Development Bank
of Southern Africa

ANNUAL REPORT FOR THE YEAR TO 31 MARCH 1994

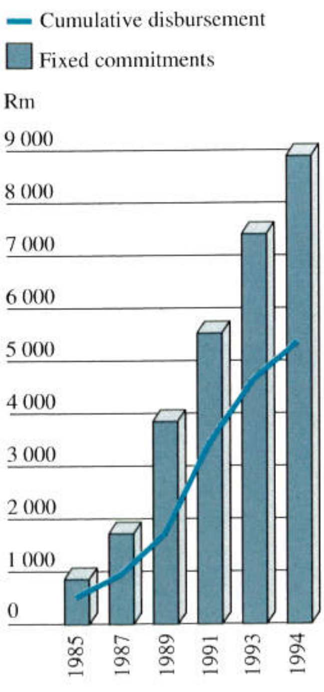
ADDING VALUE TO THE DEVELOPMENT PROCESS

Reconstruction and development is a priority for South Africa. The government is committed to urgently and visibly dealing with the vast human needs and developing the economic potential.

The Development Bank of Southern Africa (DBSA) sees its role as adding value to this process and participating in it fully. This year the Bank focused on its main products of programme and project finance, development programming, development information and policy analysis. Its human development approach seeks to bring beneficiary communities into the development process.

Under the new dispensation the Bank is in a position to support development in the greater South Africa and the nine new provinces, and also in the southern African region.

Development Bank of Southern Africa, Midrand



THE YEAR AT A GLANCE

The Development Bank of Southern Africa disbursed R716,7m (FY93: R448,6m) including R6,7m in grants (FY93: R2,8m) in the year to 31 March 1994, bringing the cumulative disbursements to that date to R5 360,7m.

The amount committed to new projects by the Bank was R1 703m (FY93: R1 754m). By the end of March 1994 the Bank had approved a cumulative total of 1 475 programmes and projects worth R8 891,6m, while a further 246 programmes and projects with an estimated loan value of R2 065m were under consideration.

ANNUAL REPORT 1994

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MISSION STATEMENT

The Development Bank of Southern Africa is a development finance institution whose primary aim is to facilitate development and to empower people in the region.

FIVE-YEAR FINANCIAL SUMMARY

For years ended 31 March	1990 Rm	1991 Rm	1992 Rm	1993 Rm	1994 Rm
Balance sheet					
Total assets	2 525	3 730	4 631	5 335	6 063
Capital employed					
Permanent capital	2 214	2 716	3 253	3 858	4 502
Medium- and long-term financing	95	671	943	977	1 013
Employment of capital					
Development loans (before provisions)	2 430	3 441	4 154	4 455	4 860
– opening balance	1 657	2 430	3 441	4 154	4 455
– advanced	729	988	760	446	710
– interest levied	139	208	292	338	389
– repaid	(95)	(185)	(339)	(483)	(694)
Investments and cash	158	394	598	1 015	1 360
Cash flow					
Development loans advanced	729	988	760	446	710
(1990 constant prices)	729	857	578	310	457
Commitments					
Commitments outstanding	2 540	2 097	1 584	2 768	3 463
(1990 constant prices)	2 540	1 818	1 205	1 921	2 227
Guarantees outstanding	58	65	20	9	4
Income statement					
Interest income	138	189	256	404	547
Interest expenditure	(9)	(62)	(117)	(164)	(169)
Gross operating expenditure	(81)	(91)	(104)	(108)	(116)
(1990 constant prices)	(81)	(79)	(79)	(75)	(75)
Net income before provisions	50	47	50	130	280
Provision against development loans	(33)	(45)	(15)	(25)	(25)
Net income transferred to general reserve	17	2	35	105	255
Ratios	%	%	%	%	%
Investments and cash/total assets	6,3	10,6	12,9	19,0	22,4
Investments and cash/undisbursed loans[1]	6,2	18,8	37,8	36,7	39,3
Financial gearing[2]	4,3	24,7	29,0	25,3	22,5
Total provision against development loans/ development loans	4,3	4,4	4,0	4,3	4,4
Weighted average interest rate on development loans	7,4	7,3	7,9	7,8	8,3
Operating expenditure/new commitments[3]	2,5	7,7	13,3	2,5	2,6
Operating expenditure/development loans[4]	3,3	2,6	2,5	2,4	2,4
Interest cover (times)[5]	15,3	3,0	2,2	2,5	3,2
Inflation deflator (1990 = 100)	100,0	86,7	76,1	69,4	64,3

1. Investments and cash/loans approved but not disbursed.
2. Medium- and long-term financing/permanent capital.
3. Operating expenditure (loan, guarantee and technical assistance)/new commitments in that year.
4. Operating expenditure (total)/development loans outstanding.
5. Interest income/interest expenditure.

CHAIRMAN'S OVERVIEW

The political and constitutional events of the past few years, bringing democracy, a government of national unity and renewed and positive interest in our country, are truly a watershed in our affairs. Yet euphoria must be tempered by reason and pragmatism, and in this overview I would like to touch on how the Development Bank of Southern Africa sees the future and its own role.

The environment is characterised by dire economic and social needs, calling for unprecedented dedication and financial resources; a new system of government for which the current institutional system is unsuited, while a new institutional system is still in its infancy; and a complex, often inefficient and duplicated development system.

On the positive side, the development challenge will be met by a truly democratic approach to changing the life of all our people, a reconstruction and development programme (RDP) against backlogs, a different economic growth and development path and the effective influence of civil society.

The effectiveness of the RDP will depend on an effective structure of governmental institutions at all levels and a rationalised structure of development institutions with clear mandates and acknowledged interdependence; effective development management and implementing capacity, especially at provincial and local level; and the ability of government and the nation to transform a vision of reconstruction and development into a national culture by which to drive forward the creation of a better life for all.

DBSA and the future. The Bank is well placed to serve the RDP by its solid financial base; its ability to gear up available public sector resources by raising funds in the local and international financial markets; its experience and capacity, built up over 10 years, in policy formulation, information analysis, development planning and programming, programme evaluation, loan finance, project appraisal and management of fiscal relations between national and provincial structures; and its network of international relations with development institutions.

The Bank has the ability to function as a wholesale national development finance institution providing loan finance to provincial and local implementing agencies and NGOs; support policy design and development programming at all government levels; support the Financial and Fiscal Commission, the Department of Finance and State Expenditure and provincial governments in the management of fiscal relations; and assist in the development of southern Africa through technical assistance, development finance and policy support.

The Bank is seeking the agreement of the government and other stakeholders on its support role in the RDP. The appointment of a new Council of Governors and Board of Directors is expected to reflect the key development constituencies.

In envisaging a future course for the Bank, we recognise that any new system of development support should encompass government, parastatals, civil society and NGOs in a supportive network driven by a vision of a better life for everyone.

I would like to thank the Council of Governors and especially its Chairman, Mr Henri de Villiers, for their support and guidance, and the Board of Directors, and all directors for their time, energy and enthusiasm. Special thanks are due to the Chief Executive and the staff of the Bank, whose approach consistently reflects what one would expect of true development professionals.

Wiseman Nkuhlu

Professor Wiseman Nkuhlu (standing), Chairman of the Board of Directors, and Mr Henri de Villiers, President of the Bank and Chairman of the Council of Governors

Board of Directors at 31 March 1994

Professor WL Nkuhlu* (chairman)
Mr C Bomela
Mr JA Botes
Dr O Dhlomo
Mr JJ du Plessis
Dr DC Krogh*
The Hon Gota GM Ligege
Mr SSS Lucas
Mr MR Madula
Mr JAJ Maree
Dr JB Maree
Dr NH Motlana*
Mr MGM Mpahlwa
Mr RA Plumbridge*
Mr MJ Sondiyazi
Mr J Steyn
Mr PH Swart
Mr PH van Rooy

*Members of the Audit Committee

CHIEF EXECUTIVE'S REPORT

André la Grange, Chief Executive

Politically and socially, the past year was an exciting one characterised by positive momentum towards a free and democratic society. It was also challenging, for uncertainty and the fluidity of structures often made maintenance of development momentum difficult. Development needs in the country are immense, resources are limited and the new institutional system has only started to unfold. Against this backdrop the Development Bank of Southern Africa, one of the largest development organisations in the system, responded professionally and with enthusiasm and achieved considerable success.

Highlights of the year. Despite the uncertainties and difficulties, it was an exceptional year for the Bank, as is more fully documented in the directors' report. The following highlights may serve to illustrate the contention that the Bank is now a fully mature, professional development finance institution with a sound financial base:

- Total assets exceed R6 000m, and the outstanding loan portfolio is performing very solidly.
- The Bank has again been named one of South Africa's top 20 non-listed companies.
- It has been named as one of the world's top 50 development banks (*Banker*, April 1994).
- New project finance approvals totalled R1 703m for the year, and disbursements R716,7m. This now brings the total amount committed and under consideration to over R10 000m.
- The Bank received a merit award from the NPI for productivity improvements in its project approvals system.
- Strict attention to efficiency and effectiveness led to lower staff numbers and significant cost containment over the last few years.
- Policy inputs and information were provided extensively to both national processes and provincial and local structures.

The Bank is ready for new challenges, particularly in support of the reconstruction and development programme and expansion of its provision of development loan funding to a wide range of development implementors.

South Africa's improved international relations enabled the Bank to formalise relationships built up over many years with the international development community, for example with the World Bank and the African Development Bank. Its circle of international contacts is expanding rapidly. Relationships with local development funding institutions, such as the Independent Development Trust, the Kagiso Trust and the local offices of international bilateral development agencies, are being strengthened in anticipation of cooperative development efforts. Realisation of the potential of the private sector in reconstruction and development has also led to constructive contacts.

In the review year the Bank intensified its support to transitional structures and forums at national, provincial and local level. Such support is often of a technical, professional and catalytic nature, demanding of professional staff time and less measurable in its outputs and inputs. Nevertheless, we believe that it is a useful contribution to capacity-building in the country and that we will for some time extend such support to the emerging provincial and local structures.

The Bank is ready to support the reconstruction and development programme and expand its development loan funding to a wide range of implementors

Some future issues. DBSA's role within the development field, and the reconstruction and development programme in particular, is being further clarified with the South African government and other stakeholders. The longer-term funding arrangements for this role are also being attended to. Interim arrangements are being made to redefine the status of the organisation, to appoint a new Council of Governors and Board of Directors, to safeguard existing assets and to ensure continuity and accountability. The Bank's control structures will be representative of government at all levels, civil society and the private sector.

Current development thinking, which also underpins the greater part of the reconstruction and development programme, postulates a people-centred approach in which the needs, aspirations and abilities of the beneficiaries are central. Local committees are assigned their due weight in all development matters. There has been an increasing demand for our services in southern Africa and we have responded positively to this with care not to detract from the priority of South African needs. The Bank's future in the southern African region is also to be discussed with all parties.

The Bank's control structures will be representative of government at all levels, civil society and the private sector

Organisational issues. The restructuring of the Bank regionally rather than sectorally has now been in operation for just over a year and has already yielded dividends in client support, stronger relations between institutions in the regions and regional DBSA management, and a quicker response time for project approvals. The nine new provinces are readily served by the Bank's structure.

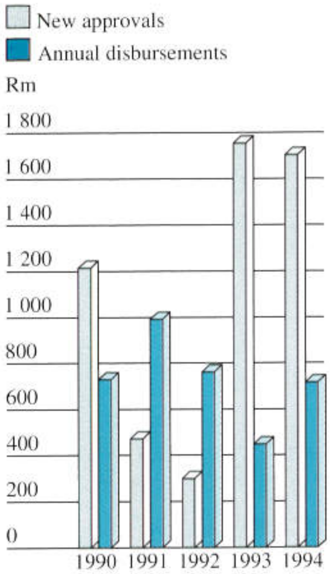
The affirmative action programme (see directors' report) has benefited the Bank by aligning its organisational culture beyond mere window-dressing. While there is always scope for further improvement, it is significant that the necessity for an affirmative approach is no longer in dispute anywhere within the organisation and the programme has contributed better representation and a more participative style of management.

