679,163	3,076,498
	Less: Unearned discount	(57,323)	(103,154)
		3,621,840	2,973,344

The treasury bills, issued by the United Republic of Tanzania, represented investments made in Tanzania Shillings bearing interest at 10.54% per annum. These investments were managed by CRDB Bank Limited and mature within three months from the balance sheet date.

		2007 USD	2006 USD
13	INVESTMENT IN SUBSIDIARY - HELD FOR SALE		
	Investment in subsidiary (at cost)		
	At 1 January Disposal	-	400,000 (400,000)
	At 31 December	-	-

The investment in COMESANET was written off during financial year ended 31 December 2006. The net assets of the subsidiary were recognised as disposal proceeds.

### 14 OTHER RECEIVABLES

Appraisal fees	1,183,744	966,157
Staff loans and advances	442,994	361,844
AfDB grant receivable	152,692	-
Other debtors	112,983	76,772
Prepayments	51,976	136,067
Guarantee deposits	-	333,799
AFDB		
	1,944,389	1,874,639

Staff loans and advances are granted in accordance with the Staff Rules and Regulations approved by the Board of Directors. The effective interest rate on staff loans and advances was 4.51% (2006 - 4.47%) per annum.

### 15 TRADE FINANCE LOANS

Principal loans Interest receivable	106,674,588 4,600,201	114,171,004 3,535,649
Gross loans	111,274,789	117,706,653
Impairment on trade finance loans (note 17)	(7,713,190)	(5,247,571)
Net loans	103,561,599	112,459,082

The weighted average effective interest rate was 8.30% (2006 - 8.13%) per annum.

		2007 USD	2006 USD
15	TRADE FINANCE LOANS (Continued)		
	Analysis of gross loans by maturity:		
	Maturing: Within one year One to three years	68,418,931 42,855,858	79,104,455 38,602,198
		111,274,789	117,706,653

The gross non performing trade finance loans was USD 9,533,748 (2006 - USD 9,533,748). The impairment provisions related to these loans amounted to USD 5,613,858 (2006 - USD 4,237,125) hence the carrying value of the loans amount to USD 3,919,890 (2006 - USD 5,296,623).

		2007 USD	2006 USD
16	PROJECT LOANS		
	Approved loans less cancellations Less: Unsigned	652,408,342 (270,446,644)	485,248,144 (150,181,034)
	Loans signed Less: Undisbursed - Letters of credit opened - Letters of credit not yet opened	381,961,698 (17,851,409) (47,525,629)	335,067,110 (15,614,685) (56,154,296)
	Loans disbursed Interest capitalized Loans repaid	316,584,660 25,012,341 (139,106,163)	263,298,129 18,618,720 (108,197,250)
	Principal loan balances Interest receivable	202,490,838 8,333,572	173,719,599 18,793,186
	Gross loans	210,824,410	192,512,785
	Impairment on project loans (note 17)	(24,820,497)	(19,374,674)
	Net loans	186,003,913	173,138,111

The average effective interest rate was 10.99% (2006 - 10.75%) per annum.

2007	2006
USD	USD

### 16 PROJECT LOANS (Continued)

Analysis of gross loans by maturity

Maturing:

Within one year One year to three years	26,650,552 57,403,560	27,626,321 53,122,237
Three to five years	33,466,327	29,080,517
Over five years	93,303,971	82,683,710
	210,824,410	192,512,785

The aggregate non performing project loans was USD 45,168,879 (2006 - USD 42,475,901). The impairment provisions related to these loans amounted to USD 20,777,247 (2006 - USD 16,830,124) hence the carrying value of the loans amounted to USD 24,391,632 (2006 - USD 25,645,777) at the end of the year.

### 17 IMPAIRMENT ON PROJECT AND TRADE FINANCE LOANS

The movement in provisions is as follows:

	Project loans USD	Trade finance loans USD	Total provisions USD
At 1 January 2006 Amounts re-classified Amounts written-off Charge for the year	13,181,123 200,000 (360,349) 6,353,900	4,804,485 (200,000) (817,358) 1,460,444	17,985,608 - (1,177,707) 7,814,344
At 31 December 2006	19,374,674	5,247,571	24,622,245
At 1 January 2007 Amounts written-off Charge for the year	19,374,674 (195,630) 5,641,453	5,247,571 (60,423) 2,526,042	24,622,245 (256,053) 8,167,495
At 31 December 2007	24,820,497	7,713,190	32,533,687

In the opinion of the directors, the current levels of provisions reflect a prudent assessment of the quality of the Bank's loan portfolio.

### 18 EQUITY INVESTMENTS

### (i) EQUITY PARTICIPATION – FAIR VALUE THROUGH PROFIT OR LOSS

Share-h	olding %	Original cost	Fair value gain/ (losses) to 31 Dec 2006	Fair value as at 31-Dec 2006	Additions at cost in year to 31 Dec 2007	value gain/ (losses) to 31 Dec 2007	Fair value as at 31-Dec 2007
PTA Reinsurance	6.57	841,588	525,914	1,367,502	-	-	1,367,502
Aureos East Africa Fund	5.00	1,406,634	-	1,406,634	398,414	-	1,805,048
African Export Import Bank	0.13	400,000	292,659	692,659	-	-	692,659
Tononoka	5.00	600,000	(300,000)	300,000	-	-	300,000
Tanruss	4.06	1,755,000	(1,537,222)	1,052,353	-	-	1,052,353
AFGEM	0.33	48,400	-	48,400	-	-	48,400
Africa Trade Insurance							
Company	8.00	100,000	(100,000)	-	-	-	-
Gulf African Bank	5.33	-	-	-	1,435,141	-	1,435,141
		5,151,622	(1,118,649)	4,867,548	1,833,555	-	6,701,103

The Bank has subscribed to the equity of various projects in its Member States. In addition, the Bank has invested in African Export Import Bank, PTA Reinsurance, Aureos East Africa Fund and Africa Trade Insurance Company. The Bank's participation is expressed in US Dollars.

In 2007, USD 398,414 (2006 - 672,109) of new investment was made in Aureos East Africa Fund; and USD 1,435,141 (2006 - nil) was made in Gulf African Bank.

