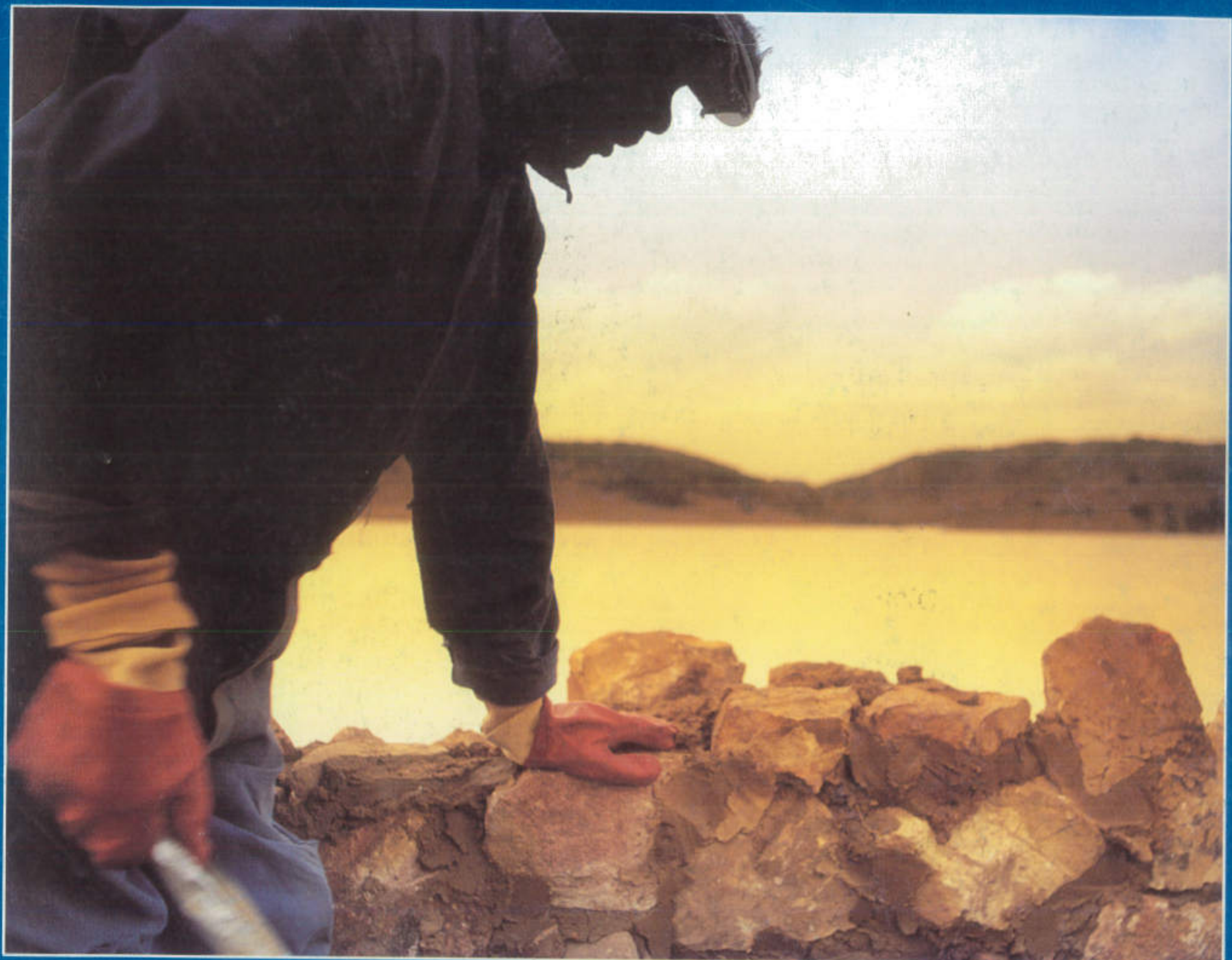
DBSA

Development Bank of Southern Africa



ANNUAL REPORT 1997

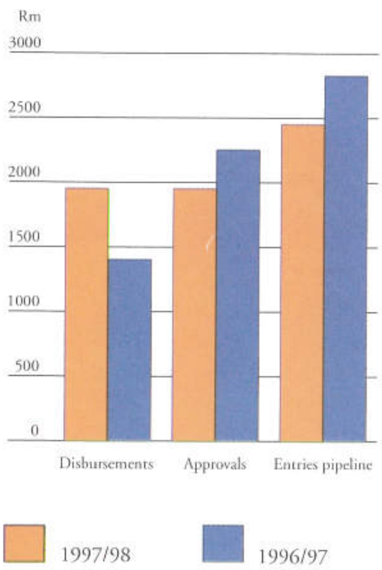
DBSA
Development Bank of Southern Africa

Building Foundations for Development

CONTENTS

The passing of the Development Bank of Southern Africa Act in April 1997 put a legal stamp on the DBSA's transformation. The Act confirmed the Bank's role as a financier of infrastructure with a developmental purpose. This markedly repositions the Bank away from its past role of funding and supporting development across a wide range of sectors, especially in the former homelands. In contrast, the transformed DBSA is more focused, part of the post-apartheid public sector and geared towards facilitating development partnerships between the public and private sectors. The past financial year saw its mandate and mission redefined, its funding basis changed and its structures transformed. A new DBSA emerged.

Expected and actual achievements: 1997/98 and 1996/97



Total assets amounted to R7 949 million at year-end (31 March 1997). The Bank had a staff of 492, all based at headquarters at Midrand, South Africa. R2,8 billion of new investment commitments were processed into the pipeline during the 1996/97 financial year, up from R1 billion in the previous year. A total of 102 investment loans were approved. The DBSA's contribution to these projects amounted to R2,3 billion, bringing cumulative loan commitments to R12,2 billion at 31 March 1997. A total of 35 technical assistance grants were approved, releasing R2,4 million as a contribution to the funding of various policy, planning and capacity-building initiatives.

Total disbursements of R1 387 million were made during the 1996/97 financial year. The increased momentum achieved during the year in the expansion of the loan portfolio is expected to be maintained. Disbursements on projects in the year ahead are projected to increase to approximately R2 billion as a result of significant growth during the 1996/97 and 1997/98 financial years in new commitments under consideration and approved. This growth will be achieved through an increase in productivity as staff numbers are down and costs have been held constant.

The Bank's future financial outlook augurs well for its sustained ability to deliver on its developmental mandate. Revised financial policies coupled with the post-balance-sheet events of strengthening of the capital base by an increase of R3 billion in callable capital and a more than 3per cent increase in annual interest earnings from a R3,1 billion portion of the loan book, mark a turning point in the Bank's financial performance. A strong balance sheet reflected in an equity-to-asset ratio of 62 per cent, a solid loan asset portfolio that performed excellently at a less than 1 per cent default rate and strict financial discipline ensured that the Bank maintained its domestic AAA long-term and A1+ short-term credit ratings by the independent international rating agency IBCA.

Mission and mandate

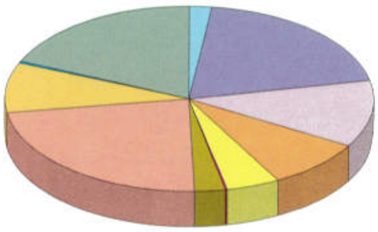
The mission of the Bank is to facilitate the provision of infrastructural development finance in order to improve the quality of life of the people of South and southern Africa. The Bank's development support complements the investment financing of the government, the private sector and other development finance institutions by mitigating risk and through capacity-building. Its investments and policy work are based on the principles of additionality, promotion of development and adherence to sound banking practices. This requires close collaboration with the public and private sectors; leveraging of resources alongside private, public and donor funding to optimise financial provision and the developmental impact of its activities; and sound financial practices aimed at a sustainable loan book and effective client support. In recognition of the integrated development needs of the southern African region, this role now formally extends beyond the boundaries of South Africa to include all 12 Southern African Development Community (SADC) countries.