While uncertainty about the future has had an effect on staff morale in the Bank as much as in any other South African organisation, motivation of staff remains high. This is a result of selection which encourages the appointment of staff with vision and dedication, a business planning process which concentrates meaningfully on critical outputs related to the Bank's overall strategic planning, and devolution of decision-making to the lowest possible level in the organisation. The staff corps is motivated and ready to contribute to future development actions.

Acknowledgements. I would like to express my sincere thanks to the Council of Governors and its Chairman, Mr Henri de Villiers; the Board of Directors and its Chairman, Professor Wiseman Nkuhlu; the Executive Committee; senior and middle management and all staff of the Bank. The leadership, guidance and support of our controlling bodies have been critical in the Bank's solid performance. I have also experienced nothing but dedication and support from all functionaries at all levels, whose contributions attest to the fact that they view their work with DBSA as a calling and not a mere occupation.

André la Grange

Projects approved and funds disbursed



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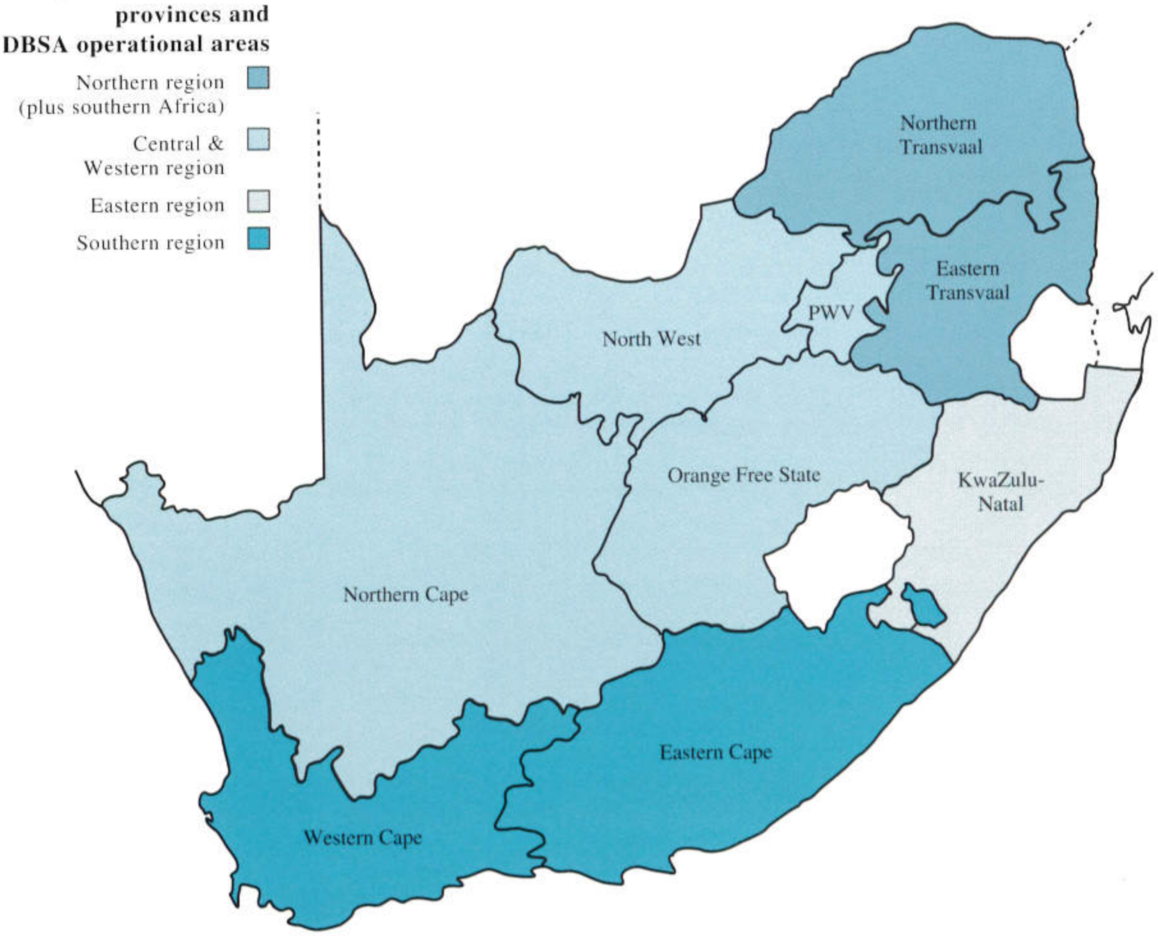
Employment of resources

It was a year of some uncertainty during the constitutional negotiations and leading up to the first democratic elections. This uncertainty had a profound effect on regional and local administrations, and the reverberations were felt by other development structures. Despite this the Bank was able to disburse R710m (a 59 per cent improvement on disbursements of R446m last year) and approve new commitments of R1 703m.

The upturn after two consecutive years of declining disbursements can be attributed to the efforts of project management. The continued high level of new

South Africa's nine provinces and DBSA operational areas

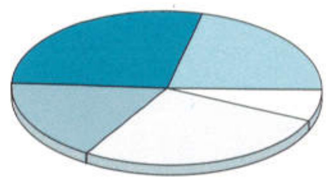


commitments shows that the appraising of new projects has been assisted by the improved project cycle and the devolution of decisions on projects to line management in the Bank. It also attests to the considerable efforts of development institutions to maintain the development momentum during an extremely volatile and uncertain period of transition, particularly in the Bank's areas of activity.

An amount of R1 703m was committed to 276 projects compared with the previous high of R1 754m in 1993. Other finance from borrowers and other funders committed to these projects was R569m. This brings total new commitments for the year in the areas of the Bank's involvement in development to R2 271m. Some of the projects approved are:

- Arabie bulk water supply in former Lebowa, R12,1m
- Rural Finance Facility enterprise credit scheme, R2,25m
- Link roads in former Bophuthatswana, now in North West province, R56,2m
- Swazi Business Growth Trust, R5m
- R110m loan towards the establishment of the Community Bank
- Women's Development Businesses, R4,06m
- Improvement of primary teacher education in former Transkei, now in the Eastern Cape, R166,9m
- Nkomazi irrigation expansion programme, R27m
- Greater Durban electrification programme, R91,7m
- Amatola Regional Services Council development support project, R15m.

DBSA total commitments: R8 891m



Provinces: Socio-economic indicators

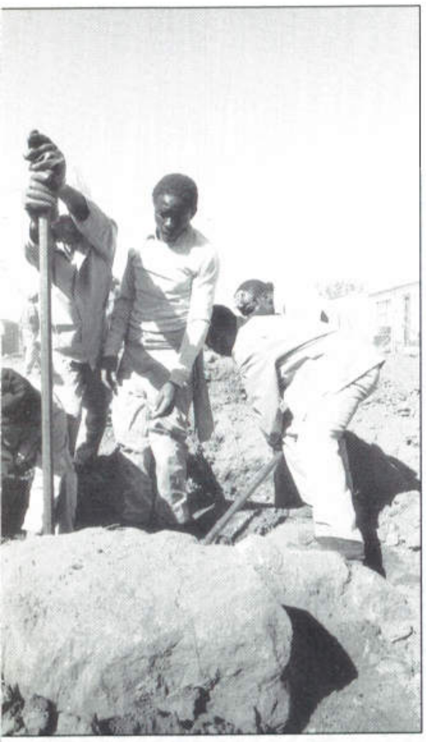
Socio-economic indicators	Western Cape	Northern Cape	Orange Free State	Eastern Cape	KwaZulu-Natal	Eastern Transvaal	Northern Transvaal	PWV	North West	South Africa
Area (km^2)	129 386	363 389	129 437	170 616	91 481	81 816	119 606	18 760	118 710	1 223 201
Population, 1993 (000)	3 620,2	763,9	2 804,6	6 665,4	8 549,0	2 838,5	5 120,6	6 847,0	3 506,8	40 715,7
Population growth, 1985–93 (%)	1,70	0,79	1,50	2,60	2,79	3,03	3,95	1,29	3,10	2,44
Density (persons per km^2)	28,0	2,1	21,7	39,1	93,5	34,7	42,8	365,0	29,5	33,3
Functional urbanisation (%)	95,1	78,2	73,7	55,4	77,9	43,2	12,1	99,6	43,9	65,5
Literacy rate, 1991 (%)	71,9	67,6	60,0	59,0	58,7	54,6	52,7	69,0	55,8	61,4
Labour force, 1991 (000)	1 535	278	1 065	1 319	2 422	881	812	3 431	1 202	12 945
Participation rate (%)	67,6	63,0	65,5	42,6	53,6	56,1	35,9	74,9	62,7	58,1
Labour absorption capacity (%)	56,9	52,9	55,3	44,8	44,8	51,8	40,3	54,4	48,0	50,0
Unemployment rate (%)	13,3	16,7	15,3	23,6	25,2	16,3	24,8	16,6	22,3	19,4
Male absenteeism rate (%)[1]	2,5	4,3	19,6	–31,3	–14,5	6,0	–28,1	20,7	7,0	–5,0
Dependency ratio (number of people)	1,2	1,6	1,4	3,7	2,3	2,1	4,8	0,9	1,6	1,9
Nominal GGP, 1988 (Rm)	24 019,6	4 046,4	12 911,7	13 630,0	26 812,8	15 219,1	5 696,7	67 379,9	12 663,4	182 379,5
Real GGP (Rm)[2]	15 722,0	2 726,6	8 669,4	8 937,5	17 549,7	10 086,2	3 787,9	44 633,9	8 649,2	120 762,5
Growth, 1980–8 (%)	2,67	–0,26	–0,18	2,74	2,69	4,46	5,99	1,00	3,17	1,99
Contribution to GDP (%)	13,2	2,2	7,1	7,5	14,7	8,3	3,1	36,9	6,9	100,0
Nominal GGP per capita (R)	7 326	5 890	5 194	2 317	3 537	6 064	1 266	10 949	4 092	5 042
Nominal GGP per worker (R)	17 203	11 190	11 930	9 992	12 269	17 251	8 031	19 465	11 821	14 574
Personal income/GGP, 1985 (%)	55,2	50,8	45,0	54,1	48,9	29,3	47,8	48,4	37,5	47,2
Personal income per capita (R)	4 188	2 865	2 419	1 358	1 910	2 164	725	4 992	1 789	2 566
Life expectancy, 1991	64,8	64,0	63,6	59,6	62,6	63,5	62,7	65,6	64,1	63,4
Human development index	0,76	0,73	0,66	0,48	0,58	0,61	0,40	0,71	0,57	0,69

1. Minus indicates absenteeism
2. 1988 figures at constant 1985 prices.
Source: DBSA, Development Information Group, 1994. *South Africa's nine provinces: A human development profile.*

At the operational level the Bank's human development approach seeks to ensure that each project has an inclusive decision-making process so that beneficiary communities are consulted and participate in the development project. Each project is also appraised to ensure that implementation creates the greatest number of jobs and entrepreneurial opportunities.

Through its participation in national, regional and local forums the Bank has shared its development information, particularly in policy analysis, and contributed professional expertise. It has sought to engage in policy debates and capacity-building strategies for promoting public sector transformation and particularly for broadening participation in the transition process. It is committed to the principle of participation in decision-making by broad civil society.

The main business of the Bank is programme and project loan funding, and only R6,7m (FY93: R2,8m) was committed to grant finance in financial year 1994. The Bank's average cost of funding from its mix of development fund, loan repayments and capital market mobilisation severely limits its ability to grant funds as a matter of policy. Typical examples of such development grants were support for the regional development forums and role players such as civic organisations, particularly for strategic planning or capacity-building exercises which would otherwise not qualify for loan finance. Often initial Bank development support has opened the way for other grant funders, such as foreign governments, to supplement the Bank's funding.



The National Labour Intensive Trust, an NGO in Mamelodi, is building roads with NEF funds and created up to 300 jobs for previously unemployed people

Job-creation programme

Professional support was given for the execution of the short-term job-creation programme of the National Economic Forum (NEF). After announcement of the R222m grant fund for job creation subscribed to by the Independent Development Trust and public sector institutions at regional and local government level as well as by DBSA, DBSA's project teams appraised over 2 000 project applications worth R1 800m.

By financial year-end R85m had been allocated. The total will have been committed by May 1994 to about 400 projects. More than two-thirds of the funds were allocated directly to communities through community-based organisations such as village, water or development committees.