(ii)	INSTALMENTS PAID	2007 USD	2006 USD
	Total subscribed capital Less: Instalments not due	8,621,717 (1,636,540)	7,186,576 (2,034,954)
	Instalments paid	6,985,177	5,151,622
	Unpaid subscriptions expressed in US dollars at year-end rates comprised:		
	African Export Import Bank	600,000	600,000
	PTA Reinsurance	841,588	841,588
	Aureos East Africa Fund	194,952	593,366
		1,636,540	2,034,954

### 19 PROPERTY AND EQUIPMENT

	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
COST					
At 1 January 2006 Additions Disposals	18,520,559	293,165 61,646 (81)	574,083 7,517	770,757 21,341 -	20,158,564 90,504 (81)
At 31 December 2006	18,520,559	354,730	581,600	792,098	20,248,987
At 1 January 2007 Additions Disposals	18,520,559	354,730 122,292 (124,521)	581,600 16,771	792,098 105,228 (7,629)	20,248,987 244,291 (132,150)
At 31 December 2007	18,520,559	352,501	598,371	889,697	20,361,128
DEPRECIATION					
At 1 January 2006 Charge for the year Disposals	1,110,591 370,411 -	273,714 16,441 (81)	496,606 16,951	695,594 33,688 -	2,576,505 437,491 (81)
At 31 December 2006	1,481,002	290,074	513,557	729,282	3,013,915
At 1 January 2007 Charge for the year Disposals	1,481,002 370,411	290,074 38,180 (124,521)	513,557 17,910	729,282 39,150 (6,334)	3,013,915 465,651 (130,855)
At 31 December 2007	1,851,413	203,733	531,467	762,098	3,348,711
NET BOOK VALUE					
At 31 December 2007	16,669,146	148,768	66,904	127,599	17,012,417
At 31 December 2006	17,039,557	64,656	68,043	62,816	17,235,072

Land and buildings represent costs incurred in the construction of the Bank's Headquarters Building in Burundi. The land on which the building stands was granted by the Government of Burundi. The value of this land has not been reflected in the financial statements.

Included in furniture, fittings and office equipment are assets with a cost of USD 2,351,021 (2006 - USD 2,358,775) which were fully depreciated. The normal annual depreciation charge on these assets would have been USD 459,625 (2006 – USD 461,635).

		2007 USD	2006 USD
20	INTANGIBLE ASSETS		
	COST At 1 January Additions	1,054,442 12,173	1,045,595 8,847
	At 31 December	1,066,615	1,054,442
	AMORTISATION		
	At 1 January Charge for the year	1,013,719 21,890	851,865 161,854
	At 31 December	1,035,609	1,013,719
	NET BOOK VALUE At 31 December	31,006	40,723
	Intangible assets relate to cost of acquired computer software.		
21	DEFERRED EXPENDITURE		
	COST		
	At 1 January Additions	1,432,049 760,866	1,232,049 200,000
	At 31 December	2,192,915	1,432,049
	AMORTISATION		
	At 1 January Charge for the year	557,291 298,189	270,000 287,291
	At 31 December	855,480	557,291
	NET BOOK VALUE At 31 December	1,337,435	874,758

Deferred expenditure comprises export credit insurance costs and costs incurred to raise, issue and list local currency bonds in the Bank's member countries. These costs are amortised over the life of the underlying borrowings and bonds.

		2007 USD	2006 USD
22	OTHER PAYABLES		
	Collection account deposits Provision for staff benefits Provident fund Accrued expenses Unexpended AFDB Grant Prepaid rent Other creditors	16,421,119 2,202,385 1,590,558 136,128 - 128,122 178,575	13,830,184 2,087,572 1,301,194 186,282 102,364 66,654 57,343
		20,656,887	17,631,593

### 23 SHORT TERM BORROWINGS

### (a) CERTIFICATES OF DEPOSIT

Lender	Date of Renewal/ Advance	Maturity Date	Currency	2007 USD	2006 USD
Southern African Media					
Development Fund	11/06/2007	11/06/2008	USD	700,000	700,000
PTA Reinsurance	14/08/2007	14/02/2008	USD	735,864	696,964
PTA Reinsurance	14/11/2007	14/02/2008	USD	589,869	559,465
PTA Reinsurance	30/07/2007	30/01/2008	USD	571,319	541,039
PTA Reinsurance	01/12/2007	01/06/2008	USD	422,169	394,200
PTA Reinsurance	17/08/2007	17/02/2008	USD	110,346	104,480
PTA Reinsurance	11/12/2007	11/06/2008	USD	71,727	68,040
PTA Reinsurance	12/11/2006	03/04/2007	USD	-	24,237
Comesa yellow Cards Insurance Pool	22/08/2007	21/02/2008	USD	316,870	300,000
Comesa yellow Cards Insurance Pool	02/08/2007	02/02/2008	USD	262,454	248,603
Comesa yellow Cards Insurance Pool	21/07/2007	21/01/2008	USD	112,840	106,843
Comesa yellow Cards Insurance Pool	19/10/2007	18/04/2008	USD	50,000	94,456
Comesa yellow Cards Insurance Pool	16/08/2007	16/02/2008	USD	99,758	92,805
Comesa yellow Cards Insurance Pool	04/07/2007	04/01/2008	USD	94,822	89,819
Sub total for Certificates of Deposit				4,138,038	4,020,951

### (b) OTHER SHORT TERM BORROWINGS

Lender	Date of Renewal/ Advance	Maturity Date C	urrency	2007 USD	2006 USD
AFREXIM Bank	30/11/2007	28/05/2008	USD	25,833,333	20,200,000
FMO*	15/10/2007	15/01/2008	USD	15,000,000	15,000,000
Fortis Bank	31/10/2007	28/04/2008	USD	3,426,449	12,792,378
Commerzbank	31/10/2007	02/01/2008	USD	965,956	10,098,801
Standard Bank of South Africa	02/12/2007	02/06/2008	USD	482,000	10,065,130
Islamic Development Bank	07/03/2006	11/03/2007	USD	-	9,327,648
ING Bank	13/11/2006	29/03/2007	USD	-	8,478,147
Barclays Bank	14/12/2007	14/03/2008	USD	16,000,000	6,750,000
Bank of Tanzania	21/11/2007	21/02/2008	USD	5,000,000	5,000,000
BHF Bank	27/12/2007	25/02/2008	USD	737,382	-
CRDB Bank	08/01/2007	01/02/2008	USD	2,500,000	2,768,139
KBC Bank	03/11/2006	02/01/2007	USD	-	1,250,991
Standard Chartered Bank London	14/11/2007	12/05/2008	USD	684,123	-
Standard Chartered Bank Kenya	19/09/2006	21/05/2007	USD	-	1,534,625
Sub total for other short term borrowings				70,629,243	103,265,859
Interest payable		775,660	1,179,845		
Certificates of deposit (note 23(a))					4,020,951
Total short term borrowings				75,543,941	108,466,655

The effective interest rate during the year was 6.44% (2006 - 6.24%) per annum.

<sup>\*</sup> Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.