The new mandate covers four levels of investment: municipal and household infrastructure serving basic needs; economic infrastructure facilitating regional, national and subnational linkages; institutional infrastructure; and social infrastructure (eg health, education and recreation). Investments and policy development are largely focused on the fields of water and sanitation, energy, roads transport and telecommunications. While the Bank addresses immediate needs by enhancing delivery, careful targeting of investments to complement public and private funding is intended to bring about a more efficient financial system, especially in the local government sphere.

The Board of Directors approved a new lending policy which opened a hard and a soft window for DBSA lending. The soft window is the most concessional and is for infrastructure development which cannot generate sufficient income to break even with market-based financing and where the risk exposure is such that it cannot attract private sector financing. The hard window is for projects and programmes which are only commercially viable with risk-mitigating co-financing from the Bank. In structuring its loans and other financial products, the Bank operates with flexibility to meet the requirements of clients, projects and programmes. Pricing is based on the cost of funding, risk premium, operational cost recovery and a surplus margin. This is then adjusted according to the particular developmental impact of the project and the ability to pay. The AAA rating held by the Bank reflects long-term viability and sound financial management.

Funding is supported by technical assistance aimed at enhancing the capacity of clients to plan, manage and implement projects. The Bank's policy analysis, specialist and evaluation functions contribute to an understanding of operational and systemic issues and the identification of appropriate technical and strategic options. In this way, development support comes in an integrated package to optimise its impact on economic growth, poverty alleviation and institutional, financial and environmental sustainability.

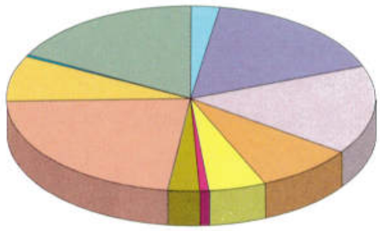
Total loan book per subsector at 31/3/97



R8 332 million

- Agriculture, 2,2%
- Energy, 19,6%
- Entrepreneurial, 11,6%
- Human resources, 8,6%
- Multiple services, 4, 7%
- Policy, 0,2%
- Post & telecommunications, 2,7%
- Roads & drainage, 23,0%
- Sanitation, 8,9%
- Social infrastructure, 0,1%
- Water, 18,4%

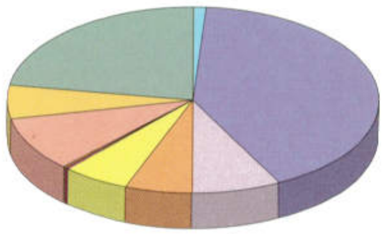
Total cumulative disbursements per subsector at 31/3/97



R9 222 million

- Agriculture, 2,7%
- Energy, 16,4%
- Entrepreneurial, 15,6%
- Human resources, 8,7%
- Multiple services, 5,1%
- Policy, 0,8%
- Post & telecommunications, 2,7%
- Roads & drainage, 22,5%
- Sanitation, 8,0%
- Social infrastructure, 0,1%
- Water, 17,4%

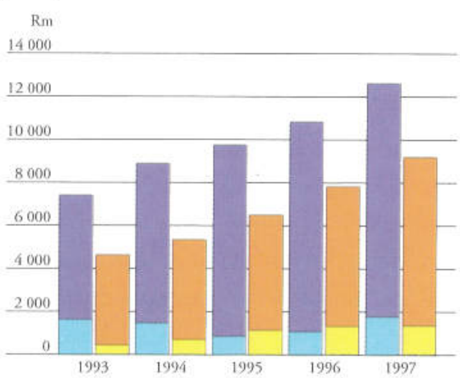
Disbursements per subsector for 96/97 financial year



R 1 387 million

- Agriculture, 1,23%
- Energy, 41,17%
- Entrepreneurial, 7,68%
- Human resources, 5,84%
- Multiple services, 5,95%
- Policy, 0,03%
- Post & telecommunications, 0,05%
- Roads & drainage, 9,85%
- Sanitation, 5,82%
- Water, 22,38%

Five-year commitments and disbursement profile



- Year commitments
- Year disbursement
- Cumulative commitments
- Cumulative disbursement

For periods ended	31/03/97 Rm	31/03/96 Rm	31/03/95 Rm	31/03/94 Rm	31/03/93 Rm
Balance sheet					
Total assets	7 949	6 679	5 758	5 560	4 871
Capital employed					
Permanent capital	4 892	4 789	4 675	4 505	3 858
Medium- and long-term financing	2 668	1 818	1 055	974	977
Employment of capital					
Development loans					
– opening balance	7 040	5 856	4 835	4 455	4 154
– disbursed	1 378	1 241	1 141	710	446
– interest capitalised	657	546	432	389	338
– loans written off	-36	0	0	0	0
– repayments	-707	-603	-553	-718	-483
Less: Provision against development loans	-287	-279	-235	-215	-190
Less: Deferred interest	-708	-604	-518	-467	-463
Closing balance	7 337	6 157	5 102	4 154	3 802
Cash, deposits and tradable securities	429	390	605	1 384	1 015
Commitments					
Total commitments outstanding	3 368	2 630	3 163	3 464	2 768
(1993 constant prices)	2 452	2 070	2 685	3 209	2 768
Guarantees outstanding	4	4	4	4	9
Income statement					
Interest on development activities	567	464	380	385	270
Interest on investments	42	48	83	162	133
Interest expense	-329	-214	-174	-169	-161
Operating expenses	-130	-135	-122	-109	-108
Provision against development loans	-44	-44	-20	-21	-25
Surplus for the year	103	114	163	258	109
Ratios					
Cash, deposits and tradable securities/total assets	5,4	5,8	10,5	24,9	20,8
Cash, deposits and tradable securities/undisbursed loans[1]	18,8	17,2	23,9	49,3	56,8
Debt to equity	54,5	38,0	22,6	21,6	25,3
Provision for losses/development loans[2]	3,8	4,3	4,4	4,9	4,8
Weighted average interest rate on development loans	9,6	8,9	8,5	8,3	7,8
Operating expenditure/development loans[3]	1,8	2,2	2,4	2,6	2,8
Interest income/interest expense	1,9	2,4	2,7	3,2	2,5
Inflation deflator (1993=100)	72,8	78,7	84,9	92,6	100

1. Cash, deposits and tradable securities/loans signed but not disbursed.
2. Provision for loan losses/development loans outstanding net of deferred interest.
3. Total operating expenditure/development loans outstanding net of provisions and deferred interest.

Wiseman Nkuhlu
Chairman

The Development Bank of Southern Africa looks back on a year of consolidated transformation towards a more assertive role as a catalyst of public-private sector partnerships in the financing of infrastructure-led development. Moreover, the Bank progressed on this path while increasing its disbursements and maintaining its AAA credit rating.

A supportive context

This was achieved amid a growing recognition of the importance of infrastructure in South and southern Africa's growth and development strategies:

- This recognition was explicit in the Reconstruction and Development Programme (RDP), the Growth, Employment and Redistribution Strategy (GEAR) and in a number of other policy processes. Following the RDP's strong case for addressing basic need backlogs, GEAR sought greater investment in infrastructure as a basis for growth and joint efforts between the public and private sectors towards that end. One example of support for this logic in a broader regional context was the conference of the World Economic Forum in 1996 in Cape Town, where the significance of infrastructure as a force for growth was repeatedly emphasised.

- A number of key initiatives gave substance to these policy positions. The process of getting private sector strategic equity partners to invest in Telkom and equivalent steps in other infrastructure and services sectors mark a trend which is set to continue. There now is widespread recognition that the state and private sector have to join forces to meet backlogs as well as set South Africa and the region on a path of growth and global competitiveness.