The regional development forums in the northern and eastern Transvaal and in KwaZulu Natal undertook to assist DBSA with implementation of the projects.

DBSA appraised the applications by criteria set by the NEF and in close consultation with representatives of regional interests in economic development. These criteria directed the funds towards projects that were employment- and labour-intensive; provided skills training; were of local and regional importance; were community-based; and did not qualify for normal budgetary or loan funding.

Other priorities were the upgrading and maintenance of community assets (such as spring protection and soil conservation); social infrastructure (educare centres, classrooms and clinics); and production infrastructure (such as rural access roads and water supply).

Although the extent of the job-creation programme is small when set against the national unemployment problem, these projects will meet welfare needs of a number of communities to the extent that they offer income, skills and community management of projects and ownership of the assets.

The method of allocating funds directly to communities also goes some way towards creating the capacity of communities to take advantage of the longer-term public works programme strategy.

Return flow has become considerable through mature loans which are now performing and these repayments have become an important source of funds for investment in new development loans. Mature investments contribute 71 per cent to interest earned and this is set to rise, positioning the Bank, as a viable development finance institution, for participation in the reconstruction and development programme.

The Bank maintained and extended its relations with the international community to harness development resources for the region. Loans to southern African countries (Lesotho, Swaziland and Mozambique) amount to 7 per cent of the Bank's total investments. Negotiations to secure long-term concessionary loans from the International Economic Cooperation Development Fund of the Republic of China and the Export Import Bank of Japan are continuing. Many of the Bank's resources were devoted to supporting the transitional processes: the Transitional Executive Council (TEC), its subcouncils and other structures. It seconded staff members to these and made technical contributions to TEC subcouncils.

Return flow from mature loans is considerable and has become an important source of funds for investment in new development loans

Policy and information

By far the most extensive policy and information activity of the Bank in the reporting year has been to coordinate macroeconomic research on a human development programme and to quantify the costs and impact. This has also required assessment of institutions and their capacity and level of participation for achieving the end objective. This activity is in full support of the reconstruction and development programme.

Ultimately, development should result in everybody in the country sharing a better life. The Bank's view that development is about not only economic growth but also improvement of general living conditions and human development focuses attention on human needs and developing human capacity to participate fully in the economy. These need to be achieved within fiscal and macroeconomic constraints.

DBSA's study entitled *Quantification of human development needs in South Africa* projected that the capital costs to the fiscus, in addition to normal budgetary expediture, would be R39 000m and public corporation financing of R18 000m. Additional recurrent expenditure of R34 000m would also have to be incurred. This R90 000m programme could realistically be funded and implemented over 7–10 years. This could only be achieved if the growth performance of the economy improved substantially.

In a second-phase study, analysts have refined the first product for submission to the new government. This recommends what macroeconomic, fiscal and monetary policies and discipline are needed and suggests what institutions would be necessary to implement such a programme. Institutional arrangements are discussed at national, regional and local levels, including the sectors in which delivery needs to take place, such as in electrification, housing and local government. The model put forward by the Bank enables decision-makers to sequence their programmes according to priority.

DBSA's Development Information Group prepared *South Africa's nine provinces: A human development profile* for publication as part of the human development information programme. Here the key socio-economic indicators in each province are analysed and compared. Human development, according to the United Nations Development Programme (UNDP), and applied in the report, is about enlarging people's choices. For people to make informed choices they need long, healthy lives free of violence and pollution, adequate education and training and a decent standard of living.

The UNDP's human development index (HDI) measures life expectancy, literacy and income levels.

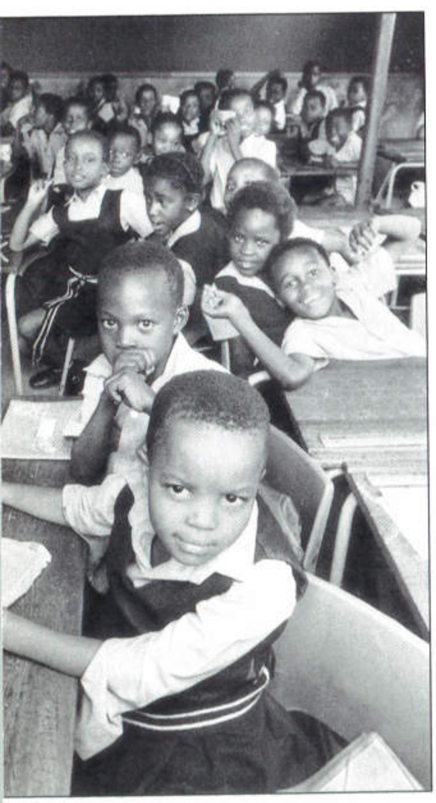
The publication provides key information for national, provincial and local decision-makers. Human development needs in Northern Transvaal, Eastern Cape and KwaZulu-Natal are particularly extensive. The obvious disparities between the provinces indicate the need for transfer of resources to poorer provinces while maintaining macroeconomic discipline. Without concurrent attention to building financial and institutional capacity to achieve growth and reconstruction, there will be no sustained pattern of meeting human needs.

Cooperation and agency work

The Bank has been able to mobilise other resources of, or cooperate in joint ventures with, local and foreign development institutions such as the Independent Development Trust, the Kagiso Trust, the German technical assistance agency Gesellschaft für Technische Zusammenarbeit and the British Overseas Development Agency and has undertaken agency work for the World Bank.

Southern African and international agencies. The Bank has contributed to the debate on the reintegration of the southern African region. It participated in the African Development Bank's (ADB) study of economic integration in southern Africa, on which a report was released early in 1994. Two reconnaissance missions followed and an invitation from the ADB Group to South Africa to join – a decision that will be taken by the democratically elected government. DBSA coordinates ADB's interactions in South Africa and hosted the missions.

DBSA organised a workshop on reconstituting and democratising the Southern African Customs Union (SACU). Held in Gaborone, Botswana, on 6–8 March 1994, this was convened by the National Institute for Economic Policy and funded by USAID. Participants included SACU member states (Botswana, Lesotho, Namibia, Swaziland and South Africa), members of the Southern African Development Community (SADC) and foreign observers.



Provision of good quality basic education in the first four years of primary schooling is the best educational investment the country can make

Costing free compulsory basic education

Provision of good quality basic education in the first four years of primary schooling is the best educational investment the country can make and should be a national priority. Improvement in a child's learning in these years yields savings: pupils learn more and proceed through the system more rapidly.

To calculate the cost to the economy of the first four years of primary education, as contained in the proposal for ten years of free compulsory basic education, DBSA convened a policy assignment workshop in February 1994 for practitioners, theorists and economists.

The analytic method used calculated cost per classroom and per pupil to arrive at a cost unit comprising capital and recurring costs. It also took account of the priorities set by the workshop participants, the highest of these being community involvement – particularly of parents – teacher excellence and upgrading, physical provision and learning culture.

DBSA's research shows that the drop-out and repeat rates are costing around R2 000m per annum or R1 600 per child. A minimum, adequate and acceptable level of basic education would cost the economy R2 000m per annum at an average annual total cost per child of R2 000. This is within reach of the present expenditure of R1 560m, especially if the repeater costs are reduced.

The hostels initiative

The violence which broke out in and around hostels in 1990 brought into sharp focus the needs of their residents and surrounding neighbourhoods. Neglected and overcrowded hostel complexes lacking basic services presented a huge human development challenge.

In seeking solutions to the problem of violence DBSA and the Independent Development Trust initiated a process to bring the protagonists in the hostels debate together. This suggested the need for a national housing forum which would include all stakeholders.

The National Housing Forum pursued the hostels issue through its Hostels Working Group and later the National Hostels Coordinating Committee, which assumed responsibility for allocating R325,6m of government funds for investment in upgrading. With the support of Bank expertise the National Hostels Coordinating Committee placed hostels policy within the overall housing context and the necessity for integrating hostel residents into their local communities.

The National Hostels Coordinating Committee recommended that hostel structures should be integrated into provincial housing initiatives to manage hostel upgrading. This would establish capacity and involvement at grass roots.

DBSA provided technical expertise and a convenor for the project evaluation subcommittee which approves projects in the hostel redevelopment programme. By 31 March 1994, R280m had been allocated, of which R80m had already been spent on projects in implementation.

To manage the upgrading of hostels, coordinating structures should be integrated into the provincial housing initiatives

DBSA's international relations programme and policy analysts supported the TEC subcouncils on foreign affairs and finance in formulating policy on South Africa's international development relations. The challenge facing South Africa is to mobilise and coordinate domestic and foreign funds for reconstruction and development.

DBSA functioned as the country's provisional agency for the World Bank. South Africa has to enter into official dialogue with the World Bank to formulate a country assistance strategy which integrates the economic growth and development priorities of the government of national unity with a specific World Bank assistance package.

DBSA also participated in the World Bank-funded rural restructuring programme. The programme was managed by the Land and Agriculture Policy Centre. This led to the Land Redistribution Options Conference held in October 1993 and in turn to a land reform programme jointly funded by the World Bank and Danish International Development Agency (Danida), to which DBSA has seconded a senior policy analyst.

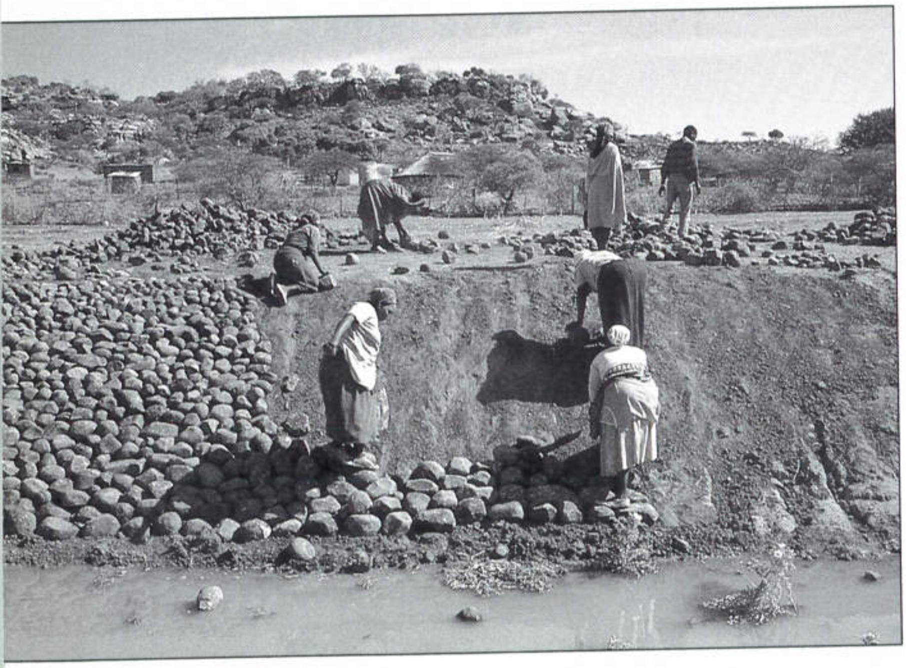
Another important assignment undertaken with the World Bank by DBSA's Development Information Group was compilation of education information for South Africa. Assessment of the information by a national panel on which DBSA policy and operational staff participated resulted in *Public expenditure on education*, a report on primary, secondary and tertiary education for 1987/8 to 1991/2. The most comprehensive study in this field, the report provides indicators and scenarios on pupils, teachers, classrooms and finances. It also reveals the absence of focused indicators needed for policy-making and the need for correction of this by a new national department of education.

National public works programme

A package of policy measures which will have long-term, permanent, direct and indirect employment effects is needed to change the structure of public sector investment in favour of jobs, training, capacity-building and provision of basic infrastructure

South Africa faces an unemployment crisis, and job creation is a national priority. Public works have often been suggested for dealing with the problem. Long-term planning, however, is necessary to design a programme for government expenditure on infrastructure that generates both jobs and useful assets.

Capital-intensive public and private sector investment practices have curtailed labour absorption. Despite vast amounts spent in the past by the government on job-creation and relief programmes, the results have been ad hoc and short-lived.



DBSA was requested by the National Economic Forum (NEF) to support a technical committee investigating public works programmes. The committee brought NEF member organisations (business, labour and government) together with other stakeholders. It initiated the designing of a medium- and long-term programme for creating and maintaining infrastructure by providing jobs and training in historically deprived communities.