# Notes to the Financial Statements FOR THE YEAR ENDED 31 DECEMBER 2007

**LONG TERM BORROWINGS** 

					Am 31 De	Amounts as at 31 December 2007		Ar 31 D	Amount as at 31 December 2006	10
Lender	Date of Renewal/ disburse- ment	f / - Maturity t Date	Currency	Amount in Currency	Amount in USD	Amount due within one year USD	Amount due after one year USD	Balance outstanding USD	Amount due within one year USD	Amount due after one Year USD
African Development Bank	Ink	31/05/18	USD	31,497,224	31,497,224	1,497,224	30,000,000	32,423,611	2,759,854	29,663,757
Tanzania Local Currency Bonds	Bonds 01/09/03	3 15/02/10	TSH	000'000'000'6	7,846,556	2,615,519	5,231,037	10,163,442	2,365,899	7,797,543
KBC Bank	27/06/02	2 08/12/10	USD	8,159,864	8,159,864	2,822,975	5,336,889	10,878,634	2,948,460	7,930,174
Kenya local currency bonds I	nds I 04/07/05	5 05/01/10	KES	800,000,000	12,539,185	2,507,837	10,031,348	11,009,439	11,282	10,998,157
Kenya local currency bonds II	nds II 12/10/07	7 31/10/14	KES	1,000,000,000	15,673,981	1	15,673,981	•		ı
Exim Bank of India Loan	29/11/99	Various	USD	21,506,637	21,506,637	5,547,683	15,958,954	18,426,103	4,505,653	13,920,450
M & T Bank	03/12/03	30/09/10	USD	7,754,854	7,754,854	2,356,602	5,398,252	7,207,181	2,222,369	4,984,812
Export Development										
Corporation of Canada	01/09/05	5 18/07/10	USD	4,890,525	4,890,525	1,732,456	3,158,069	6,620,831	1,810,624	4,810,207
Ceskoslovenska										
Obchodni Banka SA	03/01/05	30/05/17	USD	1,732,934	1,732,934	1,732,934	ı	•	1	ı
Development Bank of										
South Africa	02/03/07	30/06/17	USD	10,027,416	10,027,416	27,416	10,000,000	•	•	1
Overseas Private Investment	17/09/03	3 15/03/15	USD	1,400,000	1,400,000	•	1,400,000	1,400,000	•	1,400,000
Bank of Uganda	31/12//04	1 30/06/11	NGX	964,013,807	268,070	216,573	351,497	665,222	212,337	452,885
and fotol for a part and lot Total					100 507 046	21 057 210	102 540 027	00 707 60	077 90 91	01 057 005
Interest payable	66				1,307,537		- 0,040,040	1,211,416	1,211,416	-
Total long term borrowings	ngs				124,904,783	22,364,756	102,540,027	100,005,879	18,047,894	81,957,985

		2007 USD	2006 USD
25	SHARE CAPITAL		
	Authorised capital: 88,234 (2006: 40,000) ordinary shares	2 000 000 000	E 4 4 000 000
		2,000,000,000	
	Less: Unsubscribed	(921,142,108)	(189,883,200)
	Subscribed capital: 48,876 (2006: 26,038) ordinary shares		
	of US Dollars 22,667 each (2006: 13,600 each)	1,078,857,892	354,116,800
	Less: Callable capital	(857,283,647)	(236,077,867)
	Payable capital	221,574,245	118,038,933
	Less: Amounts not yet due	(103,902,512)	(489,599)
	Capital due	117,671,733	117,549,334
	Less: subscriptions in arrears	(123,600)	(61,201)
	Paid up capital	117,548,133	117,488,133

The share capital is made up of:

The payable capital is one fifth (2006 - one third) of the subscribed capital. Pursuant to a Board of Governors' resolution, dated 27 June 2007, the payable capital not due will be paid over a five-year period commencing 01 January 2009 or earlier, where possible.

The remaining four fifths (2006 - two thirds) of the subscribed capital constitutes callable capital.

	2006
USD	USE

### **26 NOTES TO THE CASH FLOW STATEMENT**

(a)	Reconciliation of profit for the year to cash generated from operations Profit for the year Adjustments:	6,644,776	4,570,819
	Depreciation	465,651	437,491
	Amortisation of intangible assets	21,890	161,854
	Profit on disposal of property and equipment	(41,200)	(141)
	Loss on disposal of subsidiary Loss on revaluation of available for sale investment	-	281,885
	LOSS Of revaluation of available for sale investment		284,074
	Profit before working capital changes	7,091,117	5,735,982
	(Increase) in other receivables	(69,750)	(148,854)
	Decrease / (increase) in trade finance loans	8,897,483	(26,569,421)
	(Increase) in project loans	(12,865,802)	(31,512,863)
	(Increase) / decrease in deferred expenditure	(462,677)	87,291
	Increase in other payables	3,025,294	5,998,692
	(Decrease) / increase in borrowings 26(b)	(8,023,810)	55,445,467
	Net cash (used in) / generated from operations	(2,408,145)	9,036,294
(b)	Analysis of changes in borrowings		
	Short term borrowings At 1 January	108,466,655	74,584,848
	Loans received	131,356,350	200,458,668
	Repayments	(164,279,064)	(166,576,861)
	At 31 December	75,543,941	108,466,655
	Long term borrowings		
	At 1 January	100,005,879	78,442,219
	Loans received	49,725,090	38,471,749
	Repayments	(24,826,186)	(16,908,089)
	At 31 December	124,904,783	100,005,879
(c)	Analysis of the balance of cash and cash equivalents		
	Cash and balances with other banks	32,709,820	37,753,984
	Investment in Government securities (90-day treasury bills)	3,621,840	2,973,344
		36,331,660	40,727,329
			, ,

<sup>(</sup>d) For purposes of the cash flow statement, borrowings received for on-lending are treated as normal operations of the Bank and therefore, are classified as cash generated from operations.

### 26 (e) FACILITIES AVAILABLE FOR LENDING (Continued)

As at 31 December 2007 the following facilities were available to the bank for lending:

### **LONG-TERM FACILITIES**

KBC Bank         27,407,770         13,488,596         13,919,174           Exim Bank India         25,000,000         3,644,111         21,355,889           Development Bank of South Africa         20,000,000         10,000,000         10,000,000           Kenya Shillings Bond II         15,673,981         8,285,672         7,388,309           Tanzaria Shilling Bond         13,077,594         8,929,247         4,148,347           Japan Bank for International Corporation (JBIC)         12,656,092         -         12,656,092           Exim Bank USA MIGA         113,815,437         44,347,626         69,467,811           SHORT-TERM FACILITIES           LENDER           Commerz Bank         29,733,000         18,617,846         11,115,154           DZ Bank         10,000,000         -         10,000,000           Barclays Bank         20,000,000         16,000,000         -         10,000,000           ING Bank         10,406,550         -         10,406,550         -         10,406,550           Islamic Development Bank*         10,000,000         -         10,000,000         -         7,500,000           SEC Bank         7,500,000         -         7,500,000         -         7,500,000		Facilities available USD	Facilities utilised USD	Facilities Unutilised USD
Exim Bank India Development Bank of South Africa Exim Bank India Development Bank of South Africa Exim Bank India Development Bank of South Africa  Commerz Bank Dz Ba	LENDER			
Commerz Bank	Exim Bank India Development Bank of South Africa Kenya Shillings Bond II Tanzania Shilling Bond Japan Bank for International Corporation (JBIC)	25,000,000 20,000,000 15,673,981 13,077,594 12,656,092	3,644,111 10,000,000 8,285,672	21,355,889 10,000,000 7,388,309 4,148,347
LENDER         Commerz Bank       29,733,000       18,617,846       11,115,154         DZ Bank       10,000,000       - 10,000,000         Barclays Bank       20,000,000       16,000,000       4,000,000         ING Bank       10,406,550       - 10,406,550         Islamic Development Bank*       10,000,000       - 10,000,000         Standard Chartered Bank Limited       10,000,000       - 7,500,000         KBC Bank       7,500,000       - 7,500,000         BHF       7,433,250       737,382       6,695,868         Dresdner Bank       7,412,000       - 7,412,000         BNP Paribas       7,412,000       2,618,310       4,793,690         Bank Muscat       5,000,000       - 5,000,000         Natexis Banque Populaires       5,000,000       96,953       4,903,047         TOTAL FACILITIES         As at 31 December 2007       243,712,237       83,853,622       159,858,615		113,815,437	44,347,626	69,467,811
Commerz Bank DZ Bank DZ Bank 10,000,000 Barclays Bank 10,406,550 ING Bank 10,000,000 ING Bank 10,406,550 Islamic Development Bank* 10,000,000 Standard Chartered Bank Limited 10,000,000 Standard Cha	SHORT-TERM FACILITIES			
DZ Bank       10,000,000       -       10,000,000         Barclays Bank       20,000,000       16,000,000       4,000,000         ING Bank       10,406,550       -       10,406,550         Islamic Development Bank*       10,000,000       -       10,000,000         Standard Chartered Bank Limited       10,000,000       -       7,500,000         KBC Bank       7,500,000       -       7,500,000         BHF       7,433,250       737,382       6,695,868         Dresdner Bank       7,412,000       -       7,412,000         BNP Paribas       7,412,000       2,618,310       4,793,690         Bank Muscat       5,000,000       -       5,000,000         Natexis Banque Populaires       5,000,000       96,953       4,903,047         TOTAL FACILITIES         As at 31 December 2007       243,712,237       83,853,622       159,858,615	LENDER			
As at 31 December 2007 243,712,237 83,853,622 159,858,615	DZ Bank Barclays Bank ING Bank Islamic Development Bank* Standard Chartered Bank Limited KBC Bank BHF Dresdner Bank BNP Paribas Bank Muscat	10,000,000 20,000,000 10,406,550 10,000,000 7,500,000 7,433,250 7,412,000 7,412,000 5,000,000	16,000,000 - 1,435,505 - 737,382 - 2,618,310 - 96,953	10,000,000 4,000,000 10,406,550 10,000,000 8,564,495 7,500,000 6,695,868 7,412,000 4,793,690 5,000,000 4,903,047
	TOTAL FACILITIES			
As at 31 December 2006 286,976,787 171,301,041 115,675,041	As at 31 December 2007	243,712,237	83,853,622	159,858,615
	As at 31 December 2006	286,976,787	171,301,041	115,675,041

<sup>\*</sup> This facility is availed under the Export Financing Scheme introduced by the Arab Bank for Economic Development in Africa (BADEA). The scheme is managed by the Islamic Development Bank.

### 27 CONTINGENCIES AND COMMITMENTS

### (a) Pending litigation

As at 31 December 2007, there were legal proceedings involving the bank amounting to USD 58,463 (2006 – USD 1,558,463) that are yet to be determined. No provision has been made as, in the opinion of the Directors and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

		2007 USD	2006 USD
(b)	Capital commitments		
	Approved but not contracted	585,398	417,355
(c)	Loans committed but not disbursed		
	Project loans Trade finance loans	47,525,629 15,780,178 63,305,807	56,154,296 26,336,445 82,490,741

### (d) Contingencies

In line with normal banking operations, the Bank conducts business involving acceptances, guarantees and performances. The majority of these facilities are offset by corresponding obligations of third parties.

	2007 USD	2006 USD
Letters of credit - Project loans - Trade loans	17,851,409 127,232,124	15,614,685 15,435,002
Guarantees	11,705,554	4,500,000
	156,789,087	35,549,687

### (e) Operating lease arrangements

### The Bank as a lessor

Rental income earned during the year was USD 121,532 (2006: 78,452). At the balance sheet date, the Bank had contracted with tenants for the following future lease receivables:

### 27 CONTINGENCIES AND COMMITMENTS (Continued)

### e) Operating lease arrangements (Continued)

	2007 USD	2006 USD
Within one year	156,000	102,000
In the second and third year inclusive	205,500	102,000
	361,500	204,000

Leases are negotiated for an average term of 2 years and rentals are reviewed every 2 years. The leases are cancelled with a penalty when the tenants do not give 3 months notice to vacate the premises.

### The Bank as a lessee

At the balance sheet date, the Bank had outstanding commitments under operating leases which fall due as follows:

	2007 USD	2006 USD
Within one year In the second to fifth year inclusive	133,648 305,735	123,154 379,179
	439,383	502,333

Operating lease payments represent rentals payable by the Bank for use of its office premises. Leases are negotiated for an average term of 6 years.

### (f) Assets pledged

The following assets had been pledged as collateral for borrowings from other banks, and are not available to finance the Bank's day to day operations:

		Assets	Rel	ated Liability
	2007	2006	2007	2006
	USD	USD	USD	USD
Treasury bills (Note 12)	3,621,840	2,973,344	2,500,000	2,500,000

### 28 PROVISION FOR LIABILITIES AND CHARGES

Employees' entitlements to annual leave and service pay are recognised when they accrue to employees. USD 315,539 (2006 - USD 724,600) has been charged to the income statement in the current year as provision for service pay and leave pay.

### 29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Except for staff loans and advances disclosed in Note 14, there were no other related party transactions undertaken during the year.

Interest income received on staff loans and advances during the year amounted to USD 15,131 (2006 - USD 14,011). Staff loans and advances, are fully recoverable and no provisions have been made against these advances.

The remuneration of members of key management staff during the year was as follows:

	2007 USD	2006 USD
Salaries and other short-term benefits Post employment benefits	631,654 142,480	614,195 139,022
	774,134	753,217

### 30 FAIR VALUE

The directors consider that there is no material difference between the fair value and carrying value of the Bank's financial assets and liabilities where fair value details have not been presented.

### 31 CURRENCY

The financial statements are presented in United States Dollars (USD). At the balance sheet date, the conversion rates between one USD and certain other currencies were:

	2007	2006
British Pound	0.49816	0.50896
UAPTA	0.63281	0.66472
Euro	0.67916	0.75936
South Africa Rand	6.81250	6.97700
Kenya Shilling	63.80000	69.40000
Japanese Yen	112.04000	118.82000
Malawi Kwacha	138.83000	139.61000
Burundi Franc	1,142.20000	1,008.65000
Tanzania Shilling	1,147.00000	1,268.00000
Uganda Shilling	1,697.00000	1,742.25000

### 32 FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies are as outlined below:

### a) INTRODUCTION

This section of the Audited Accounts provides a summary of the specific risks which the Bank faces.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. As part of its governance structure, the Board of Directors has embedded a comprehensive risk management framework for measuring, monitoring, controlling and mitigation of the Bank's risks. The policies are integrated in the overall management information systems of the Bank and supplemented by a management reporting structure.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees and other stakeholders understand their roles and obligations.