A stronger DBSA emerges

The DBSA's capacity to support regional, national, provincial and local development took further shape through the following major developments over the past year:

- The government's decision to increase the DBSA's callable capital from R1,8 billion to R4,8 billion reflected its commitment to the growing role of the Bank as a catalyst for development.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● The Bank is in no doubt about the magnitude of this challenge and about the importance of defining its role in collaboration with other parties. To this end, the Board approved a revised infrastructure-focused developmental mandate in August 1996, followed by a set of financial policies aimed at ensuring the institution's long-term financial sustainability. With the promulgation of the Development Bank of Southern Africa Act the Bank was placed within a solid legal framework.

● As the new Bank embarked upon its task, it asserted its commitment not to become a competitor to the private sector. In fact, it vigorously pursued greater private sector involvement, seeing its role as one of crowding in the private sector, not crowding it out. The Bank's technical assistance and financing will be strategically packaged so as to invite private sector involvement and empower public institutions to confidently engage with private markets and actors. Examples of this role are multiplying rapidly: supporting the planning and preparation for the Maputo Corridor and other Spatial Development Initiatives; assisting the shaping of conditions for private sector involvement in municipal service provision (eg in Nelspruit and the Dolphin Coast); co-financing arrangements with the private sector; and adding value to national policy processes to facilitate these developments.

● A firm and mutually supportive relationship with the South African government promotes this role. Contacts are frequent and the Bank is strongly supportive of GEAR and the RDP as a whole. It works alongside the government in building the capacity of those who manage and deliver development or benefit from it. Its policy analysis is targeted at a broader understanding of policy options and ways to achieve them, not only in terms of the Bank's immediate agenda, but to serve the public good. Wherever the Bank works, it aligns its resources towards integrated planning and programming that supports or improves public sector goals or achievement.

● Furthermore, the Bank continues to explore more effective ways of moulding projects to the needs and wishes of communities. It encourages community participation and community ownership of projects while emphasising the role of small contractors in construction. Entrepreneurial development is encouraged and pursued in collaboration with Khula Enterprise Finance.

● The Bank further continues to support the evolution of an effective development finance system (DFS) that would add value to public sector involvement in critical areas of development and to private sector funding in those areas. Targeted action has therefore continued to align the Bank's role to a streamlining of development finance jointly with development finance institutions like Khula Enterprise Finance, the National Housing Finance Corporation, the Industrial Development Corporation and the Land Bank. We remain optimistic that the transformation of the DFS is on course and that portfolio transfers, ongoing liaison and institutional development will proceed in line with the needs of the country.

● The role of the Bank in southern Africa has also become clearer amid a series of interactions around investments, policy developments and institutional change. A new business unit was established to focus on the SADC countries.

Internal transformation

Internally, the Bank underwent fundamental transformation in order to meet these strategic challenges more effectively:

- Under the leadership of chief executive Dr Ian Goldin, organisational structures and systems have been revised and changed to place the emphasis on quality and timely delivery. Management hierarchies were flattened, business units streamlined and supportive capacity more closely aligned to the main business of the Bank.
- Assertive steps continue to empower staff and ensure fair and equitable employment practices. Gender and affirmative action issues were specifically emphasised and currently more than 60 per cent of management are from previously excluded groups.

Business ethics for the Bank

The internal Transformation Task Team declared the values of professionalism, teamwork, efficiency, effectiveness and transparency to underpin the transformation programme embarked upon.

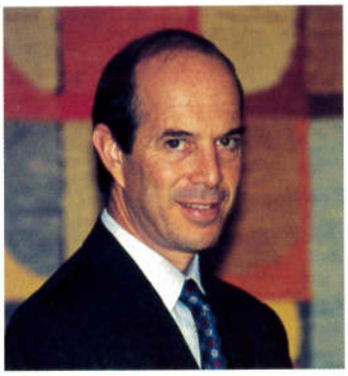
The Bank strives – in mind and in action – to be an effective institution that meets the demands of its clients and development partners while providing a vibrant and constructive working environment for its staff.

Acknowledgements

I thank the government and in particular our Governor, the Minister of Finance, Mr Trevor Manuel, for ongoing support. The private sector is also to be praised for its supportive enthusiasm in joining us in a new era of partnership; and our clients and partners for constructive cooperation and business. Dr Ian Goldin and his management team have achieved more than was looked for. Through strategic leadership, operational commitment and hard work, the staff of the Bank have excelled as our most pivotal interface with stakeholders and clients. The success of the transformed Bank is evident from the fact that, despite the transformation, the narrowing of the mandate and higher interest rates to ensure financial sustainability, the Bank achieved record disbursements and is expected to virtually double its activities and productivity in the 1997/98 financial year.

The Bank is entering an exciting phase as it attempts to round off the first critical phases of its transformation. The promulgation of the Development Bank of Southern Africa Act lays the foundations for a dynamic institution able, in tandem with its partners in government, the private sector and communities, to deliver on the vast development challenges South and southern Africa face.

Wiseman Nkuhlu



Ian Goldin
Chief Executive

Strategic overview

Delivery and transformation dominated the 1996/97 financial year. While ensuring that its operations went from strength to strength, the Bank simultaneously engaged in a fundamental transformation. This entailed transforming its business focus and practices, financial policies and organisational structure in order to meet the particular development demands of post-apartheid South Africa and the SADC region.

Key events in this transformation were:

- the extensive participatory process of reflection and debate by 41 teams that dealt with the operational, policy, financial and human resource issues and challenges facing the Bank
- the report of the internal Transformation Task Team that set the stage for far-reaching organisational restructuring
- the establishment of new formal and informal networking mechanisms between the Bank and government, other development finance institutions and private sector financial institutions
- promulgation of the Development Bank of Southern Africa Act to set the stage for an integrated development role around the Bank's mandate of financing infrastructure development
- the first steps towards introduction of an improved job evaluation and performance management system.

The transformation process inter alia achieved the following:

- refinement and clarification of the Bank's mandate
- forging links with southern African and other governments, donor agencies and the private sector
- emphasis on partnerships between the Bank and the public and private sectors to mobilise and optimise more resources for development
- delayering of the organisation and decentralisation of decision-making to make the Bank more effective, efficient and client-responsive and to empower staff

● emphasis on cost-effectiveness and risk management to ensure financial sustainability

● emphasis on professionalism, teamwork and delivery

● implementation of best international practice in organisational design, process and corporate governance.

Together, these changes have streamlined the Bank internally in order to decisively service its clients with optimal development impact.

Staff profile and training

During the period under review the Bank's staff complement contracted from over 530 to 492 of whom 276 were men and 216 women. The change in the mandate to focus on infrastructure development, the need to be self-sustaining and the shift towards building public-private sector partnerships necessitated significant re-skilling. Training mainly covers financial, technical and computer skills. Overall training expenditure was 0,23 per cent of turnover and as this was considered too low it has been doubled for the next financial year.

Three transformation-focused interventions are of note:

● The Bank is developing new organisational goals and human resource strategies to ensure the appointment and retention of skilled professionals.

● It is developing a revised monthly programme for training young appointees, with a focus on affirmative action and gender equity.

● Workshops on managing diversity are conducted for staff throughout the Bank to develop a new organisational culture which promotes cross-cultural and gender interaction and tolerance.

Affirmative action and gender

An Affirmative Action and Gender Executive Support Unit was established during the transformation process. Purposely separate from the Human Resources Business Unit, the new unit is directly accountable to the chief executive. It directs policy formulation and ensures monitoring of affirmative action and gender issues in the Bank's internal and operational agendas. Implementation of affirmative action and gender staff policies remains the function of Human Resources alongside staff bodies such as the Affirmative Action Committee and Women's Forum. Operational business units are responsible for gender-sensitive practices and approaches in the Bank's development support programmes.

Great strides were made in implementing internal affirmative action and gender equity: black managers currently constitute 50 per cent at executive management and 57 per cent at business unit and support unit management levels, while women constitute 21 per cent of managers.

