

AFRICAN DEVELOPMENT BANK BANQUE AFRICAINE DE DEVELOPPEMENT



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Date: 12th May 2016

Ms. Vivienne Apopo
Director General, EADB
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Dear Ms. Apopo,

AFRICAN DEVELOPMENT BANK (AfDB) SUPERVISION TO EADB – April 2016

We write in reference to the AfDB routine supervision mission to EADB carried out by Dennis Ansah, David Engwau and Juliet Byaruhanga on 25th – 27th April 2016.

The AfDB appreciates your time and effort in ensuring that the Mission was a smooth and a successful one and would like to thank you again for the support and cooperation extended to the Mission.

The key findings of the mission and follow-up actions as discussed with you and members of your team are high-lighted below for your kind attention;

Financial Performance:

We note the improved credit rating provided by Moody's and EADB's strive to leverage its capital base to attract resources to finance its growing portfolio. We also note that even though the loan book grew about 36% in FY2015 compared to prior year, net profit declined from \$9.8Million to \$6.7Million. This was primarily driven by low recoveries (\$1.4Million in 2015 compared to \$2.9M prior year), lower revaluation gains on investments and foreign exchange losses. NPL's has improved over the years but there were concerns on the actual NPL percentage which was provided as 1.3% by the Director General, 0% by the portfolio team and 5.7% by the finance team. We believe that the interpretation of the guidelines on loan classification must be strictly adhered to provide clear understanding and picture of the risk profile of the loan portfolio.

Staffing

While the restructuring and consolidation of the Bank's operations have led to significant improvements in terms of capital adequacy, the absence of Senior staff at the Directorate level undermines the continued success of the bank's operations. This is exasperated by the recent resignation of 3 key personnel i.e. the Finance Manager, the FAPA Coordinator, and the Environmental Specialist. The absence of a company secretary for over 5 years is also significant matter of concern from an institutional governance perspective.

We noted that only two portfolio officers are deployed by EADB to manage the current portfolio size of 70 Projects. Discussion with the team indicated that despite the assistance from the country offices, there are several difficulties experienced in coping with the demands of a high caseload per officer especially as the country officers are involved in the origination of the projects. The Bank should consider increasing the number of staff in the Portfolio department taking into consideration the current and projected business plan as well as clearly divorcing the roles of origination and portfolio monitoring for good internal control purposes.

Management is encouraged to build internal capacities and reduced reliance on consultants to manage the banks operations. The factors underlying the high levels of staff resignations should be carefully reviewed and addressed. Management should expedite the process of recruitment to fill key senior positions to ensure that all the internal mechanisms for ensuring efficiency are fully implemented.

TA Financing

EADB Management should critically review the TA balance of approximately \$215,000 and urgently advise the Bank on the plans for the utilization of remaining resources. Given the timing left to the closing which is September 30th 2016 and the fact that there will be no further extensions, we urge management to finalize the procurement process of the Credit Risk consultancy firm. We have provided EADB our input in terms of the three names that was submitted for consideration by EADB's evaluation team and we urge management to reconsider its choice of consulting firm to undertake the assignment given that its choice is charging almost three times the price of the next candidate. In our opinion both qualified firms are well qualified to deliver based on the terms of reference provided and the evaluation report submitted by EADB.

FAPA

The scope of the FAPA should be reviewed in relation to the objectives and activities of the TA to ensure that there is no duplication and overlap. Given the imminent closing date and the change in scope that is being envisioned, management should formally request an extension of the availability period outlining the reasons for the delay and seek for approval from FAPA on the revisions of the original scope of the project. It is also important that EADB continues to be compliant with respect to the fulfilment of the conditions stipulated in the Letter of Agreement dated 7th November 2013 which requires the employment of a Project Coordinator, Financial Specialist and a Procurement Expert

acceptable to the Bank. Given that there is no FAPA Coordinator and a procurement specialist at the moment, we encourage management to recruit for these positions and advise the bank as soon as possible as these were pre-conditions for the FAPA continuance of the program.

EADB should also urgently utilize the training budget to build human resource capacity as a way of ensuring continuity and improved performance of the Bank operations.

Internal Audit

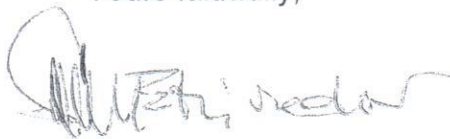
The meeting with internal audit occurred after the debrief with you because of your prior engagement, however below are some of the highlights of the discussion:

- We noted that there were breaches regarding operational limits in treasury, procurement guidelines and non-compliance of policy in the relation to the credit approval of some high value transactions.
- Management committee (MAC) is effectively made up of only the Director General. We believe this does not conform to best practice and also does not exhibit good corporate governance
- In situations where MAC overturned the decisions of the PROCO, there were no clear documentation backing up the change. We believe the weakness in credit documentation should be addressed.
- Key committee such as ALCO should also be chaired a senior manager and not a junior manager
- There is the need to recruit an auditor to handle technical audits such as IT

We trust that you will make a concerted effort to address the findings of the mission.

Once again thank you for your time and kindly be assured of AfDB's continued support to EADB

Yours faithfully,



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