The Bank-Wide Integrated Risk Management Committee (BIRMC) is responsible for monitoring compliance with the Bank's risk management policies and procedures and review of the adequacy of risk management framework in relation to the risks faced by the Bank. BIRMC undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

The most important types of risk are:

- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Foreign exchange risk
- Operational risk
  - Compliance risk
  - Reputation risk

The notes below provide detailed information on each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

### b) CREDIT RISK

The Bank defines credit risk as the risk that adverse changes in the credit quality of borrowers will negatively affect the Bank's financial performance and financial condition. Credit risk arises from both client-specific risk and country risk. The Bank, through its lending operations to private sector and public sector entities in its Member Countries, and to a lesser extent, treasury operations, is exposed to credit risk.

### **Risk Management Policies and Processes**

The Bank manages credit risk through an integrated risk management policy framework and processes which place great emphasis on rigorous screening of borrowers at loan origination.

The risk management policies and processes are designed to identify, measure, manage and control credit risk throughout the whole project cycle. The lending process follows a formalised system of strict procedures and processes and committee-based decision-making processes.

The Bank does not allow individual mandates and authorities and therefore all investment proposals are assessed and approved by the Bank's Credit Committee. In addition, all project loan applications above USD 1 million are approved by the Bank's Board of Directors.

The Bank, through its Arrears Recovery Committee, undertakes periodic reviews of all loans on an individual basis. Management of the portfolio level risks is the responsibility of the Bank-wide Integrated Risk Management Committee (BIRMC) which meets on a monthly basis. The BIRMC's key duties include setting policies on credit, country, currency, interest rate and liquidity risks, and capital adequacy.

### **Client-Specific Risk**

The Bank uses credit assessment and risk profiling systems to evaluate the credit risk of the investment proposals both at loan origination and during the life of the loan.

### 32 FINANCIAL RISK MANAGMENT (Continued)

The Bank seeks to mitigate credit risk in its lending operations and calls for risk mitigating measures such as security in the form of real estate collateral, personal and corporate guarantees. Such collateral is re-valued every three years or earlier should there be any evidence of diminution in value. To ensure prudent management of concentration risk, the Bank limits exposure to a single borrower to USD 20 million.

### **Country Risk**

The Bank considers country-specific political, social and economic events which may have adverse impact on the credit quality of its borrowers. To mitigate such risks the Bank uses prudent country exposure management policies. In addition the Bank considers the economic, social and political profile of the country in which the investment project is domiciled before approval is granted. The investment proposal is also loaded with the risk premium that reflects the risk rating of the host country.

The Bank limits its exposure to any single Member country to 25% of its total loan portfolio. As at 31 December 2007 all country exposures were within this limit.

Appendix I and II of the Financial Statements contain the country exposure analysis as at 31st December 2007.

### Maximum Exposure to Credit Risk before Collateral Held

Asset Class	2007		2006	
	USD	%	USD	%
Credit Exposures				
On-Balance Sheet Items				
Cash and Balances from other Banks	32,709,820	10	37,753,985	11
Investment in Government Securities	3,621,840	1	2,973,344	1
Loans and advances	289,565,512	89	285,597,193	88
Sub Total	325,897,172	100	326,324,522	100
Off-Balance Sheet Items				
Letters of Credit	145,083,533	66	31,049,687	26
Loan Commitments not Disbursed	63,305,807	29	82,490,741	70
Guarantees and Performance Bonds	11,705,554	5	4,500,000	4
Sub Total	220,094,894	100	118,040,428	100
Total	545,779,245		444,364,950	

The above figures represent the worst case of credit exposure for the two years without taking into account any collateral held or other credit enhancements.

Loan and advances and off-Balance Sheet items took up 93% in 2007, (2006:91%) of the total maximum credit exposure.

Other than exposures amounting to USD 36,118,838 that are unsecured, all other exposures are secured by collateral in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

As at 31st December, 2007, the fair value of collateral held for impaired loans and advances was USD 32,109, 968 and provided sufficient cover over the net exposure of USD 22,168,939 after deducting the impairment allowances.

### Classification of Loans and advances

### 2007

### **Loans and Advances to Customers**

Category	Gross Amount USD	Impairment Allowance USD	Net Amount USD	%
Neither Past Due nor Impaired	169,906,915	-	169,906,915	59
Past Due but Not Impaired	97,489,660	-	97,489,660	34
Impaired	54,702,626	32,533,687	22,168,939	7
Total	322,099,201	32,533,687	289,565,514	100

### 2006

### **Loans and Advances to Customers**

Category	Gross Amount USD	Impairment Allowance USD	Net Amount USD	%
Neither Past Due nor Impaired	139,190,774	-	139,190,776	49
Past Due but Not Impaired	119,019,011	-	119,019,011	40
Impaired	52,009,651	24,622,245	27,387,406	11
Total	310,219,436	24,622,245	285,597,193	100

### 32 FINANCIAL RISK MANAGEMENT (Continued)

### Ageing of Past Due Loans and Advances Not Impaired

	2007 USD	2006 USD
Below 30 Days	8,747,468	3,285,746
31 to 90 Days	15,959,377	17,228,867
Total	24 706,845	20,514,613
Ageing of Impaired Loans and Advances		
	2007	2006
	USD	USD
Below 30 Days	809,224	968,154
31-90 Days	96,052	1,549,656
91-180 Days	917,460	1,607,658
181-360 Days	1,842,147	3,241,617
Over 360 Days	24,202,273	35,172,523
Total	27,867,156	42,539,523

### Loans and advances that are neither past due nor impaired

The Bank classifies loans and advances under this category for borrowers that are up to date with their principal and interest payments and conforming to all the agreed terms and conditions. Such borrowers are financially sound and demonstrate capacity to continue to service their debts in the future. The Bank classifies such loans as Acceptable in line with its Loan Classification Policy.

### Past Due but not impaired

Loans under this category are performing well but exhibit potential weaknesses which may, if not corrected in good time, weaken the borrower's capacity to repay. These weaknesses may also result in the Bank's interest not being adequately protected. Such weaknesses include temporary cash flow problems and deteriorating economic conditions. The Bank classifies such loans as Special Mention in line with its Loan Classification Policy.

### **Impaired Loans and Advances**

The Bank, depending on the severity of default and deterioration of borrower's financial condition and collateral, classifies impaired loans into three categories Substandard, Doubtful and Loss. Thus, impaired loans range from those that are not adequately protected by their current sound worth and paying capacity of the obligor to those that are considered uncollectible or of such little value that their continuance as Bankable assets is not warranted.