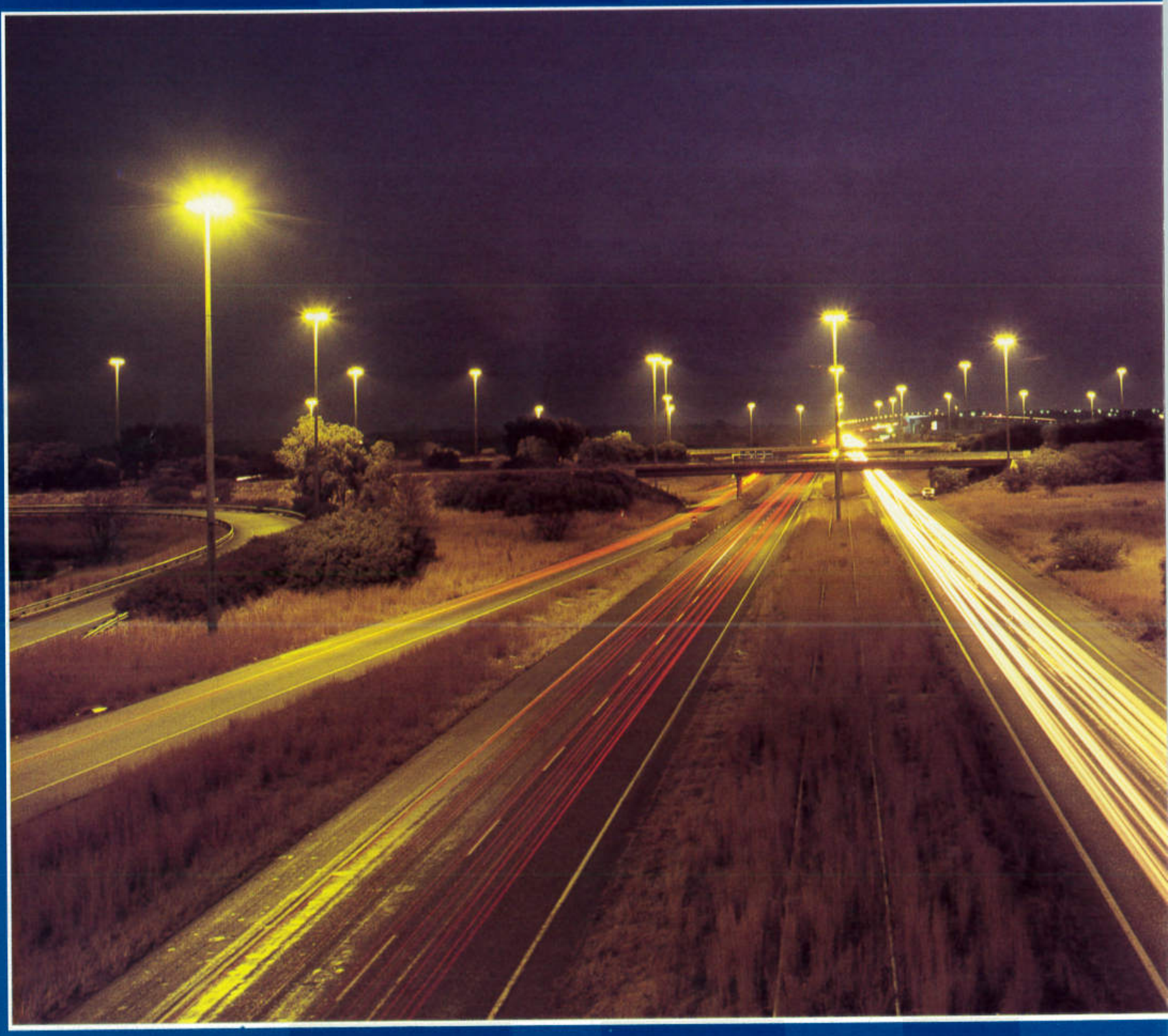
National and international relations

In addition to broad consultation during the transformation process, a very active programme of interaction was implemented in the year through the National and International Relations programmes. The Bank endeavoured to increase its own understanding of socio-economic needs and priorities and to clarify the possible support that can be given in meeting these within its new mandate.

Nationally, interaction took place with ministers, heads of national government departments, premiers, ministers of provincial governments and representatives of local government authorities, public utilities, development institutions and private banking institutions. Interaction took place internationally with governments of the SADC region and representatives of development and aid agencies to explore infrastructure investment opportunities, funding sources and technical assistance partnerships. The understandings so reached mean that the Bank is expected to make an important contribution to the accelerated delivery of infrastructure in South and southern Africa.

Financial overview

The year under review was characterised by significant developments in the financial management of the DBSA. The capital structure was changed, the former homeland government loan book was restructured, financial policy was changed and there was a comprehensive approach to risk management.



● The capital base was strengthened by an increase of R3 billion (post-balance-sheet) in callable share capital, to R4,8 billion, from the South African government. The callable share capital can, if necessary, be used to meet obligations in capital market borrowings. In a further step to capitalise the DBSA, an agreement was reached with the government to restructure the former homeland government debt, totalling approximately R3,1 billion. The restructuring will significantly improve the DBSA's cash flow and interest earnings over the next few years.

● To ensure its long-term sustainability the DBSA reviewed a number of its financial policies during the course of the year. The most significant change was in its lending policy. In structuring its loans and other financial products, the DBSA now operates with greater flexibility in order to meet the requirements of its clients and specific programmes and projects. Pricing is based on the cost of funding, a premium for risk, operational costs and operating surplus. Pricing is then adjusted to take the developmental impact into consideration. In addition the DBSA offers a range of fixed and floating rate loans. Also reviewed were capital policy, liquidity policy and income targeting policy.

● The success of the new financial policies is evident from comparison of the return on loans approved under the new policies (14,3 per cent) with that on loans previously approved (9,24 per cent). However, the 1996/97 year's results were largely influenced by the old policies, which cover a large portion of the loan book.

● The DBSA practises strict asset management. The primary focus is on the rapidly growing loan book, which has increased at a compounded annual rate of 12,6 per cent over the past five years, including the record disbursement of R1 378 million in the 1996/97 year. The performance of the loan book remained satisfactory with a default rate below 1 per cent. Project and borrower appraisals form another major risk-mitigating focus area. Apart from concerning themselves with the creditworthiness of potential borrowers, the Bank's staff carefully appraise and monitor the economic, technical, institutional, social, environmental and policy aspects of all projects and programmes. During 1996/97, a programme was initiated to review existing approaches and resources to align the Bank with international best practice. This has initiated a process of refocusing and refinement which will enhance the Bank's project cycle and its ability to analyse risk and support its clients in managing it effectively. Pages 36 to 41 provide a review of the Bank's activities in this key area of risk management.

● The Bank, for the first time in its history, borrowed in excess of R1 billion (1996: R695 million). Funding comprised the issuance of local market loan stock and loans from international sources in the form of concessional and co-funding facilities directly or indirectly relating to development programmes. The management of foreign exchange risks associated with the Bank's international borrowing will pose a significant challenge in future. The South African Reserve Bank's withdrawal from the forward cover market has necessitated closer interaction between the DBSA and local and international banks in finding other hedging mechanisms. The policy of the Bank is now to fully hedge all its foreign currency borrowings and this has been achieved through private financial intermediaries. Since 1994 the Bank has received no government grant transfers and therefore ensures that it is sustainable in its own right. The increased amount borrowed from the capital markets is a direct result of the suspension of government grants in 1994. This has contributed to the R18 million decrease in net interest income to R280 million (1996: R298 million). The additional funding was sourced at a relatively higher cost than the return at which the associated disbursements were made. Operating expenditure in 1996/97 decreased by 3,7 per cent to R130,2 million.

Overall, strict financial discipline and associated financial policy changes ensured that the Bank maintained its domestic AAA long-term and A1+ short-term credit ratings from the independent international rating agency IBCA. The new financial policy and the rescheduling of former homeland government debt will add to net interest income and the operational surplus in coming years.