Two workshops were held in the year to March 1994 and focus groups established in which 80 stakeholders participated. A policy paper was prepared for submission by the NEF to the government of national unity in May 1994 as guidelines for action in its reconstruction and development programme.

The technical committee recommended a two-pronged approach. First, a package of policy measures with long-term, permanent, direct and indirect employment effects was needed to change the structure of public sector investment in favour of jobs, training, capacity-building and provision of basic infrastructure.

Second, to promote new approaches at the level of local and provincial government, a special fund might be needed as an interim measure to support 'community works programmes' as distinct from public works.

Mvula Trust. The Bank, together with the Kagiso Trust (KT) and the Independent Development Trust (IDT), was a founding member of Mvula Trust. Mvula Trust's mandate is to improve the health and welfare of disadvantaged rural and peri-urban South Africans through increased access to safe water and sanitation services. The trust was founded following concern over failure to meet rural needs; the European Community (now European Union), which was committing finance through KT to the trust, encouraged the three development agencies to cooperate. The three organisations have joint membership of the board of the trust and its committees.

With a capitalisation of R100m in grant finance from KT and IDT, and a further R50m commitment in the form of loan finance from DBSA, by April 1994 Mvula Trust had committed R20m to its first 49 projects, which would have an estimated 250 000 beneficiaries.

Transition. The Bank acted as the professional secretariat for the economic cooperation agreements between central and homeland government administrations (with the exception of KwaZulu). The Bank closely monitored the implementation of these regional budgets. As this function was not part of normal Bank activities, a separate Section 21 (non-profit-making) company was formed in 1993 to manage the professional secretariat. The company, Financial and Economic Services, is well positioned to support the Financial and Fiscal Commission in managing fiscal relations between central and provincial governments.

DBSA provided technical inputs on demarcation and delimitation of regions to the Multi-party Negotiating Council, which reached consensus on the transitional constitition. This regional information made it possible for the council to compare the economic and provincial management options of the regions. These inputs later assisted the TEC in the geographic arrangements for the election. Senior staff members were seconded to the Independent Electoral Commission and other TEC structures.

The Bank participated in the establishment of several national forums and provided technical and professional assistance to these during the transition. These forums were important in broadening policy and identifying delivery channels for the equitable supply of goods and services.

Public sector transformation

As its major clients are government institutions, DBSA has for some time emphasised the importance of adequate public sector capacity. In rendering technical assistance for establishing or improving institutional capacity the Bank has emphasised the importance of managing economic restructuring and development.

Before the negotiated settlement, when very little planning or preparation was being made for public sector transformation after the elections, DBSA arranged a two-day workshop assisted by a panel of prominent academics in public administration to identify the key issues at national and provincial level.

Public sector transformation was clearly a process that needed to be negotiated, transparent and legitimate. It needed to be a managed process. The key issues identified included the need for planning after the elections; a new role for the Commission for Administration; linkages between the public sector and the community; capacity-building and training; and human and financial resources management.

DBSA was also invited to make a submission to the TEC subcouncil on provincial and local government and traditional authorities on the management of public sector transformation. By year-end the emphasis of the programme had moved away from the academic realm to practical establishment of new provincial governments.

DBSA has for some time emphasised the importance of adequate public sector capacity

Women found an opportunity to voice their needs on project committees – the participative issue linking with the gender ones of opportunity, decision-making

Rural communities setting priorities

The Nkomazi irrigation expansion programme was mainly designed for commercial sugar-cane farmers in seven tribal areas downstream of Driekoppies Dam.

DBSA insisted that social structures be formed to ensure participation of the communities in the irrigation scheme. Communities elected project committees, where women's clubs expressed their need for irrigated communal vegetable gardens. Existing landowners realised that through the committees they could take advantage of the irrigation scheme. The youth requested irrigated farms for training. So, for instance, in the Mawewe tribal area of Madadeni the original claims of 20 farmers each for 20 ha irrigated farms were mediated to accommodate 55 farmers each with 7 ha of land, a women's club of 60 vegetable farmers with 10 ha and 30 dryland farmers each compensated with 5 ha of irrigated land.

Small contractors also made use of the opportunities created by the project committees and had contracts for construction of the projects awarded to them. They employed local labour.

At a steering committee meeting with DBSA and government representatives a community leader articulated the need for domestic water. Since then other government departments have delivered services other than irrigation. By identifying broader needs the project committees started their transformation into institutions capable of development work.

They included
- the National Electrification Forum (NELF)
- the National Housing Forum (NHF)
- the National Economic Forum (NEF)
- the Standing Committee on Water Supply and Sanitation (SCOWSAS)
- the National Transport Policy Forum
- the National Telecommunications Forum
- the National Rural Development Forum.

The Bank also provided technical assistance for the establishment of a representative Welfare Forum. It assisted the forum in setting out a welfare development agenda. The forum sought to ensure that the welfare sector, which had been excluded from the development sector, was integrated into the larger multisectoral approach.

DBSA provided NELF with start-up assistance through professional support, accommodation for its secretariat and chairmanship of the management committee. DBSA was a founder member of SCOWSAS and has continued to provide resources for its work. SCOWSAS has in the past year developed institutional options for the water sector which are gaining wide acceptance and will clarify the future of institutions such as water boards in the new constitution.

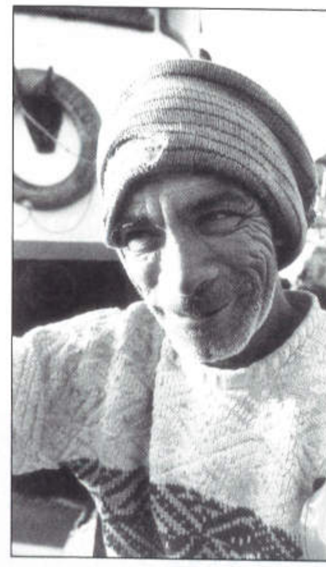
Regional development forums became vehicles for democratising participation in policy debates at regional government level before the elections. Participation in regional debates was broadened to include political parties, civic organisations, business, labour and local and regional government structures. The future of forums is yet to be decided. Their lifespan will be determined by their usefulness in providing constructive and democratic policies for reconstruction and development to new national, provincial and local governments. Development forums were established in most of the areas demarcated for new provinces. In the year under review the Bank assisted with start-up funding and professional support in the eastern Cape, PWV, eastern Transvaal and northern Transvaal.

Putting human development into operation

People's participation. The Bank deals with civil society issues through both its policy work and its interaction with the external environment. The challenges over people's participation and policy forums at various levels regularly confront DBSA. Tackling these issues is at the core of its human development concerns. Against this background the civil society policy programme assumes great importance. Through the programme the approach to non-governmental organisations (NGOs) and community-based organisations and also key conceptual issues continue to receive attention.

One of the primary concerns in human development is the need for people to have a say in how their needs should be fulfilled. Communication and information need to be opened up to ensure that people participate in development. Communities should be empowered to use their own labour and resources in meeting their needs. DBSA has been able to add value to this process by ensuring that its borrowers consult their clients and hear people out systematically, through for example, the creation of project committees.

This approach also seeks to remove the constraints people experience in accessing opportunities. Women in particular are restricted from participating in the economy and in traditional decision-making structures. Most of the poorest people are women, and gender issues need to address both equity considerations and effectiveness.



Opportunities exist to integrate the marginalised communities into the industry so that both sectors may benefit from the restructuring

Restructuring the fishing industry

Communities traditionally dependent for their livelihoods on sea resources along the west and south Cape coast have seen their livelihoods eroded as fishing permits have been taken up by commercial companies and privileged individuals.

They argue that their lives are impoverished by lack of access to the industry and powerlessness to participate in legislative decisions. The rurally marginalised and remote communities have little access to other income streams or to credit for entrepreneurship. They have poor access to quality education, health services, provision of fresh water and electricity.

Use of marine resources needs to be well managed. Concentration of the industry in the hands of a few companies has removed the opportunity for a livelihood from the traditional fishing communities. Opportunities exist to integrate the marginalised communities into the industry so that both sectors may benefit from the restructuring.

At workshops and meetings of fisherfolk the need was established for a participative process of identifying opportunities and formulating a development programme for alleviating poverty. The Fisheries Development Unit in Cape Town was mandated to facilitate this and ensure participation of the various parties. DBSA and the Kagiso Trust in a joint funding exercise will provide a grant of R300 000 for the development planning.

Environmental analysis will permit project designers, implementing agencies, the borrower and Bank staff to attend to environmental effects quickly and cost-effectively

Gender. Gender analysis forms an integral part of development in all sectors. A gender information subprogramme was established to strengthen policy formulation, programme and project planning, implementation and evaluation.

Environment. Environmental analysis guidelines were completed for inclusion in the project cycle. The aim is to call early attention to environmental issues. Environmental analysis will permit project designers, implementing agencies, the borrower and Bank staff to attend to environmental effects quickly and cost-effectively. Achieving this during development requires accountable decision-making and an open, participatory approach in planning and consultation. Public and specialist input alike should be possible throughout the project cycle to ensure that the long-term social benefits of the project outweigh the social costs.

Development planning. The Bank's development planning support actions have externally driven planning initiatives aimed at the formulation of multi-sectoral and sectoral policies or strategies. These initiatives have included assistance at provincial, subregional and local level, and rural and urban development planning exercises. DBSA has emphasised the need for inclusive planning processes and for broadly representative planning and decision-making structures involving organised labour, business, government and community structures.

The Bank's development programming function assists borrowers to structure balanced programmes which mobilise all other development resources available. This has required the Bank to participate in policy and strategy debates.

Business and entrepreneurial development. Since the changing in 1991 of the government's regional industrial development programme, which encouraged decentralised industrial development through incentives, the Bank's small business development programme has grown from representing 9 per cent of the total R120m disbursed to business and entrepreneurial development in 1990 to 76 per cent of the total R46m disbursed in the past year.

However, the funding of microbusinesses and small and medium enterprises normally in the hands of black entrepreneurs remains a problem. Commercial financial institutions fail to provide services to micro-enterprises because of their perceived high risk and the high transactions costs of small loans. Public sector funds are therefore made available to other funding institutions to serve micro-entrepreneurs. Such funds are made available through NGOs and development corporations. Policy analysis shows that micro-enterprise development is inhibited not only by lack of access to credit. Micro-entrepreneurs and small and medium entrepreneurs also need equity to establish or expand their businesses. In the past year DBSA embarked on an innovative equity scheme in which Business Challenge Small and Medium Enterprise Finance Scheme was financed with R0,5m. A further R10m loan facility was made available by DBSA and IDT to be on-lent to businesses participating in the scheme, who will buy back the principal shares from Business Challenge once they have accumulated reserves.

Community Bank, on the other hand, seeks to draw into the commercial banking part the vast 'unbanked' part of the community. It is to establish a Community Bank Trust which will acquire the shares of the Community Bank and hold these shares in trust for members of the community. Clients of the bank will purchase permanent interest-bearing shares until ultimately the Community Bank is community-owned. A client will have to build up a savings track record or savings deposits to become eligible for loans. The

Equity options: Labourers get shares in company

When the management of an exporting pineapple cannery outside East London approached the Bank to assist with a management buy-out from a disinvesting company, the Bank insisted that it could only help finance the new company if disempowered stakeholders benefited.

This meant that the weekly wage-earners of the canning factory should benefit from the restructuring and change of ownership. Potential small growers of pineapples in the former Ciskei should also be able to participate in the company's equity.

After negotiation with Food and Allied Workers' Union members at the factory it was decided that the ratio of ownership between management and wage-earners should be 60:40. DBSA provided R3,2m to the Ciskei Agricultural Corporation for on-lending to Sunny South Canners to finance the contributions required from the disempowered workers. Banks and the disinvesting company financed the company's short-term needs.

The buy-out came at a critical point in the past year, ahead of a bumper crop and a firming of world market prices. Had the factory closed down, some 1 000 jobs would have been lost affecting the factory's 400 wage-earners, its management team and the farms and their labourers that deliver to the cannery. The factory is one of three canners on the eastern Cape's pineapple coast.