### **Collateral Held**

In addition to its rigorous credit risk assessments, the Bank seeks to protect its interests in the event of unpredictable and extreme factors that negatively affect the borrower's capacity to service the Bank's loan by calling for credit enhancement arrangements. In this regard, the Bank calls for security such as mortgage interest on property, registered securities over financed or third party assets and third party guarantees. The security cover required is, at least, one and half times the loan amount that is disbursed. Such security is subject to regular reviews and if necessary, revaluation every three years.

The Bank does not hold security over deposits placed with other Banks or financial institutions and government securities. However, the Bank places deposits with well vetted and financially sound counter-parties. In addition the Bank places limits on counter-party exposures which are set, monitored and reviewed by the Bank-Wide Integrated Risk Management Committee.

### **Concentration of Risk**

### **Loans and Advances to Customers**

Sector	2007 Amount USD	%		2006 Amount USD	%
Manufacturing	72,935,378	23		76,907,041	25
Agribusiness	81,289,791	25		69,223,368	22
Petroleum	35,215,455	11		40,769,186	13
Infrastructure	36,968,534	11		35,766,717	12
Finance and Banking	29,596,431	9		27,525,915	9
Aviation	16,687,201	5		22,037,117	7
Other	28,304,290	9		14,811,776	5
Mining	8,478,610	3		9,501,826	3
Transport	4,317,777	2		5,956,613	2
Tourism	8,305,734	3		7,719,877	2
			-		
Total	322,099,201	100	=	310,219,436	100

The Bank, as part of its prudent management of credit risk arising from high sectoral concentration, limits exposure to any sector to 25% of the Bank's total loan book. As at 31 December 2007 all loan and advances sectoral concentrations were within the stipulated limit.

All the Bank's deposits were placed with commercial banks that the Bank has dealings with. To mitigate counter-party default risk the Bank limits exposures to each bank depending on its credit profile or rating.

### 32 FINANCIAL RISK MANAGEMENT (Continued)

### **Off-Balance Sheet Items**

Sector	2007 Amount USD(m)	%	2006 Amount USD(m)	%
Petroleum	134,254,251	61	43,854,349	37
Finance & Banking	31,353,446	14	10,951,220	9
Manufacturing	17,260,006	8	29,760,927	25
Agribusiness	12,928,695	8	20,834,410	18
Tourism	12,751,300	6	3,850,000	3
Infrastructure	6,173,461	3	3,415,786	3
Mining	5,373,735	2	5,373,735	5
Total	220,094,894	100	118,040,428	100

### c) LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from financial liabilities. The Bank's liquidity policy ensures that it has resources to meet its net disbursement and debt service obligations and allows it flexibility in deciding the appropriate time to access capital markets.

The Bank holds sufficient liquid assets to enable it continue normal operations even in the unlikely event that it is unable to obtain fresh resources from its lending partners and the capital markets for an extended period of time. To achieve this objective, the Bank operates on a prudential minimum level of liquidity, which is based on projected net cash requirements.

The prudential minimum level of liquidity is updated quarterly.

The liquidity position statement is presented under the most prudent consideration of maturity dates. Liabilities are classified according to the earliest possible repayment date, while assets are classified according to the latest possible repayment date.

The Bank-wide Integrated Risk Management Committee (BIRMC) is tasked with the responsibility of ensuring that all foreseeable funding commitments can be met when due, and that the Bank will not encounter difficulty in meeting obligations from its financial liabilities as they occur.

BIRMC relies substantially on the Treasury Unit to coordinate and ensure discipline, certify adequacy of liquidity under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

### c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

Up to

	1month USD	months USD	months USD	years USD	years USD	Total USD
At 31 December 2007	030	030	030	030	030	030
FINANCIAL ASSETS						
Cash and balances with other banks Other investments Other receivables Trade finance loans Project loans Equity participation	32,709,820 - 1,595,815 5,123,875 885,267 -	3,621,840 104,296 40,937,101 12,066,080	99,867 22,434,223 13,713,894	- 144,411 32,875,883 90,869,887 6,701,103	- - - 2,190,517 68,468,785 -	32,709,820 3,621,840 1,944,389 103,561,599 186,003,913 6,701,103
Total financial assets	40,314,777	56,729,317	36,247,984	130,591,284	70,659,302	334,542,664
FINANCIAL LIABILITIES						
Other payables Short term borrowings Long term borrowings	19,310,035 4,666,710 4,302,524	149,886 39,543,898 9,611,203	161,062 16,333,333 8,451,029	1,035,904 15,000,000 67,917,345	- - 34,622,682	20,656,887 75,543,941 124,904,783
Total financial liabilities	28,279,269	49,304,987	24,945,424	83,953,249	34,622,682	221,105,611
Net liquidity gap	12,035,508	7,424,330	11,302,560	46,638,035	36,036,620	113,437,053
Cumulative gap	12,035,508	19,459,838	30,762,398	77,400,433	113,437,053	113,437,053
As at 31 December 2006						
Total financial assets	54,498,192	69,040,556	25,675,963	118,402,303	65,449,695	333,066,709
Total financial liabilities	39,915,746	66,339,734	22,403,554	72,558,762	24,886,331	226,104,127
Net liquidity gap	14,582,446	2,700,822	3,272,409	45,843,541	40,563,364	106,962,582
Cumulative gap	14,582,446	17,283,268	20,555,677	66,399,218	106,962,582	106,962,582

6 to 12

1 to 5

Over 5

The above table analyses assets financial and financial liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

### 2 FINANCIAL RISK MANAGEMENT (Continued)

### c) LIQUIDITY RISK (Continued)

### I. Liquidity and funding management

The Bank's liquidity and funding policies require;

- Entering into lending contracts subject to availability of funds.
- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto.
- Maintaining a diverse range of funding sources with back –up facilities,
- Investment in short term liquid instruments which can easily be sold in the market when the need
  arises. Investments in property and equipment are properly budgeted for and done when the Bank
  has sufficient cash flows.
- Maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications.

### **II. Contingency Plans**

The Bank carries out contingency funding planning at the beginning of the year. This details the following measures to combat liquidity crisis:

- Unutilised lines of credit, including standby facilities, from different counter-parties.
- Term deposits with counter-parties and prospects of withdrawal and rollovers.
- Investment portfolio and its defeasance period.
- Amount of short-term resources with a time period, required to raise such resources.
- Amount which can be raised from other counter parties based on the Bank's past relationships.

### d) MARKET RISK

The objective of the Bank's market risk management process is to manage and control market risk exposures in order to optimise return on risk. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with BIRMC. The Treasury department is responsible for the development of detailed market risk management policies and for the day to day implementation of those policies.

The management of market risk is supplemented by the monitoring of sensitivity analysis of the key market risk variables. The Bank normally uses simulation models to measure the impact of changes in interest rates on net interest income. The key assumptions used in these models include loan volumes and pricing and changes in market conditions. Those assumptions are based on the best estimates of actual positions. The models cannot precisely predict the actual impact of changes in interest rates on income because these assumptions are highly uncertain.