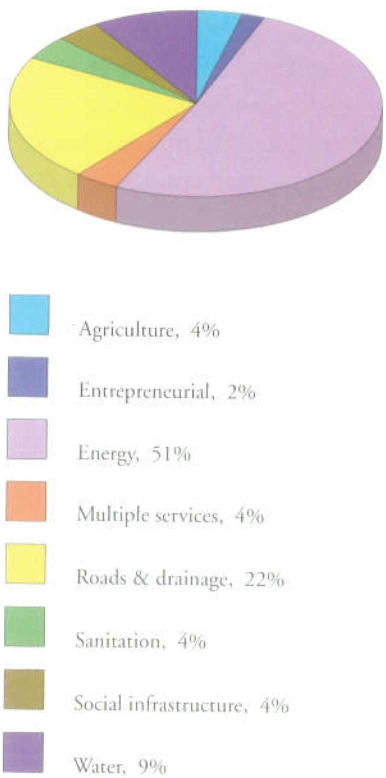
Operations overview

The 1996/97 financial year saw a sharp increase in the level of development support delivered across the total spectrum of the Bank's products and services. The increased performance compared with previous years is evident from the value of new commitments processed and the turnover of new loan commitments approved. As shown below, these results were achieved while maintaining the momentum of disbursements built up in previous years.

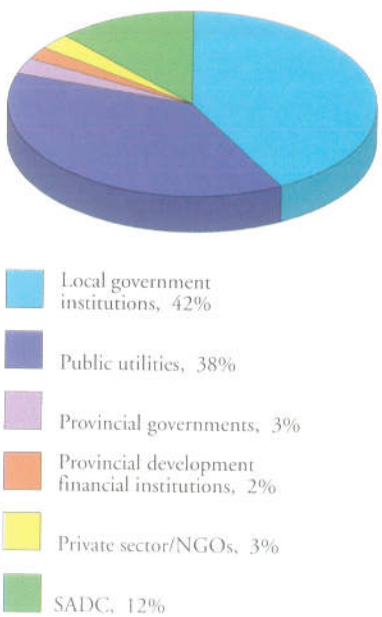
R'000	**1994/95**	**1995/96**	**1996/97**
New commitments into pipeline	658 000	1 070 338	2 812 590
Loan and grant approvals	863 000	1 088 000	2 272 911
Total disbursements	1 147 237	1 327 866	1 386 836

These achievements follow a deliberate effort undertaken in consultation with clients and sources of finance in the public and private sectors. The Bank specifically aimed at expanding the private sector's funding role. The higher turnover was furthermore made possible by the adoption of more streamlined business processes and decentralised decision-making. The results achieved in 1996/97 suggest that disbursements during the 1997/98 financial year will be approximately R2 billion and are expected to grow from this level at approximately 10 per cent per annum in the medium term. This growth will be

Sectoral composition



Breakdown per category of client



achieved through greater productivity both in terms of costs, which have been held constant in real terms, and staff, which have declined by 7 per cent.

Resources allocated by the DBSA are additional and do not compete with or displace resources from the public and private sectors. The selection of operational projects is based on achieving maximum development impact. This is typically measured in terms of economic returns and employment, the environment, gender equity and community participation. Sound banking principles also underpin the DBSA's operations through a focus on financial sustainability, affordability, management of risk and through appropriate pricing of projects and recovery of costs where appropriate.

The Bank continued to channel resources through its technical assistance programme towards the strengthening of provincial and local governments. The interventions supported were carefully selected to enhance their developmental impact through the accelerated delivery of infrastructure programmes and projects. At provincial level, support focused on planning and programming processes and budgeting and financial management systems. Support to local government institutions was aimed particularly at the mobilisation of community participation in development programmes, the improvement of project management practices and feedback of lessons learnt into project design and implementation.

Breakdown of loans approved

A total of R2,3 billion of new investment loans was approved during the year for 102 infrastructure programmes or projects. Five relatively large loans were approved, while nearly 50 per cent of the loans were smaller than R5 million (see pie charts).

The largest portion of lending went to bulk and connector infrastructure for the provision of electricity, followed by the upgrading and construction of roads and drainage. Local government institutions and public utilities were the largest borrowers during the 1996/97 financial year, followed by borrowers in SADC countries (excluding South Africa).

Impact of DBSA projects on development and growth

Impact on development

Socio-economic impact

The quality of life of the majority of South Africans is severely constrained by poverty and a lack of social and economic services. The net socio-economic impact of the DBSA's projects can therefore not be determined in monetary terms only. An improvement in the quality of life of beneficiary communities is an end in itself. Such sustainable socio-economic development is best achieved when communities are empowered to use their own labour and resources in meeting their needs.

An estimate can be made of the direct impact of the Bank's larger projects (ie those in which its contribution is over R5 million) during the 1996/97 financial year. The table below shows that the 46 projects and programmes submitted to the Board had a total contract value of nearly R3,3 billion. Of this amount, about 9 per cent was mobilised from private sector sources. Approximately 11 per cent of the total contract value was awarded to small contractors, totalling some R360 million. On nine projects, between 50 and 72 per cent of the value was awarded to small contractors. On average, for each R1 million invested, 10 new jobs were created, adding up to at least 33 000 permanent jobs. The present value of the benefits directly associated with the R3,3 billion invested equals more than R4,6 billion over an analysis period of 20 years.

This figure attempts to capture in rand value the more productive utilisation of existing resources through the provision of infrastructure. Only those benefits which are reasonably quantifiable were taken into account. Numerous other economic and especially social benefits were not quantified. For example, the attention given to institutional adjustment, planning and participative project management is not readily quantifiable.

Loan amount DBSA	Public sector	Private sector	Clients' own sources	Other	Total
R2 251,2 m	R325,5 m	R277,7 m	R419,7 m	R3,4 m	R3 277,5 m
68,7%	9,9%	8,5%	12,8%	0,1%	100%

In meeting the development objectives of the Bank, these projects contributed significantly to eliminating infrastructure backlogs. Most projects had a high potential benefit to target communities, although the actual impact can only be evaluated later. Around 90 per cent of the projects had good potential for skills transfer to beneficiary communities.

Community participation

The Bank aims to empower people to participate in development as full partners. Like development finance institutions worldwide, it has learned from experience the importance of involving beneficiary communities in infrastructure projects. The Bank ensures that its borrowers consult their clients, that communities are fully informed about their options and the likely consequences of their decisions and that there is a free and reciprocal flow of information. For example, in engaging the private sector in the provision of water and sanitation in areas falling under the Nelspruit transitional local council (TLC), the Bank arranged that:

- Where necessary, socio-economic surveys were undertaken on issues such as preferred levels of services, expected tariffs, affordability and willingness to pay by the communities.
- The wider community was informed of the proposed projects through radio and local newspaper articles.

● There were workshops with local communities on the need to involve the private sector in the provision of infrastructure and the delivery of services by way of concessions.

● Thorough and exhaustive discussions took place between the TLC and union officials on the envisaged employment status of municipal employees in the private company.

● The unions were briefed and consulted on the private provision of infrastructure and possible labour options.

● A workshop was held involving unions, TLC officials and employees in which the DBSA provided full details of the proposed concession and dealt with concerns arising.