DBSA's involvement made it possible to retain 25 per cent of the pineapple-growing industry and to transfer 12 per cent of the canning capacity to the disadvantaged group with direct benefit to the broader rural community.

Black weekly wage-earners benefit from a change of ownership and are to take up 40 per cent of the shares of the cannery

Community Bank aims to build up a loan book of R1 500m. Branches will initially be opened in the PWV, East Rand, West Rand, Western Cape, Eastern Cape and Natal. To capitalise the Community Bank through a trust DBSA will combine its loan of R110m with R90m from other sources of primary capital (R40m from the Industrial Development Corporation, R25m from IDT and the balance from the commercial banking sector). The trust will also establish a grant-funded foundation which will carry out client counselling and product marketing.

Rural and agricultural development. Because of the poverty in the rural areas of South Africa the rural and agricultural development policy programme has focused on unused human and land resources in these areas. The Bank is doing policy analysis on land markets and rural restructuring and has focused on the human development aspect by studying the mobility of rural dwellers, rural governance and the income and employment implications of different land reform options. In addition, policy and operational work has concentrated on the role of rural financial institutions like cooperatives and state-funded agricultural financiers, and the financing of rural entrepreneurs in general.

Equity options: Farmers share with labourers

Current owners of Whitehall farm and the workers' committee representing prospective co-owners

Equity participation in profitable farms, in which labourers become shareholders in the enterprise, is proposed as a model for land and agricultural reform.

Henry Hall of the farm Whitehall in Grabouw district is offering 30 per cent of his 348-hectare farm valued at R30m to his management team and 170 permanent wage-earners.

To test the merits of equity participation, DBSA together with IDT and a commercial bank proposes to support the purchase of the shares through a workers' trust. Current Land Bank and Agricultural Credit Board policies do not mandate their involvement in this initiative. However, this pilot project could hold valuable lessons for restructuring agricultural funding and serve as a model for financial institutions to follow.

The project offers economic empowerment through shareholders' contribution to management of the concern, full disclosure of operating results, increased income through profit-sharing, and ownership of assets. This kind of redistribution can also produce improved efficiencies.

To avoid public sector funding of a selected few, the loan offers are made subject to at least 70 per cent worker participation in the trust, which workers' committee chairman and personnel manager Johannes Muller believes can be achieved through training and communication with the permanent wage-earners on the farm.

At a conference on land redistribution options arranged by the Land and Agriculture Policy Centre in October 1993 the Bank introduced the concept of share equity in farming enterprises. Profitable farms could become shareholding companies in which workers take up shares. A pilot project has been approved and several applications are being tried.

In the past year evaluation of the Bank's eight years of experience in farmer support programmes (FSPs) has yielded empirical evidence of how rural poverty can be prevented. To ensure early dissemination of the information gained, an FSP evaluation workshop was held in which the consultants that undertook the evaluation shared their insights. The evaluation results will be published later in 1994.

A study of rural livelihoods to assess poverty is being co-financed by the British Overseas Development Agency and DBSA. It was started in the past year in the western Cape with the aim of ascertaining how policy changes can improve rural livelihoods.

Urban development. Urban policy has focused on socio-economic reconstruction. Outputs of the programme include discussion papers on urban reconstruction, inner city revitalisation, and the urban economy; and submissions on the housing sector for the National Housing Forum. Progress was also made on a housing information system with position papers completed in the urban land and management financing sectors.

The human development approach of the Bank has directed attention in the operational activities of the Bank to urban development projects that involve participatory decision-making, progressive town planning methods and labour-based construction methods.

Seven kilometres from the centre of Durban the undeveloped land of Cato Manor has lain fallow since forced removals from the land. Now the site presents immense opportunities for providing low-cost housing for up to 300 000 people. DBSA has approved a loan of R2,6m to the Cato Manor Development Association for planning the 2 000 ha area. The total public investment envisaged in the area is between R1 500m and R2 000m.

The intention is to apply the latest knowledge and techniques in urban development through an inclusive process to achieve a humane urban environment. The underlying theme of the project is to provide an example of how urban reconstruction can be introduced. Fast-track planning is proceeding to enable implementation in the shortest time possible.

Some elements of large urban infrastructure projects lend themselves to providing entrepreneurial development opportunities. One such project is the labour-based road construction and upgrading of water supply in Soweto. The Soweto City Council had adopted a project approach to stimulate local participation in the construction phases. DBSA provided a loan of R4,8m for four road contracts and nine water contracts of between R100 000 and R500 000 each.

Under the Soweto contractor development and job creation programme, the city council appointed a professional team of engineers, material managers and construction managers to manage the local contractors. Local contractors

Farmer support programmes can improve the food security and incomes of rural households

Evaluating farmer support programmes

Homeland agricultural development in past decades used capital-intensive projects to increase rural production and employment. Farmers settled on the projects remained dependent on project managers. Project-specific production increased, but the projects proved costly, and pockets of rural development failed to prevent rural poverty.

To spread agricultural opportunities to more farmers DBSA adopted the farmer support programme (FSP) approach with proven success in Zimbabwe, Kenya and Malawi and locally among small sugar farmers in KwaZulu Natal. Services like extension, training, mechanisation and credit are provided on demand to farmers with existing production rights to increase the potential for efficient use of resources.

DBSA's first FSPs were implemented in KaNgwane in 1987 and later in KwaZulu, Venda, Lebowa and Ciskei. Evaluation of the programme and critical analysis by different interest groups culminated in a workshop to ensure early dissemination of the findings.

The main findings of the evaluation are that

- FSPs can improve the food security and incomes of rural households
- focused implementing institutions are more likely to succeed
- equitable access to land is important
- success depends on farmer involvement
- repayment rates are lower than expected.

The findings have operational policy implications. DBSA must

- review credit arrangements to reduce transaction costs by providing credit to viable groups
- provide sustainable credit by mobilising savings
- seek innovative approaches for more equitable land distribution
- introduce marketing services
- apply these lessons in the new provinces.

Other municipalities could adopt the model of reconstruction pioneered in Worcester, in which the whole community accepts financial responsibility for improving the well-being of the impoverished members

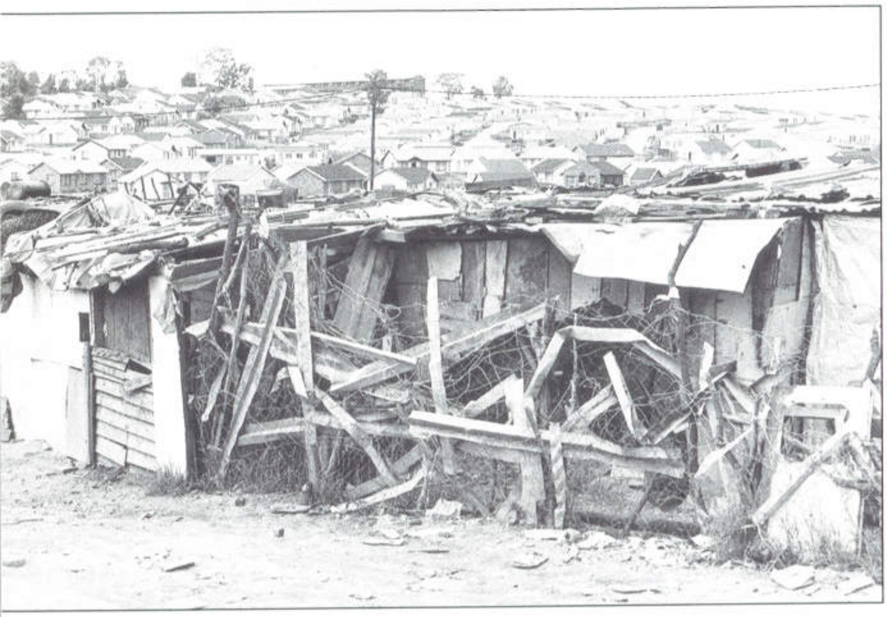
Redistribution and reconstruction through rates

The Worcester Town Council accepted the principle of cross-subsidisation for the development of low-income residential stands in Avion Park. The development cost of the stands is to be recouped from municipal services consumed in greater Worcester and sale of the stands at a nominal price.

A Bank loan of R9,2m covered the installation of full residential services including water, sanitation, electricity and gravel roads to approximately 1 200 low-income residential stands. A DBSA grant of R12 000 funded community workshops during the preparation phase of the project. Funds for low-cost self-help housing will be made available by the National Housing Commission.

This form of redistribution developed in Worcester could serve as a model for other municipalities. Its strength lies in the whole community's accepting the financial responsibility for improving the well-being of the impoverished members. It may do much to reduce squatting. Stand owners will participate in a self-help programme in which they will construct their own homes.

Implementation of the project aims at maximising employment creation and using local contractors and entrepreneurs.



were appointed by financial ability and building skill. On-the-job training was provided throughout by the professional team. Each local contractor engaged up to 30 local labourers per contract. The nine local contractors created opportunities for 270 local labourers.

The Bank has approved R40,5m for similar projects in other areas of Soweto, Ennerdale and Dobsonville.

Bulk infrastructural development. In many areas improvement of the basic services rendered to communities has to be supported by major infrastructural development. DBSA's investment in infrastructure has been of an amount sufficient to present opportunities for assisting beneficiary communities through the end product and also through participation in project implementation.

A loan of R5m was approved for constructing the Modjadji access road in the northern Transvaal in 1994–5. The project will improve accessibility to markets and employment opportunities and open the area to tourists interested in the unique flora and social customs. Construction of the road with concrete block paving will increase employment opportunities on the project and allow a portion of the work to be assigned to emerging contractors, who will be assisted by a special training programme.

A DBSA loan of R6m for upgrading the Mhlahlane water supply will bring bulk potable water to rural communities west of Umtata. The bulk supply and purification works pipeline will be installed to reach the villages. The villages around Mhlahlane will take up funds from a community support programme for reticulation of the water in their own villages, so involving the local communities in construction and maintenance. Through the community support programme the government and parastatals use a R24m DBSA loan to finance a package of community needs in the six regions of Transkei.

The community support programme allows communities to set their own priorities by choosing from a package of products including village infrastructure, small business opportunities and capacity-building. DBSA funds are supplemented by IDT grants for capacity-building at community level and technical assistance from the Gesellschaft für Technische Zusammenarbeit, which in this programme concentrates on teaching community skills and grass-roots development project management. A coordinating committee was formed between funders, donors, NGOs and government to ensure programme coordination, appraisal, implementation and monitoring in the six regions.

Human resources development. Provision of good quality education and training will be pivotal in ensuring human development. Reconstruction of the entire national education system and its constituent sectors, and its integration with the training sector, will demand attention for several years to come. In support of this reconstruction, over the past year the Bank's activities in policy analysis, information sharing, agency work, technical assistance and investment funding have included:

- a comparative study and report on public expenditure on education
- improving the quality of tertiary education through technical assistance and investment funding
- in-service teacher upgrading linked to adult education programmes
- improving distance learning and enhancing open learning
- guaranteeing commercial bank loans for pre-apprenticeship students
- skills transfer and capacity-building at community level and creating entrepreneurial opportunities
- entrepreneurship training through youth clubs.

By providing a technical assistance cooperation loan in support of policy development for making distance education more effective and in line with international experience, the Bank contributed to an important study aimed at improving the quality of existing education delivery channels. The Bank also provided a technical assistance grant to the South African Insititute of Distance Education (SAIDE), which includes Unisa, Vista University, Technisa, Technikon RSA and private colleges. Other funders of the study were the Ford Foundation and Interfund. SAIDE has enlisted the services of eight world experts on distance learning. An initial recommendation of the study is introduction of a framework for distance education that provides various forms of student support.

By ensuring public debate on the use of public funds and institutions for education in the former Transkei the Bank safeguarded an acceptable and democratic process for planning new colleges of education and assigning others to new uses decided on by the communities.

A study for former KaNgwane on in-service training for teacher upgrading (and similar work conducted for the former Transkei) led to a DBSA-sponsored national workshop on the topic.

At Vaal and East Rand Career Colleges a pilot approach under the Cognitive Education Foundation of South Africa aims to give students pre-apprenticeship education and training to prepare them for employment in industry. Industry's part is to ensure apprenticeship employment and grant two-thirds of a candidate's bursary. Standard Bank will provide the remaining third as a student loan repayable once the candidate starts working. These loans are guaranteed by DBSA and the scheme will be tested over three years.