Up to 1 month

### 32 FINANCIAL RISK MANAGEMENT (Continued)

### I. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The extent of exposure to interest rate risk is largely determined by the length of time for which the rate of interest is fixed for a financial instrument. The Bank's principal interest rate risk management objective is to generate a suitable overall net interest margin by matching the interest rate characteristic and repricing profile of assets with those of the underlying borrowings and equity sources respectively.

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This risk is summarised in the Table below:

6 to 12

1 to 5

Over 5

Non-

interest

	USD	months USD	months USD	Years USD	years USD	bearing USD	Total USD
As at 31 December 2007							
FINANCIAL ASSETS							
Cash & balances with other bank	32,709,820	-	-	-	-	-	32,709,820
Other investments	-	3,621,840	-	-	-	-	3,621,840
Other receivables	-	-	-	-	-	1,944,389	1,944,389
Trade finance loans	5,123,874	96,617,167	-	-	-	1,820,558	103,561,599
Project loans	148,446,911	1,797,670	1,481,704	8,247,242	403,885	25,626,501	186,003,913
Equity participation	-	-	-	-	-	6,701,103	6,701,103
Total financial assets	186,280,605	102,036,677	1,481,704	8,247,242	403,885	36,092,551	334,542,664
FINANCIAL LIABILITIES Other payables Short term borrowings Long term borrowings	23,416,710 31,261,772	52,127,231 89,200,526	- - 932,920	3,509,565	- - -	20,656,887	20,656,887 75,543,941 124,904,783
Total financial liabilities	54,678,482	141,327,757	932,920	3,509,565		20,656,887	221,105,611
Net interest rate exposure Cumulative interest rate	131,602,123	(39,291,080)	548,784	4,737,677	403,885	15,435,664	113,437,053
exposure	131,602,123	92,311,043	92,859,827	97,597,504	98,001,389	113,437,053	113,437,053
As at 31 December 2006							
Net interest rate exposure	96,085,311	(33,208,322)	(7,298,643)	4,379,060	31,895,797	15,109,379	106,962,582
Cumulative interest rate exposure	96,085,311	62,876,989	55,578,346	59,957,406	91,853,203	106,962,582	106,962,582

### 2 FINANCIAL RISK MANAGEMENT (Continued)

### Interest rate risk - Sensitivity analysis

The Bank monitors the impact that an immediate hypothetical increase or decrease in interest rates of 50 basis points applied at the beginning of the year would have on net interest income.

The sensitivity analysed below has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. The analysis was prepared using the following assumptions:

- Interest-bearing assets and liabilities outstanding as at 31st December 2007 were outstanding at those levels for the whole year.
- Interest-bearing assets and liabilities denominated in currencies other than USD experienced similar movements in interest rates.
- All other variables are held constant. If interest rates had been 50 basis points higher or lower with the above assumptions applying, the Bank's:
- Net Profit for the year ended 31st December 2007 would increase or decrease by USD 631,295 (2006 USD 593,313).
- The potential change is 10% of the year's net profit.

### II. Currency risk

Currency risk is defined as the potential loss that could result from adverse changes in foreign exchange rates. Currency risks are minimised and, where possible, eliminated by requiring assets to be funded by liabilities that have matching currency characteristics. Foreign currency positions are monitored on a frequent basis.

Foreign currency risk is addressed through the following measures.

- The single currency exposure, irrespective of short or long positions should not exceed the limit of 10% of the Bank's net worth.
- Intra-day foreign exchange exposures are limited within limits strictly defined by the Board of Directors.

# Notes to the Financial Statements FOR THE YEAR ENDED 31 DECEMBER 2007

## FINANCIAL RISK MANAGEMENT (Continued)

### **CURRENCY RISK (Continued)**

Bank's financial assets and financial liabilities are reported in USD

The Bank's currency position is as follows:	WS:	ממט	20	Calli	7	176	> -	OTLIEB	I V L C L
FINANCIAL ASSETS			-		NEO	57			
Cash and balances with									
other banks	25,696,763	20,121	428	110,717	6,719,610	21,056	127,897	13,228	32,709,820
Other investments	1	ı	1	1	•	3,621,840	1	ı	3,621,840
Other receivables	1,944,389	1	1	ı	1	I	•	1	1,944,389
Trade finance loans	96,745,208	ı	1	ı	6,816,391	I	•	•	103,561,599
Project finance loans	165,474,905	3,474,181	1	620,194	8,794,823	7,105,448	534,362	1	186,003,913
Equity investments	6,701,103	1	1	1	ı	ı	'	1	6,701,103
Property and equipment	17,012,417	1	1	1	1	ı	•	1	17,012,417
Intangible assets	31,006	1	1	1	1	ı	•	1	31,006
Deferred expenditure	1,337,435	ı	ı	ı	ı	ı	1	ı	1,337,435
Total financial assets	314,943,226	3,494,302	428	730,911	22,330,824	10,748,344	662,259	13,228	352,923,522
FINANCIAL LIABILITIES									
Other payables	20,632,920	•	1	1	23,967	'	1	ı	20,656,887
Short term borrowings	75,543,941	1	1	ı	1	ı	•	•	75,543,941
Long term borrowings	87,732,696	•	1	544,295	28,213,166	7,846,556	568,070	ı	124,904,783
Total financial liabilities	183,909,557	1	1	544,295	28,237,133	7,846,556	568,070	1	221,105,611
<b>NET BALANCE SHEET POSITION</b>	131,033,669	3,494,302	428	186,616	(5,906,309)	2,901,788	94,189	13,228	131,817,911
As at 31 December 2006	086'66	4,335,386	87,022	3,169,356	(2,127,320)	1,390,586	81,891	46,145	106,962,583

### 32 FINANCIAL RISK MANAGEMENT (Continued)

### Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings and Tanzania Shillings. The following analysis details the Bank's sensitivity to a 10% increase and decrease in the value of the USD against the relevant other currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes cash and term deposits, securities, loans and borrowings in currencies other than United States Dollars. A negative number below indicates an increase in profit and reserves when the USD weakens by 10% against the other currencies. For a 10% strengthening of the USD against the relevant currencies, there would be an equal opposite impact on the net profit and reserves.

		GBP	EURO	KES	TSH	Total USD
2007	Net Profit	349,430	18,661	(588,153)	284,923	64,863
2006	Net Profit	433,538	316,936	(211,642)	137,268	676,100

### e) OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank's management has the primary responsibility for the development and implementation of controls to address operational risk. The management team ensures that:

- An effective, integrated operational risk management framework that incorporates a clearly defined organizational structure is maintained.
- Each department has defined roles and responsibilities for all aspects of operational risk management.
- Appropriate tools that support the identification, assessment, control and reporting of key risks are used.
- Appropriate information technology systems are in place and require minimal lead-time to increase capacity to match growth in demand.
- Operational risk systems are subjected to independent reviews including testing by external reputable firms.
- A comprehensive business continuity plan is maintained and reviewed regularly.