Gender

Women in the DBSA's typical target communities are often constrained by the demands of coping with poverty, by their reproductive role and by inequitable access to opportunities, services and decision-making. The Bank therefore developed policy and strengthened its capacity to address gender issues in its programmes and projects. Of the wide range of gender-related initiatives of the past year, the following indicate the type of activities the DBSA sponsors:

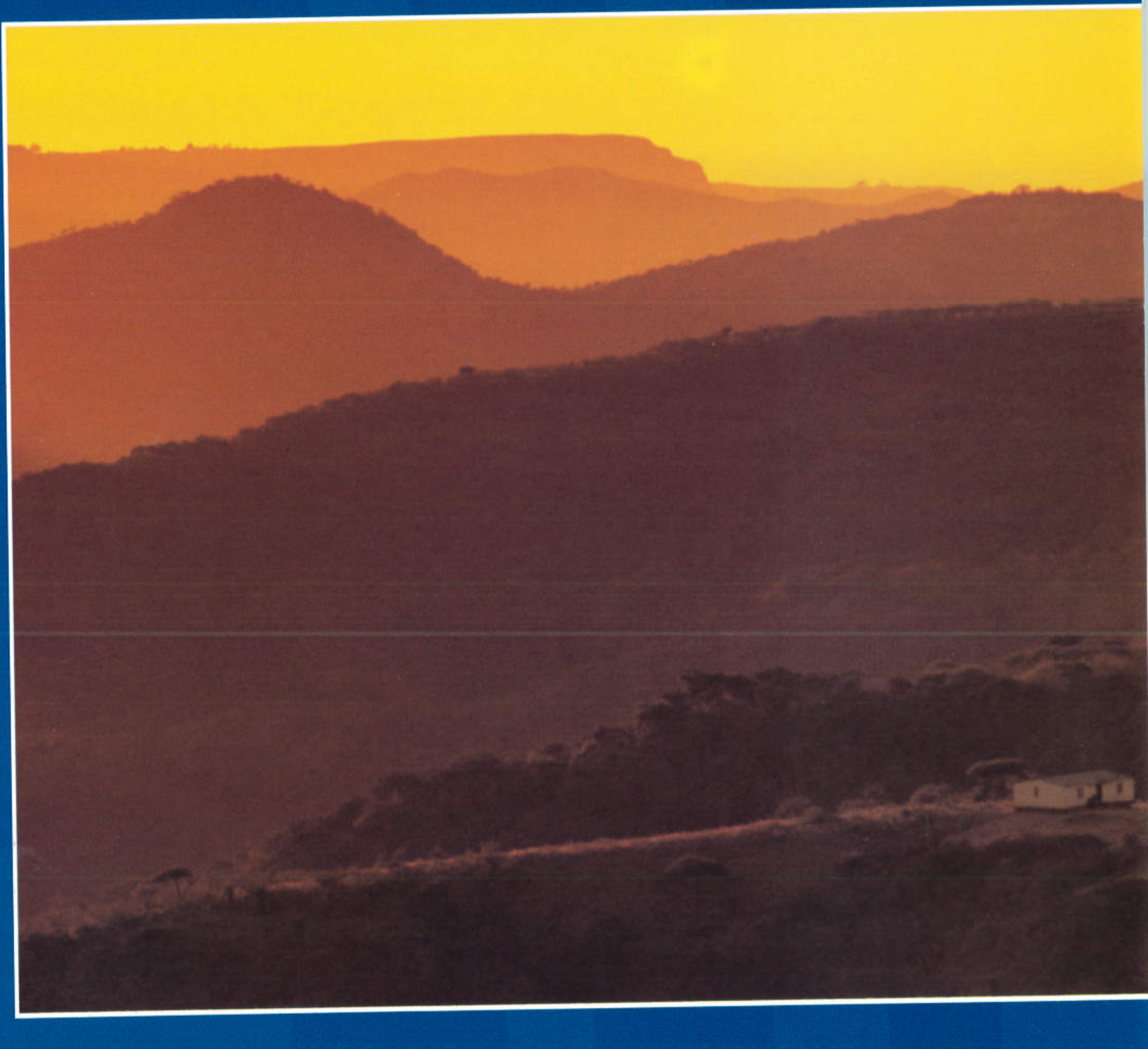
● Six women entrepreneurs were provided with funding to set up a village bakery in Suurbraak about 350 kilometres to the east of Cape Town and with a population of 4 000 people. Before setting up the bakery, bread was delivered as late as 11 o'clock in the mornings.

● The North Pondoland Sugar Project (discussed on p23-25), funded by the DBSA and the private sector, involved the sequential development of 4 000 hectares of smallholder sugar cane, with each farmer being allocated approximately 10 hectares. A total of 137 farmers have been established, of which 50 are women.

● An assignment called the Impact of Development Finance Institutions on Gender Equity appraised the gender impact of eleven DBSA projects. It will develop a conceptual framework for the mainstreaming of gender in DFI operations.

● The Nkomazi Women and Development Project examined the impact of the Nkomazi/Driekoppies Development Programme on rural women. The fieldwork phase included participatory appraisals of the needs of women in the community. The final study, which is currently under way, aims at translating findings into recommendations for programme use.

● An audit of Gender-Related Information Sources was produced in May. South Africa's ratification of the convention of the Commission for the Eradication of Discrimination against Women, the Women's Empowerment Report and the DBSA's policy on gender and development all have significant data implications. The audit assesses national gender data sources and recommends changes and future studies for improving the availability of appropriate gender-related information. The DBSA initiated the project, which also involved government departments and NGOs.



Environment

The Bank is committed to environmental sustainability within its own operations as well as within and as a result of the programmes and projects it supports. Over the past year, it undertook an independent review of its internal environmental policies, guidelines, strategies, activities and capacities. Recommendations from local and international panel members were incorporated into an environmental management action plan. The Bank and its clients actively exchange environmental experience and expertise for the benefit of project and programme recipients. The Bank is determined to apply best international practices and to encourage and assist its clients in also doing so.

Impact on growth

Interest in the impact of public capital on macro and regional economic development has recently increased with numerous reports of the fragile state of South Africa's stock of public infrastructure. Investment in infrastructure is seen as critical to both the quality of life and economic progress. Broad-based studies indicate a high potential return by raising productivity and lowering production costs. Adequate infrastructure investment is important in the diversification of trade and industry and allows the country to benefit more from globalisation.

Infrastructure is a key to sustainable economic growth and is vital to meeting basic needs for water, electricity, transport and telecommunication. As is suggested by the table below, the Bank has a vital role to play in providing the foundations for development and it can expect particularly high social returns, notably in the rural areas of South and southern Africa.

South Africa: selected infrastructure backlogs, 1995

	Percentage of population without access to		
	Electricity	Water	Sanitation
Urban	23,5	20,0	20,0
Rural	79,4	65,0	95,0
Total	49,6	39,7	52,8

Source: The National Electricity Regulator and the National Infrastructure Investment Framework.

The link between infrastructure and growth is not, however, inevitable. For this reason the DBSA's Policy Unit will seek in the immediate future to study this link and its bearing on the wider range of development objectives the Bank is committed to.

Infrastructure projects

The following examples provide insight into the transformed DBSA's activities and in particular its facilitation of infrastructure projects.

Augmentation of the Modder River Supply

The project represents a breakthrough in the DBSA's policy of securing public-private sector partnerships for infrastructure delivery in the

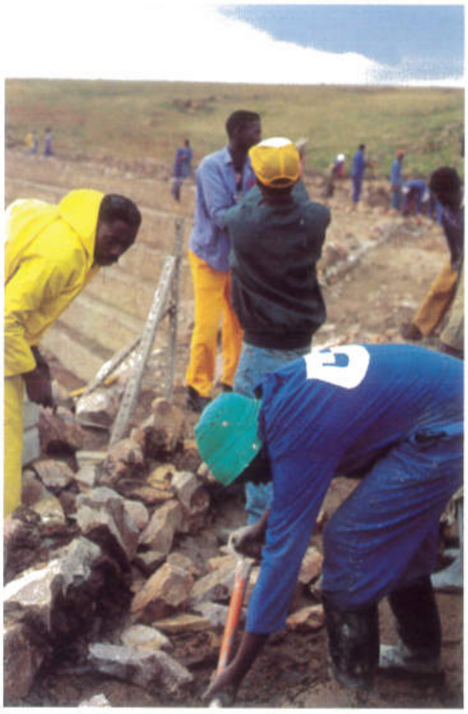
subcontinent. The DBSA and First National Bank of South Africa jointly financed the transfer of water from the Knellpoort Dam in the Caledon Basin over approximately 40 kilometres and a water divide into the upper reaches of the Modder River. From the Modder River the additional water will flow into the Rustfontein Dam where it will be treated and distributed for consumption.

The project represents the last essential element in Bloem Water's Bulk Water Supply Programme targeted primarily at disadvantaged communities within the subregion. Its total cost will be R80 million. The project will pay special attention to the utilisation and training of local labour at a cost of R800 000.