The affirmative action programme has achieved the targets set for year-end of 25 per cent in senior and middle management and over 30 per cent below this level

DBSA organisational development

Political, economic and social changes have required the Bank to adapt and respond to increased demands on its organisational resources. The culture and values of the Bank have received close attention over the past 18 months to make them more open, honest and focused.

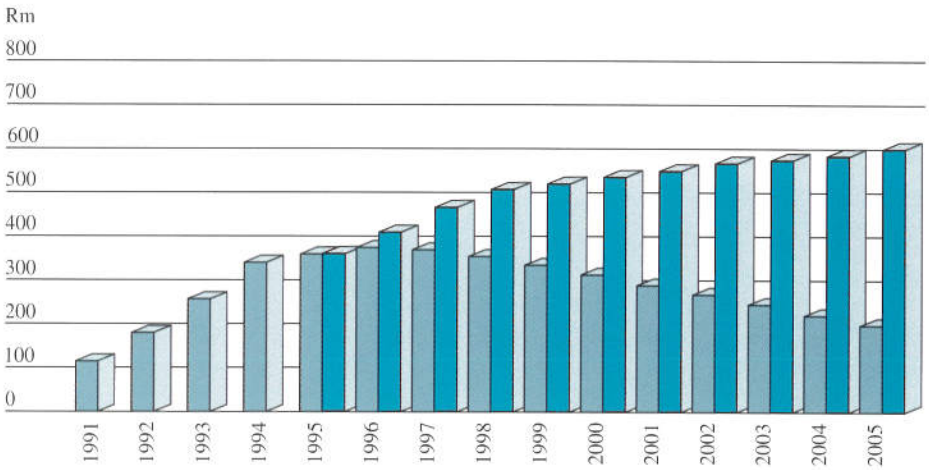
The affirmative action programme has achieved the targets set for year-end of 25 per cent in senior and middle management and over 30 per cent below this level. This was despite the decrease in the total staff complement to 571 (FY93: 608). Consultants to the Bank qualifying under affirmative action were also appointed. An affirmative action policy document drafted by a staff-elected committee was finalised in consultation with management. This also resulted in a review of the performance appraisal procedures. The affirmative action programme is proving generally beneficial to the efficiency of the Bank.

The Information Systems and Technology division outsourced a number of its functions. The office computer system was overhauled and operators retrained on the replacement system during the year. This will improve information distribution and management.

Despite the increase in demands made on the Bank's human resources it has managed to control cost increases to below the level of inflation. Cost containment in the Bank is shown in improvement in the ratio of operating expenditure to new commitments made during the past year (see five-year financial summary on page 2).

Operating results

Interest income for the year of R546,8m represents an increase of 35,4 per cent on the preceding year's R404,0m. Most (71 per cent) of this income is sourced from development lending and has grown at a compound rate of 49 per cent over the past 5 years. This strong sustainable cash flow emanating from a development loan portfolio established over a 10-year period is set to provide the main source of future asset growth. Even on a run-off basis on current commitments alone, development loan income would not decline below current levels for some time to come. In the interim projected income on future commitments (yet to be contracted) would continue the rising trend of the past.



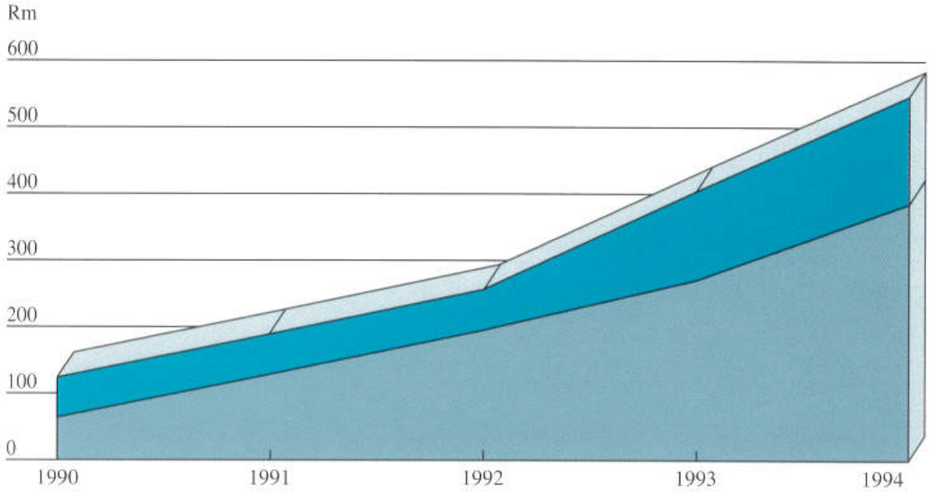
Development loan income: Historical and projected

On loans advanced to 31/3/94

On projected future loan advances

Negotiations during the year on all loans in non-accrual proceeded satisfactorily and the Bank was able to recover all arrear capital payments and also 68 per cent (R12,5m) of arrear interest income due. Owing to the Bank's conservative accounting policies on income recognition forgone interest (amounting to R5,9m) did not have to be written off.

The balance of interest income (29 per cent), deriving from the Bank's liquidity holdings, rose to R161,6m (1993: R133,5m) owing to a combination of higher liquidity levels and favourable capital market conditions.



Interest income composition

From investments

From development loans

The Bank remains financially sound with financial resources and gearing potential to meet the challenge of the emerging reconstruction and development programme

An absence of fresh borrowings in recent years as well as in the current year meant that the interest charge remained relatively unchanged from 1993. Net interest income rose 57,5 per cent, from R239,9m to R377,8m.

A favourable medium-term outlook for inflation and the imminent drawdown of the Bank's surplus funds in support of increasing development activity point to lower interest income from investments in the coming year.

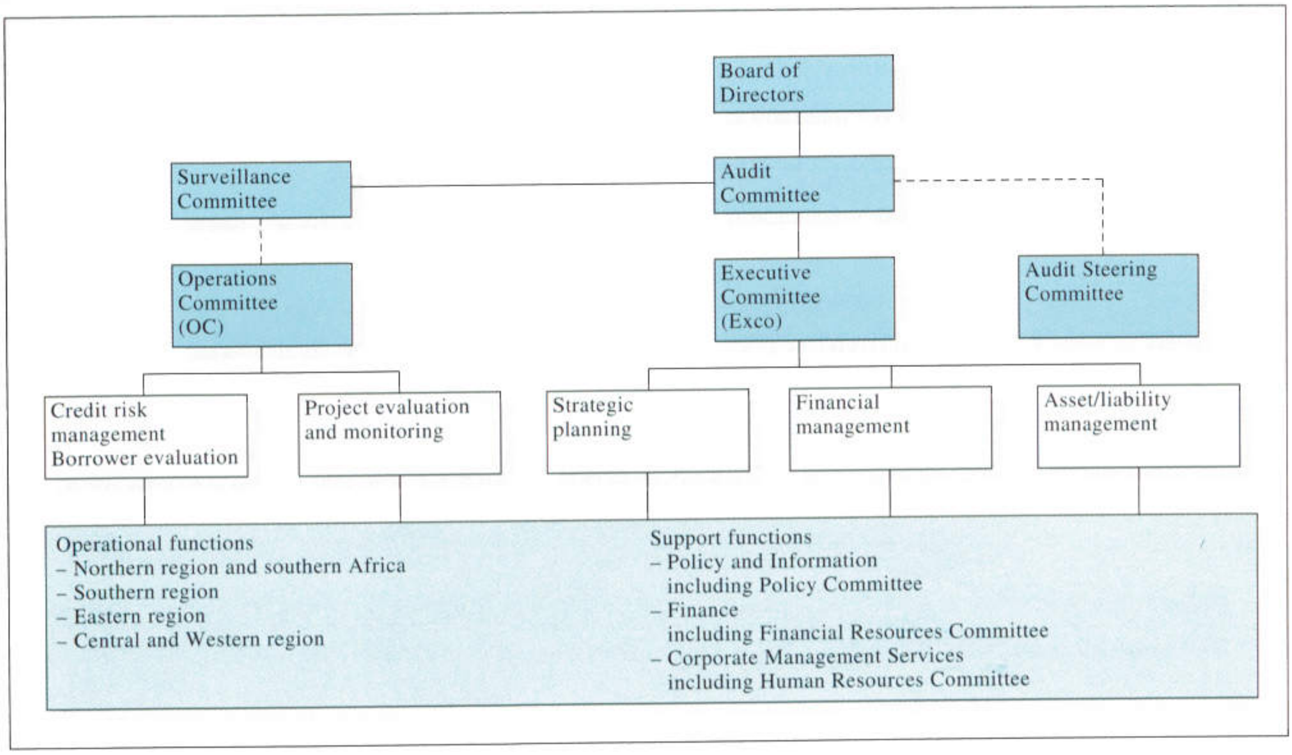
Gross operating expenditure increased 7,7 per cent over the preceding year to R116,3m. Payments to consultants and the upgrading of the Bank's information technology accounted for the main portion of this increase. Additional consultants were contracted under the Bank's agency and policy and information programmes in support of national transition. These and associated costs were recovered from principals to the extent of R5,4m with the result that on a net basis operating expenditure exceeded the previous year's by 2,6 per cent.

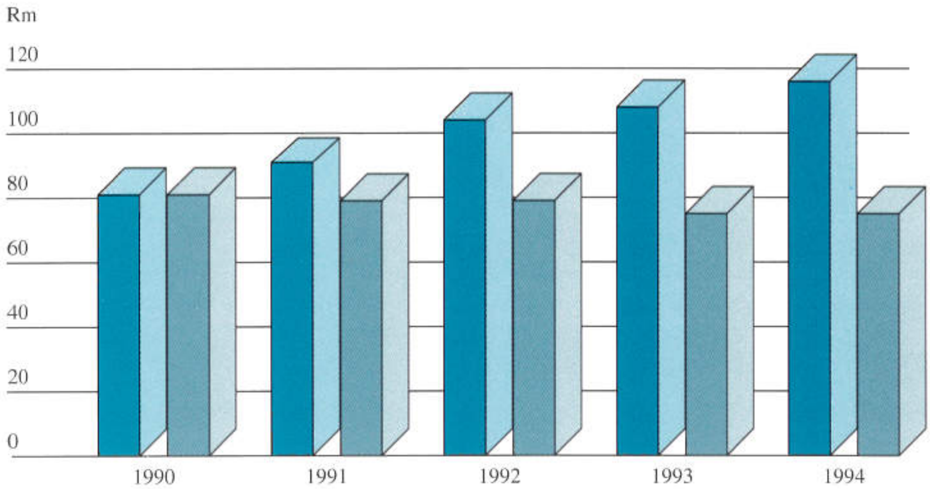
Integrated risk management

Over time the Bank has developed comprehensive systems and procedures for dealing with the multiplicity of interrelated risks that it faces. These systems and procedures are formally termed the Bank's integrated risk management (IRM) approach.

The IRM approach takes its cue from the audit policy administered by the Board of Directors. The Board is in turn supported by the Audit Committee. The Board of Directors and Audit Committee are vested with ultimate responsibility for evaluating the adequacy and effectiveness of the risk management process followed by the Bank. A second tier of committees is charged with monitoring particular risk areas as depicted below.

Asset and liability management is integral to the Bank's risk management





Evolution of operating expenditure

activities. The Financial Resources Committee regularly reviews the Bank's asset and liability positions with the objective of funding assets with liabilities having broadly the same characteristics of interest rate, currency and maturity. The risk to income and, as a consequence, the future sustainability of the Bank's development activities will to a large extent be determined by its success in managing mismatches in these areas and also in managing the additional undermentioned risks.

Interest risk: *The risk to earnings whenever assets and liabilities carry different interest regimes.*

The Bank is not exposed to significant interest risk at present as most of its interest-earning assets continue to be funded through own resources.

The Bank nevertheless carefully monitors, on a portfolio basis, the interest spreads between its financial assets and its borrowings. Spread management involves the use of cash flow forecasting models to set the financial parameters for gearing and the composition of assets and liabilities.

Credit risk: *The risk to earnings were any of the Bank's borrowers or counterparties to default.*

The credit risk inherent in the Bank's development lending and liquid asset portfolios is managed in disciplined fashion.