### Currency risk - Sensitivity Analysis

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Total USD	TSH	KES	EURO	GBP		
64,863	284,923	(588,153)	18,661	349,430	Net Profit	2007
676,100	137,268	(211,642)	316,936	433,538	Net Profit	2006

### e) OPERATIONAL RISK

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- Appropriate information technology systems are in place and require minimal lead-time to increase capacity to match growth in demand.
- Operational risk systems are subjected to independent reviews including testing by external

### reputable firms.

• A comprehensive business continuity plan is maintained and reviewed regularly.

### 32 FINANCIAL RISK MANAGEMENT (Continued)

### f) COMPLIANCE RISK

Compliance risk is the risk arising from failure to comply with relevant laws, regulations and regulatory requirements governing the conduct of business. It is the composite risk that can result in regulatory sanctions, financial penalties, litigation exposure and loss of reputation.

The compliance function is headed by the Head, Risk Management and Compliance Unit who reports directly to the Bank's President. The function is tasked with the responsibility of:

- Developing compliance policies
- Advising management on compliance matters
- Assessment and monitoring of polices and compliance programs
- Reporting on compliance to the Audit Committee and Board of Directors

### g) REPUTATION RISK

The reputation of the Bank is of paramount importance to its continued prosperity. Reputation risk can arise from social, ethical, or environmental issues, or as a consequence of operations risk events. The Bank's reputation depends upon the way in which it conducts its business, but can also be affected by the way in which customers conduct themselves.

Reputation risk is considered and assessed by the Board of Directors and senior management during the establishment of standards for all major aspects of business and the formulation of policy.

These policies, which are an integral part of the strong internal control systems, are communicated through statements of policy, code of ethics, internal communication and training. The policies set out operational procedures in all areas of reputation risk, including money laundering deterrence, environmental impact, anti-corruption measures and employee relations.

As at 31 December 2006

As at 31 December 2007

Country	Number of loans	Balance outstanding USD	Amounts Due within six months USD	Amounts Due after six months USD	Balance outstanding USD	Amounts Due within six months USD	Amounts Due after six months USD
Ethiopia	<del>-</del>	956,033	956,033	1	3,067,341	1,090,896	1,976,445
Kenya	10	18,512,014	6,723,393	11,788,621	41,238,964	22,901,216	18,337,748
Malawi	2	13,759,996	6,226,416	7,533,580	12,884,780	5,369,125	7,515,655
Seychelles	_	16,085,005	16,085,005	1	6,819,042	6,819,042	•
Sudan	~	3,202,749	1	3,202,749	3,202,749	ı	3,202,749
Tanzania	2	14,734,531	3,648,623	11,085,908	14,141,324	14,134,824	6,500
Uganda	က	6,093,984	574,497	5,519,487	5,751,075	141,978	5,609,097
Zambia	က	3,550,487	482,000	3,068,487	3,707,722	3,370,724	336,998
Zimbabwe	7	34,379,990	33,799,233	580,757	26,893,656	13,000,000	13,893,656
Gross Loans	25	111,274,789	68,495,200	42,779,589	117,706,653	66,827,805	50,878,848
Less: Impairment on trade finance loans (note 17)	oans (note 17)	(7,713,190)	ı	(7,713,190)	(5,247,571)	1	(5,247,571)
Net loans		103,561,599	68,495,200	35,066,399	112,459,082	66,827,805	45,631,277

Appendix II

### STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK AS AT 31 DECEMBER 2007

	Pe Shares scribed	ercentage of total USD	Value	Callable capital USD	Payable capital USD	Instalment due as at 31.12.07 USD	Instalment paid as at 31.12.07 at USD	Instalment arrears as t 31.12.07 USD
Burundi	1,230	2.52	27,880,410	22,304,328	5,576,082	2,788,000	2,788,000	-
China*	1,700	3.48	23,120,000	15,413,333	7,706,667	7,706,667	7,706,667	-
Comoros	54	0.11	1,224,018	979,215	244,803	122,400	122,400	-
Djibouti	54	0.11	1,224,018	979,214	244,804	122,400	122,400	-
Egypt	5,340	10.93	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	-
Eritrea	240	0.49	5,440,080	4,352,064	1,088,016	544,000	544,000	-
Ethiopia	5,340	10.93	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	-
Kenya	5,340	10.93	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	-
Malawi	1,320	2.70	29,920,440	23,936,352	5,984,088	2,992,000	2,992,000	-
Mauritius	1,566	3.20	35,496,522	28,397,218	7,099,304	3,549,600	3,549,600	-
Rwanda	1,248	2.55	28,288,416	22,630,733	5,657,683	2,828,800	2,828,800	-
Seychelles	270	0.55	6,120,090	4,896,072	1,224,018	244,800	121,200	123,600
Somalia	318	0.65	7,208,106	5,766,485	1,441,621	720,800	720,800	-
Sudan	4,920	10.07	111,521,640	89,217,312	22,304,328	11,152,000	11,152,000	-
Tanzania	5,214	10.67	118,185,738	94,548,590	23,637,148	11,818,400	11,818,400	-
Uganda	3,600	7.37	81,601,200	65,280,960	16,320,240	8,160,000	8,160,000	-
Zambia	4,082	8.35	92,526,694	74,021,355	18,505,339	9,252,533	9,252,533	-
Zimbabwe	5,540	11.33	125,575,180	100,460,144	25,115,036	12,557,333	12,557,333	-
African *								
Development Bank	1,500	3.07	20,400,000	13,600,000	6,800,000	6,800,000	6,800,000	-
	48,876	100	1,078,857,892	857,283,647	221,574,245	117,671,733	117,548,133	123,600

<sup>\*</sup> Pursuant to a Board of Governors resolution BG/23/07/06 dated 27 June 2007, China and AfDB are entitled to additional 1,700 and 1,500 shares respectively. Upon subscription for the new shares, the callable and callable obligations will be changed to 20% payable and 80% callable.

### SENIOR MANAGEMENT

Dr. Michael Gondwe

President

Mr. Alex Gitari

Director, Finance

Mr. Yotam Longwe

Director, Credit Facilities and Business Development

Mr. Yitaferu Kassaye

Director, Portfolio Management

Mr. Premchand Mungar

Principal Legal Counsel

Mr. James Kabuga

**Principal Officer, Credit Facilities and Business Development** 

Mr. Kifle Hamza **Principal Officer, Administration and Corporate Services** 

### Annex II

### **ADMINISTRATIVE BUDGET**

	2008	2007
	US\$	US\$
Personnel Costs	6,401,000	5,934,000
Board of Governors	165,000	161,000
Board of Directors	197,000	180,000
Consultants and Advisors	841,000	759,000
Official Missions	504,000	400,000
Business Promotion	150,000	84,000
Other Operating Expenses	599,000	476,000
Total Administrative Expenditure	8,857,000	7,994,000