Balfour-Siyathemba Sewage Treatment Works

This is one of the first sewage projects to be co-funded by the DBSA and the private sector. The project involves the construction of a sewage treatment plant at Balfour to handle sewerage effluent from Siyathemba, Balfour and the Kanhym abattoir.

Sewerage effluent from Balfour and Siyathemba is currently treated in separate facilities, with oxidation ponds being used in Siyathemba. Effluent from the Kanhym abattoir is treated and disposed of by irrigation, but for environmental reasons this is no longer allowed by the Department of Water Affairs and Forestry. All three facilities thus needed to be reviewed, which led to new plans for upgrading the Balfour facility into a regional treatment works.



The total estimated cost of construction of the sewage treatment works and main outfall sewer is R12 million. The DBSA is to provide R7,2 million (60 per cent of the loan amount) and the East-Vaal District Council and UAL Merchant Bank R4,8 million (40 per cent of the total).

North Pondoland Sugar

The DBSA continues to work outside its core mandate where the relevant development finance institution is not yet functional. As the Land Bank is being transformed to address the needs of previously neglected black farmers, DBSA in consultation with the Land Bank has continued to fund certain worthy agricultural projects, which the Land Bank is not yet ready for.

One of these is the North Pondoland Sugar Project, which aims to enhance economic development through the settlement and support of small cane growers and the use of local labour and local contractors to implement the project. Community participation and decision-making together with public and private sector participation, have ensured the successful establishment of small cane growers in the North Pondoland area.

The project entails the sequential development of 4 000 hectares of smallholder sugar cane, with each farmer being allocated approximately 10 hectares. In the first phase, 1 370 hectares of cane were established, with an additional 800 hectares to be established.

The total cost of the project is R14,7 million. The DBSA has provided a R4,3 million loan to Tracor, which is one of the contributors to the project. Other contributors are the South African Sugar Association's Small Cane Growers' Financial Aid Fund (FAF), which has provided R8,6 million, and North Pondoland Sugar, which has provided R1,7 million. Illovo Sugar has guaranteed the FAF loans to the small growers.

Kempton Park/Tembisa Electrification

The merging of the former Tembisa and Kempton Park municipal councils in 1995 provided an opportunity to deal with the problem of inadequate electricity provision in Tembisa. The Kempton Park/Tembisa municipality adopted a business plan to normalise the provision of electricity in the area by eradicating backlogs, dealing with illegal connections, introducing uniform tariffs and implementing institutional reforms.

The project consists of the completion of a 33 kilovolt ring with its associated protected cabling, installation of additional feeders from the Eskom supply, provision of additional power transformers, installation of medium and low voltage reticulation to parts of the town and an innovative consumer metering system. The DBSA approved a loan of R3,1 million to the Kempton Park/Tembisa Local Metropolitan Council for part of the project and also assisted the client in obtaining appropriate private sector funding for the new metering system.

Cape Flats Wastewater Project

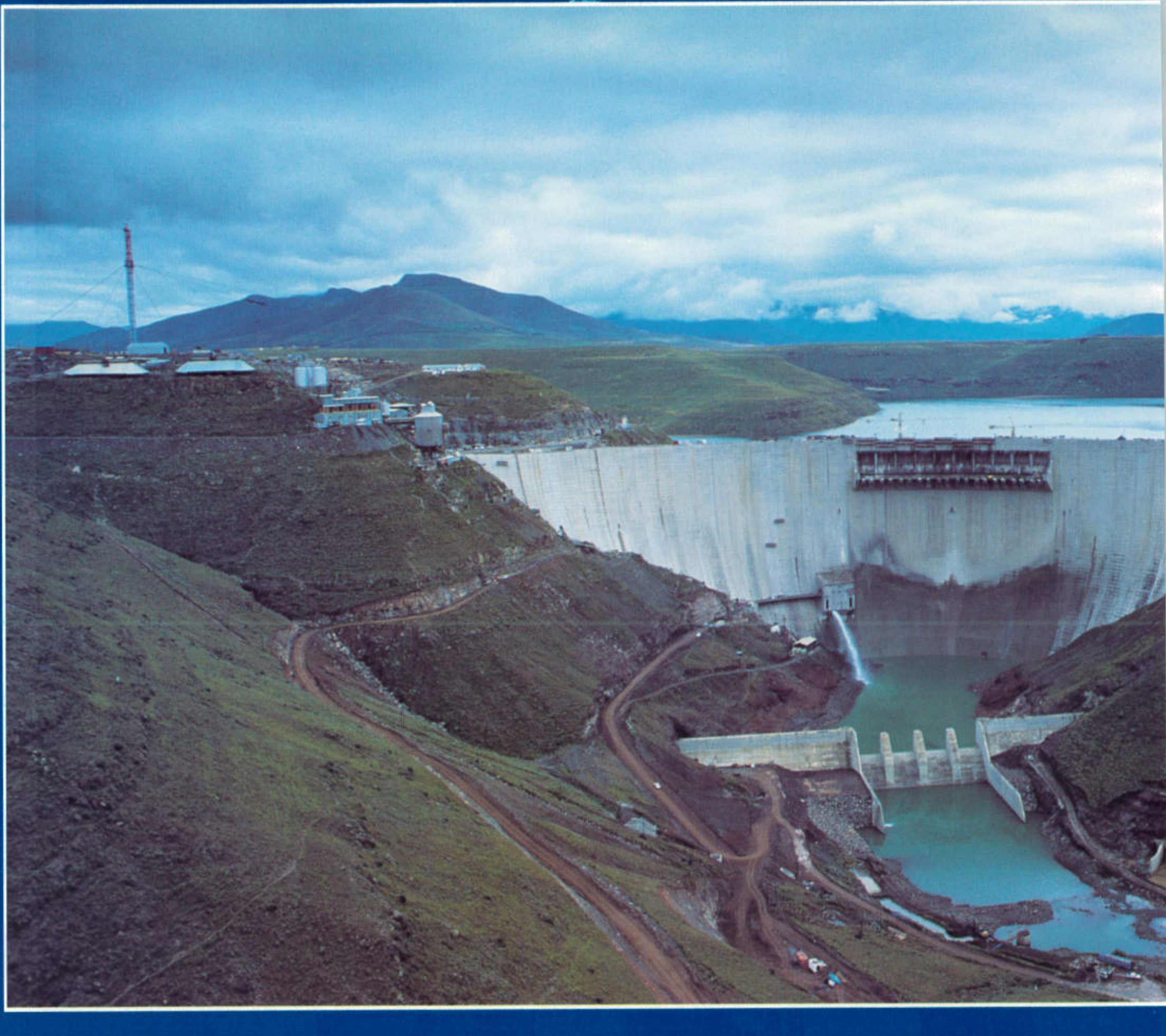
The Cape Flats Wastewater Treatment Works in Cape Town receives 2 000 cubic metres of sludge daily for treatment. This project entails the construction of a sludge drying plant to dry the solid waste before it is disposed of. The dried sludge is sold as compost. Unusable sludge can be incinerated in the electricity generating plant in Athlone or disposed of at an existing disposal site at Swartklip.

The proposed technology is sophisticated and the project has lent itself to co-financing opportunities with merchant/investment banks. The estimated total cost of the project is R35 million, with the DBSA expecting to contribute R10 million and the private sector R25 million.

Worcester Bulk Sewage

The project entails the upgrading of the existing sewage works from 18 megalitres to 25 megalitres per day and changing the purification method from a combination of biological filters and activated sludge to a fully activated sludge plant.

The DBSA has contributed to the negotiations for co-funding. The Worcester Treasury Department is negotiating with a commercial bank for a structured loan of approximately R6 million to cover the cost of several



mechanical and electrical infrastructural components in the town. The DBSA expects to provide R7 million and the private sector R20 million.