In development lending, procedures are followed throughout the project cycle to identify, monitor and manage factors which could potentially impair, either directly or indirectly, borrowers' ability to repay. The Operations and Surveillance Committees respectively monitor the Bank's overall development lending exposures and recommend provisioning levels.

The Financial Resources Committee establishes policies and procedures for managing counterparty risk (including settlement risk) inherent in the liquid asset portfolio. Maximum limits are established for all counterparties.

Liquidity risk: *The risk of having insufficient funds, in appropriate currencies, to meet obligations arising.*

The Bank's benchmark liquidity level equivalent to 25 per cent of undisbursed fixed lending commitments was exceeded by a margin of R494,3m at 31 March 1994 (1993: R322,9m). Current liquidity levels are regarded as more than sufficient to meet obligations to clients and creditors in the foreseeable future, while also allowing the Bank flexibility in timing its future borrowing activities.

Exchange risk: *The risk to earnings whenever assets and liabilities are denominated in different currencies.*

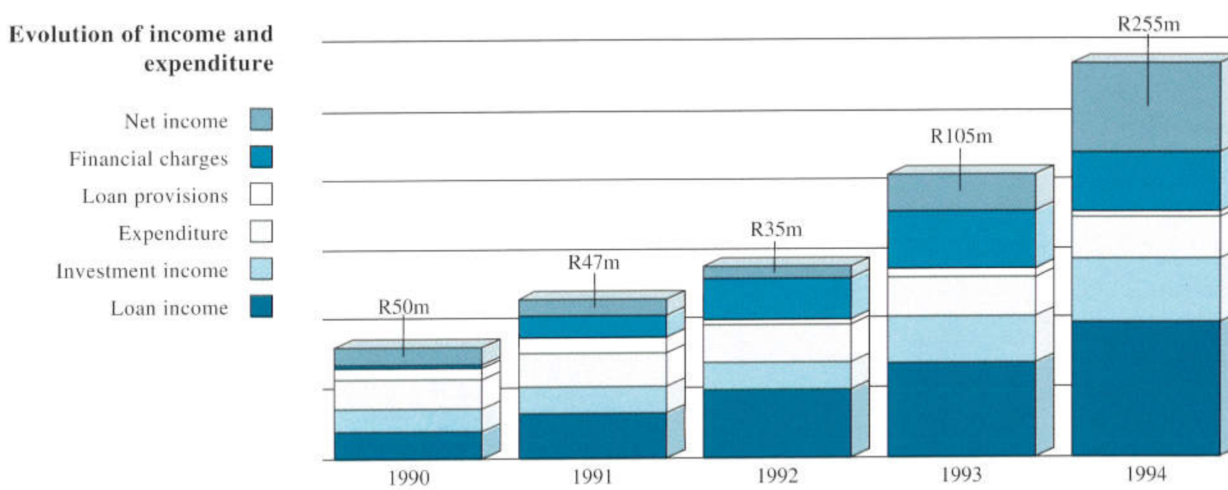
It is the Bank's policy to hedge all foreign exposures. The Bank's financial assets are all denominated in local currency. Liabilities are primarily in local currency, the only foreign exposure at present being a DM 200m 1992/8 bond liability fully covered forward.

Net income, before taxation refunds and provision against development loans, reached a level of R259,8m (1993: R130m). The unusually high surpluses of the last two years are not regarded as optimal from a development point of view and are unlikely to be maintained in the future. The high liquidity levels which underpinned these returns in the past are expected to work down progressively to within the target range (25 per cent of undisbursed fixed lending commitments) as development momentum picks up.

During the year the government reinstated its indirect taxation refund arrangement with the Bank. A total of R20m was refunded.

Apart from the broader systemic shocks to client creditworthiness brought about during the transition, the Bank believes that there has been no major deterioration in the quality of individual credits. The Bank believes it prudent, none the less, to increase its specific and general provisions by R8,8m and R16,4m respectively. Two net exposures totalling R239 000 were regarded as irrecoverable and were written off. As a result the total provision against development loans rose to R215m from R190m in the preceding year.

The incremental increase of R25,2m in provisions against development loans leaves a residual net income transfer to general reserves for the year of R254,7m (1993: R105,1m).



Capital and funding

The Bank enters the 1994/5 financial year with considerable liquid funds. This liquid asset portfolio together with budgeted cash inflows from the servicing of existing development loans is expected to adequately cover budgeted outflows for development lending and overhead expenditure in the coming year. The timing and amount of fresh borrowings will depend on the rate at which this liquidity is directed into committed loans. The Bank has untapped gearing capacity at its disposal and has the flexibility to enter the capital markets without difficulty.

Prenegotiated concessionary finance from the Export Import Bank of Japan and the International Economic Cooperation Development Fund of the Republic of China will clearly be preferred at the inception of the new borrowing programme.

Development fund grants received from inter alia the government during the year totalled R389m (1993: R500m), which further assisted in maintaining the Bank's financial strength. An important objective during the coming year will be to reach an understanding with the government regarding an appropriate and sustainable future funding arrangement for the development sector as a whole, including the Bank. A transparent and predictable view of the arrangements concluded will be of paramount importance to all the Bank's current and future stakeholders.

The development loan portfolio grew by a net R405m (1993: R301m) before providing for loan losses of R215m (1993: R190m). Strong loan disbursement flows of R710m compared with R446m for the preceding year reversed a declining disbursement trend which had come to characterise the preceding two years. Loan portfolio quality remains high with adequate provision in the interim constitution for the assumption by new borrowers of the Bank's financial claims and the assets funded.

MANAGEMENT'S RESPONSIBILITY

for, and approval of, the annual financial statements

The annual financial statements and other financial information set out in this annual report were prepared by management in conformity with generally accepted accounting practice as applicable to similar institutions and applied on a consistent basis throughout the year, except where specified in the financial statements. The manner of presentation of the financial statements, the selection of accounting policies and the integrity of the financial information are the responsibility of the Board of Directors and management. The annual financial statements have been approved by the Board of Directors and have been signed on their behalf by the Chairman and by the Chief Executive. The unqualified report of the external auditors is presented on page 29.

The Board of Directors is ultimately responsible for the management of audit risk internally and the maintenance of internal controls which are designed to provide reasonable assurance of the integrity of financial information contained in the annual financial statements, the effectiveness and efficiency of operations and compliance with applicable laws and mandates.

The management of audit risk is set out in the audit policy as approved by the Council of Governors and the Board of Directors. This policy sets out the role and responsibilities of the directors and the Audit Committee and also the conduct of the internal and external auditors. The policy supports the principles of independence and objectivity and also of 'value for money' auditing, which is directed at efficiency and effectiveness issues. The audit policy accepts that no restrictions are placed on the internal or external auditors in the execution of their duties.

The Audit Committee is composed of non-executive directors drawn from the private sector and meets management and the internal and external auditors, separately and together, four times a year. The Audit Committee approves the critical risk areas and reviews and discusses the auditors' findings as well as current accounting matters and the annual financial statements. The internal and external auditors have free access to this committee. The external auditors are appointed each year, taking account of the recommendations of the Audit Committee.

The day-to-day responsibility for monitoring controls, which concentrate on critical risk areas, rests with management. These areas and the required systems of internal control are identified, documented and regularly reviewed by management to ensure that they are appropriate and that any necessary improvements are implemented. Management also ensures that the delegation and segregation of duties within systems of internal control are effective. The principles underlying critical risk areas, and of compliance with the systems of internal control, are communicated to employees at all levels within the Bank.

Management meets the internal and external auditors, through the Audit Steering Committee, regularly throughout the year.

The effectiveness of the controls over these critical risk areas are closely monitored and audited by the internal and external auditors. The external auditors are responsible for independently reviewing and reporting on the Bank's annual financial statements in accordance with generally accepted auditing standards.

We are of the opinion that the controls in use are adequate to provide reasonable assurance that the assets are safeguarded against loss and unauthorised use and that the financial records can be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. There are, however, inherent limitations in any control system and the cost of maintaining a control system is carefully evaluated against the benefits to be derived.

AB la Grange
Chief Executive

WL Nkuhlu
Chairman of the Board of Directors

24 May 1994

AUDITORS' REPORT

Report of the independent auditors to the members of the Development Bank of Southern Africa

We have audited the annual financial statements set out on pages 30 to 41. These financial statements are the responsibility of the directors of the Bank. Our responsibility is to report on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. An audit includes an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence supporting the amounts and disclosures included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below.

In our opinion these financial statements fairly present the financial position of the Development Bank of Southern Africa as at 31 March 1994 and the results of its operations and cash flow information for the period then ended in conformity with generally accepted accounting practice for similar institutions.

Ernst + Young

Ernst & Young
Chartered Accountants (SA)
Johannesburg
24 May 1994

BALANCE SHEETS
at 31 March

	Note	1994 R'000	1993 R'000
Capital employed			
Share capital	2	**200 000**	200 000
Development fund	3	**3 792 344**	3 403 344
Reserves	4	**509 688**	255 038
Permanent capital		**4 502 032**	3 858 382
Deferred interest	5	**466 786**	463 087
Medium- and long-term financing	6	**1 013 073**	977 429
Short-term liabilities	7	**81 303**	36 096
		6 063 194	5 334 994

	Note	1994 R'000	1993 R'000
Employment of capital			
Fixed property	8	**35 217**	35 217
Development loans	9	**4 644 807**	4 264 829
Investments and cash	10	**1 360 003**	1 014 808
Receivables	11	**23 167**	20 140
		6 063 194	5 334 994

INCOME STATEMENTS

for the years ended 31 March

	Note	1994 R'000	1993 R'000
Income			
Interest income	12	**546 795**	403 961
Interest expenditure	13	**(168 980)**	(164 048)
Net interest income		**377 815**	239 913
Other income		**745**	1 974
		378 560	241 887
Technical assistance grants	14	**(6 760)**	(2 832)
Net operating income		**371 800**	239 055
Expenditure		**(111 998)**	(108 981)
Auditors' remuneration	15	**(695)**	(494)
Governors' emoluments	16	**(90)**	(42)
Directors' emoluments	17	**(347)**	(363)
Operating expenditure	18	**(110 866)**	(108 082)
Net income before taxation refunds and provisions		**259 802**	130 074
Refund of taxation	22	**20 087**	–
Provision against development loans	19	**(25 239)**	(25 000)
– specific		**(8 850)**	–
– general		**(16 389)**	(25 000)
Net income transferred to general reserve		**254 650**	105 074

CASH FLOW STATEMENTS

for the years ended 31 March

	1994 R'000	1993 R'000
Cash flows from:		
Operating activities		
Interest received on loans	**362 175**	282 831
Interest paid	**(133 135)**	(129 523)
Net interest income	**229 040**	153 308
Other income	**745**	1 974
Operating expenditure	**(91 911)**	(108 981)
Increase/(decrease) in short-term liabilities	**45 006**	(2 669)
Decrease/(increase) in net receivables	**38**	(1 697)
Net cash surplus before investment income	**182 918**	41 935
Interest received on investments	**158 501**	123 327
Net cash provided by operating activities	**341 419**	165 262
Lending and development activities		
Development loan disbursements	**(710 013)**	(445 765)
Development loan principal repayments	**331 685**	199 908
	(378 328)	(245 857)
Technical assistance grants paid	**(6 760)**	(2 832)
Guarantee calls paid	**(136)**	–
Net cash utilised in lending and development activities	**(385 224)**	(248 689)
Cash (deficit) before financing	**(43 805)**	(83 427)
Financing activities		
Development grants received	**389 000**	500 000
Net increase in investments and cash	**345 195**	416 573
Investments and cash at beginning of year	**1 014 808**	598 235
Investments and cash at end of year (Note 10)	**1 360 003**	1 014 808

1. Summary of significant accounting and related policies
The financial statements are prepared on the historical cost basis in conformity with generally accepted accounting practice followed by similar international institutions. The principal features of the accounting policies adopted and applied on a basis consistent with the previous year, unless otherwise stated, are set out below.

1.1 Interest received on development loans

1.1.1 Deferred interest
Certain agreements for development loans provide for a grace period for the payment of interest. The grace period is designed to coincide with and assist in the implementation phase of the underlying project. During this period, interest is capitalised and becomes payable together with the capital over the remainder of the loan period. Interest so capitalised is treated as deferred interest until such time as it is due and payable, when it is transferred to income and disclosed as interest received.

1.1.2 Direct interest
Interest charged outside the grace period is capitalised and transferred directly to income and disclosed as interest received.

1.1.3 Interest on non-accrual loans
Deferred and direct interest and other charges on non-accrual loans are included in income only to the extent that such payments have actually been received.

1.2 Capital market bonds
The discount or premium on the issue of registered bonds is amortised over the term of these bonds using the yield to redemption method. Other bond issue costs are amortised over the term of these bonds using the straight line redemption method. Discounts, premiums, other bond and financing costs amortised are recorded as an element of interest expenditure. The unexpensed portion of discounts, premiums, other bond and financing costs at the balance sheet date is netted off against the related liability.

1.3 Development loans
Development loans, including capitalised interest, are placed on a non-accrual status when the contractual payment of principal or interest has become 180 days past due or when, in the opinion of the directors, the recovery of the whole or portion thereof becomes doubtful. Income recognition on affected loans is accordingly suspended until payments have actually been received. Deferred interest raised in prior years on development loans subsequently placed in a non-accrual status is set off against such loans. Generally, a loan may be restored to accrual status only after all delinquent interest and principal are brought current, and, in the case of loans where interest has been interrupted for a substantial period, a regular payment pattern is re-established.

When loans are placed on a non-accrual status, the bank makes specific provision for possible losses on such loans, where appropriate. Further general provisions are maintained against risks which, although not specifically identified, exist in any portfolio of advances. The aggregate provision against development loans is periodically adjusted after review of the prevailing circumstances. Any such provision is recorded as a charge against income for the period and will be used to meet actual losses on such loans. Losses in excess of the accumulated provision would be charged against income for the period.

1.4 Investments

Investments consist of capital and money market instruments and are stated at market value. Profits or losses are accounted for on revaluation.

1.5 Fixed property

All costs directly related to the construction of the head office and infrastructure at Midrand are capitalised. As the property is considered an investment property, the costs relating thereto are not depreciated.

1.6 Other operating assets

Other operating assets, consisting of furniture, office equipment, computer equipment and motor vehicles, are written off against operating income in the year of acquisition. Proceeds on disposal of these assets are reflected as recoveries under other income.

1.7 Grants received

All grants received are taken directly to the development fund.

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the spot rates ruling at transaction date.

Assets, liabilities and commitments in foreign currencies are translated into South African rand at the rates of exchange ruling at year-end or at the forward rates, where applicable.

The premium on forward cover exchange contracts is amortised to interest paid as part of the financing costs over the term of the underlying contract. The unexpensed portion of the premium at the balance sheet date is shown as a deduction from the related liability.

1.9 Off-balance-sheet financial instruments

In the normal course of business the Bank is party to off-balance-sheet financial instruments. The Bank follows the same credit policies in considering conditional obligations as it does for balance sheet instruments. The premiums received and paid on financial instruments entered into for trading purposes are stated at market value and the resultant profits and losses are included in the income statement. Where not designated as trading transactions, the instruments are stated at cost and premiums are amortised over the lives of the instruments.

	1994 R'000	1993 R'000
2. Share capital		
Authorised and subscribed		
200 000 shares at a par value of R10 000 each	**2 000 000**	2 000 000
Callable capital		
180 000 shares at a par value of R10 000 each	**1 800 000**	1 800 000
Paid-up capital		
20 000 shares at a par value of R10 000 each	**200 000**	200 000
3. Development fund		
Balance at beginning of year	**3 403 344**	2 903 344
Grants received	**389 000**	500 000
Balance at end of year	**3 792 344**	3 403 344
4. Reserves		
General reserve		
Balance at beginning of year	**255 038**	149 964
Transfer from income statement	**254 650**	105 074
Balance at end of year	**509 688**	255 038
These reserves are not distributable in the normal course of business.		
5. Deferred interest		
Balance at beginning of year	**463 087**	395 687
Interest capitalised	**59 835**	86 632
	522 922	482 319
Transferred to income statement	**(56 136)**	(19 232)
Balance at end of year	**466 786**	463 087
Expected future transfer from deferred interest to interest income:		
0–1 year	**28 358**	21 471
1–3 years	**53 322**	47 513
Thereafter	**385 106**	394 103
	466 786	463 087
6. Medium- and long-term financing		
Balance in issue (per schedule A)	**1 199 426**	1 199 426
Less: Unamortised issue discounts and forward cover premium	**(186 353)**	(221 997)
	1 013 073	977 429

	1994 R'000	1993 R'000
7. Short-term liabilities		
Short-term financing (net)	**56 969**	14 412
Accounts payable	**9 016**	6 574
Accrued interest	**15 318**	15 110
	81 303	36 096

Short-term financing consists of interest-bearing debt instruments totalling R123,1m (1993: R108,5m) gross, partially hedged with R66,1m (1993: R94,1m) of interest-bearing investments.

	1994 R'000	1993 R'000
8. Fixed property		
At cost	**35 217**	35 217
Building	**33 083**	33 083
Infrastructure	**2 134**	2 134

The head office was constructed on land donated to the Bank by the South African government, which land comprises Erf 3 of the township Headway Hill, registration division JR Transvaal, measuring 24,6125 ha. The value of the fixed property at 31 March 1994 was R62,2 million on the basis of a replacement cost valuation.

	1994 R'000	1993 R'000
9. Development loans		
Inside grace periods (income capitalising)	**903 910**	579 128
Outside of grace periods and in repayment	**3 955 897**	3 875 701
	4 859 807	4 454 829
Less: Provision against development loans (Note 19)	**(215 000)**	(190 000)
– specific provision	**(24 900)**	(16 050)
– general provision	**(190 100)**	(173 950)
	4 644 807	4 264 829
Repayment analysis		
0–1 year	**238 551**	205 431
1–3 years	**517 606**	445 039
Thereafter	**4 103 650**	3 804 359
	4 859 807	4 454 829

Non-accrual loans

Development loans include the following loans in non-accrual against which appropriate specific provision for possible losses has been made:

	1994 R'000	1993 R'000
Non-accrual loans	–	60 471
Less: Income suspended	–	(18 784)
	–	41 687

	1994 R'000	1993 R'000
Commitments		
Loans approved but not committed	**647 965**	966 919
Loans committed but not disbursed*	**2 803 071**	1 788 162
Total approved but not disbursed	**3 451 036**	2 755 081

* The disbursement pattern for loans committed but not disbursed is not capable of precise quantification, being primarily a function of individual borrowers' implementation and administrative capacities. The Bank's view, however, of the expected disbursements for these commitments is as follows: 26 per cent in 1994/5, 32 per cent in 1995/6, 23 per cent in 1996/7 and 19 per cent thereafter.

The Bank has also approved and issued guarantees on behalf of borrowers as follows:

	1994 R'000	1993 R'000
Approved but not committed	**250**	8 250
Issued	**3 860**	880
	4 110	9 130

10. Investments and cash

	1994 R'000	1993 R'000
Fixed deposits	**365 000**	276 047
Trading securities	**838 611**	677 166
Cash at bank	**156 392**	61 595
	1 360 003	1 014 808
Maturity analysis:		
0–1 year	**1 301 856**	644 474
1–3 years	**–**	49 479
Thereafter	**58 147**	320 855
	1 360 003	1 014 808

11. Receivables

	1994 R'000	1993 R'000
Interest on investments	**20 659**	17 595
Accounts receivable	**2 508**	2 545
	23 167	20 140

12. Interest income

	1994 R'000	1993 R'000
Investments	**161 565**	133 495
Development loans	**385 230**	270 466
Direct interest	**329 094**	251 234
Deferred interest	**56 136**	19 232
	546 795	403 961

	1994 R'000	1993 R'000
13. Interest expenditure		
Interest on medium- and long-term finance	**133 343**	129 731
Amortisation of issue discounts and forward cover premium	**35 637**	34 317
	168 980	164 048
14. Technical assistance grants		
Paid during the year	**6 760**	2 832
Grants approved but not committed	**2 240**	5 278
Grants committed but not disbursed	**9 391**	7 328
Total approved but not disbursed	**11 631**	12 606

In addition to technical assistance grants paid out the Bank also renders formal and informal technical assistance to clients. The costs of such assistance, consisting mainly of staff time, are carried within Bank operating expenditure (see Note 18). The amount of technical assistance pledged in terms of formal agreements and yet to be rendered is R3,0m.

	1994 R'000	1993 R'000
15. Auditors' remuneration		
For the audit		
– current year	**318**	237
– previous year	**22**	19
For consulting services		
– current year	**265**	189
– previous year	**84**	44
Expenses		
– current year	**6**	5
– previous year	**–**	–
	695	494
16. Governors' emoluments		
– for services as governors	**77**	33
– expenses	**13**	9
	90	42
17. Directors' emoluments		
– for services as directors	**227**	292
– expenses	**120**	71
	347	363

	1994 R'000	1993 R'000
18. Operating expenditure		
Gross:		
Consultants' fees	**7 000**	4 669
Communications costs	**1 470**	1 251
Data processing	**3 324**	3 347
Human resources	**86 634**	83 995
Operating assets written off	**4 445**	2 958
Subsistence and travel	**6 583**	5 926
Other	**6 820**	5 936
	116 276	108 082
Less: Recovery of expenses	**(5 410)**	–
	110 866	108 082
This expenditure was incurred functionally as follows:		
Loan, guarantee and technical assistance activities	**44 621**	42 805
Programme management	**9 968**	9 372
Policy and information activities	**38 208**	36 869
Agency activities	**15 955**	11 695
Treasury activities	**3 360**	4 496
Training	**4 164**	2 845
	116 276	108 082
19. Provision against development loans		
19.1 Specific provision	**24 900**	16 050
Balance at beginning of year	**16 050**	24 550
Transferred to general provision	**–**	(8 500)
Transferred from income statement	**8 850**	–
19.2 General provision	**190 100**	173 950
Balance at beginning of year	**173 950**	140 450
Transferred from income statement	**16 389**	25 000
Released from specific provision	**–**	8 500
Loan losses incurred	**(239)**	–
	215 000	190 000

20. Agency arrangements

Under Article 7 of the Agreement establishing the Bank, the Bank may be entrusted with the administration of funds in accordance with agreement between Bank and Principals.

An agency agreement has been established with the National Economic Forum (NEF) whereby the Bank appraises and disburses on job creation projects on behalf of the NEF. Projects to a total value of R85,2m had been approved for disbursement by 31 March 1994. Cash resources held separately in trust under this arrangement at 31 March 1994 were R15,5m (1993: nil).

21. Pension fund

The Bank currently operates a pension fund for the benefit of its employees. The fund, which is a defined benefit plan, is governed by the Pension Funds Act. Membership of the fund is compulsory for all employees on the permanent staff.

In view of the escalating long-term costs of funding its contribution under the defined benefit plan, the Bank in consultation with the Board of Trustees of the pension fund elected to terminate this arrangement after the year-end and to replace it with a defined contribution provident fund. As a result of this change there is no longer any exposure to future actuarially computed unfunded liabilities.

22. Taxation

No provision is made for normal taxation as the Bank is exempted therefrom in terms of its Establishment Agreement.

23. Comparatives

Comparative figures have been restated where appropriate.

SCHEDULE A
Registered bonds at 31 March

	Authorised value				Balance in issue	
	1994 Rm	**1993 Rm**	**Coupon rate%**	**Repayment date**	**1994 Rm**	**1993 Rm**
i) Local						
DV05	**250**	250	10,0	1996	**243**	243
DV06	**250**	250	10,0	2001	**44**	44
DV07	**1 500**	1500	14,5	2010	**415**	415
	2 000	2 000			**702**	702
ii) Foreign	**497**	497	10,0	1998	**497**	497
Total medium- and long-term financing	**2 497**	2 497			**1 199**	1 199

Note:
1. All local registered bonds carry an AAA rating (Republic Ratings) and are referred to by their Reuter's acronyms.
2. The Bank has committed short-term standby facilities totalling R400m, which carry an A1 rating (Republic Ratings).
3. The foreign liability is fully covered forward and guaranteed by the South African government.

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