Ceres Bulk Water Scheme

This major civil engineering project, which is highly innovative in its engineering and resource utilisation characteristics, entails the design and construction of a dam and ancillary works on the Koekedouw River to supply water for primary and productive use in the Ceres district. The project is the responsibility of the Ceres Municipality in partnership with the Koekedouw Irrigation Board, which manages water pricing and quota allocation for commercial farmers in the area.

A partnership of public and private funding institutions has mobilised grant and concessionary public funding to jointly meet the cost of the project, which is estimated at R79 million. Of this, R29,4 million will be provided by the DBSA and R49,6 million by the private sector.

The joint venture and financing agreements make provision for the establishment of emerging farmers and ensure that benefits arising from the grant and concessionary funding are passed on to them. The project and its associated programme of primary and productive water utilisation are critical to the socio-economic development and upliftment of the subregion. The willingness and capacity of the public and private sectors to cooperate in this venture will result in economic growth and provide essential services, employment and entrepreneurial opportunities.

Lesotho Highlands Water Project

This project, one of the most ambitious multi-purpose water schemes in the world, involves the construction of a number of dams in the Kingdom of Lesotho to store water and transfer it to the Gauteng Province in South Africa. It will benefit Lesotho by providing hydroelectricity, water, development in the Highlands region and revenue from the sale of water to South Africa. It is governed by an international treaty signed between the governments of Lesotho and South Africa in 1986. It is divided into five phases and when completed will transfer a total of 70 cubic metres of water per second.

Phase 1A of the project entails the supply of 18,2 cubic metres of water per second through the construction of the 186-metre-high concrete arch Katse Dam, 81 kilometres of concrete-lined tunnels with a diameter of 4,35 metres, 342 kilometres of access roads, high voltage power supply and a communication system, three construction villages and the 72-megawatt Muela Hydro Power Station. Water from the Katse Dam will start flowing in January 1998. Phase 1B will provide a further 11,4 cubic metres of water per second.

The total cost of construction of Phase 1A is R5,7 billion. The DBSA has provided loan funding of R744 million for the construction of advanced infrastructure, various environmental and community social projects and a portion of the Muela Hydro Power Scheme. The remainder of the finance comes from international donor concessionary funding and the private sector.

There are several developmental dimensions to the project. The rural development programme includes provision of feeder roads and cross-reservoir transport, enhancement of community facilities, provision of skills training, tourism facilities, agricultural extension, rural water supply and sanitation and various natural and environmental heritage programmes.

The Bank is now concentrating on supporting the Lesotho government, which will in future manage the advanced infrastructure and community facilities. Ongoing environmental and community programmes form part of the environmental mitigation action plans. The Bank is also currently appraising financial support for the advanced infrastructure and rural development components of Phase 1B. Construction of the Phase 1B Mohale Dam and tunnel is scheduled to commence in early 1998 and the estimated construction cost is R2,7 billion.

The Spatial Development Initiatives Programme

The government's Spatial Development Initiatives Programme is aimed at generating long-term international competitiveness, growth and development and at rectifying the apartheid space economy.

Examples of these initiatives of public and private sector planning, development, operation, investment and financing are the Maputo Development Corridor Spatial Development Initiative (SDI) and more recently the Fish River SDI, the Coega Industrial Port, the Rustenburg SDI and the Wild Coast SDI.

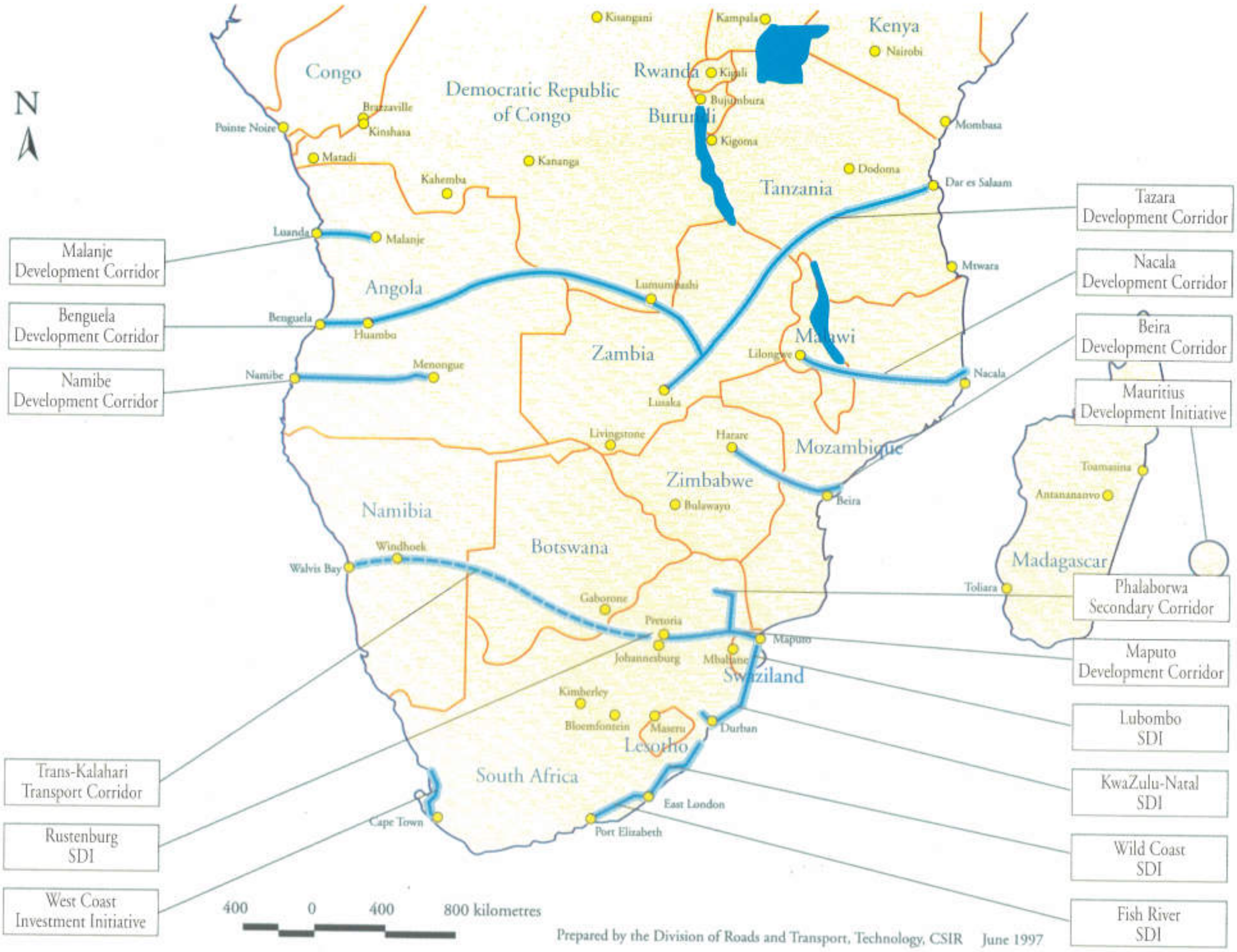
Following the early success of the Maputo Development Corridor, a DBSA-based team of specialists has been created to support government with the SDIs. It is focusing on four main areas of work:

- **Policy analysis**, drawing on international and local best practice, is aimed at assessing the extent to which SDIs can generate economic growth, development and employment. The different types of SDIs, their development impact, the funding options, empowerment opportunities and management options are also assessed. The findings will be incorporated into the government's policy and strategy formulation.

- **Development programming** supports the identification and preparation of particular projects which will be part of an SDI investment programme. This includes process conceptualisation, socio-economic analysis and assessment and strategy generation.

- **Project appraisal** will provide funders and investors with advice on financial structuring options for projects.

Possible development corridors and SDIs in the SADC region



- **SDI evaluation** includes the development of SDI-specific evaluation criteria and frameworks and of tracking systems for providing the necessary information to support the ongoing planning and decision-making processes of government and the private sector. This will ensure the dissemination of information to the community or public. The DBSA's role could include participation in the execution of specific evaluations of SDI programmes and projects.

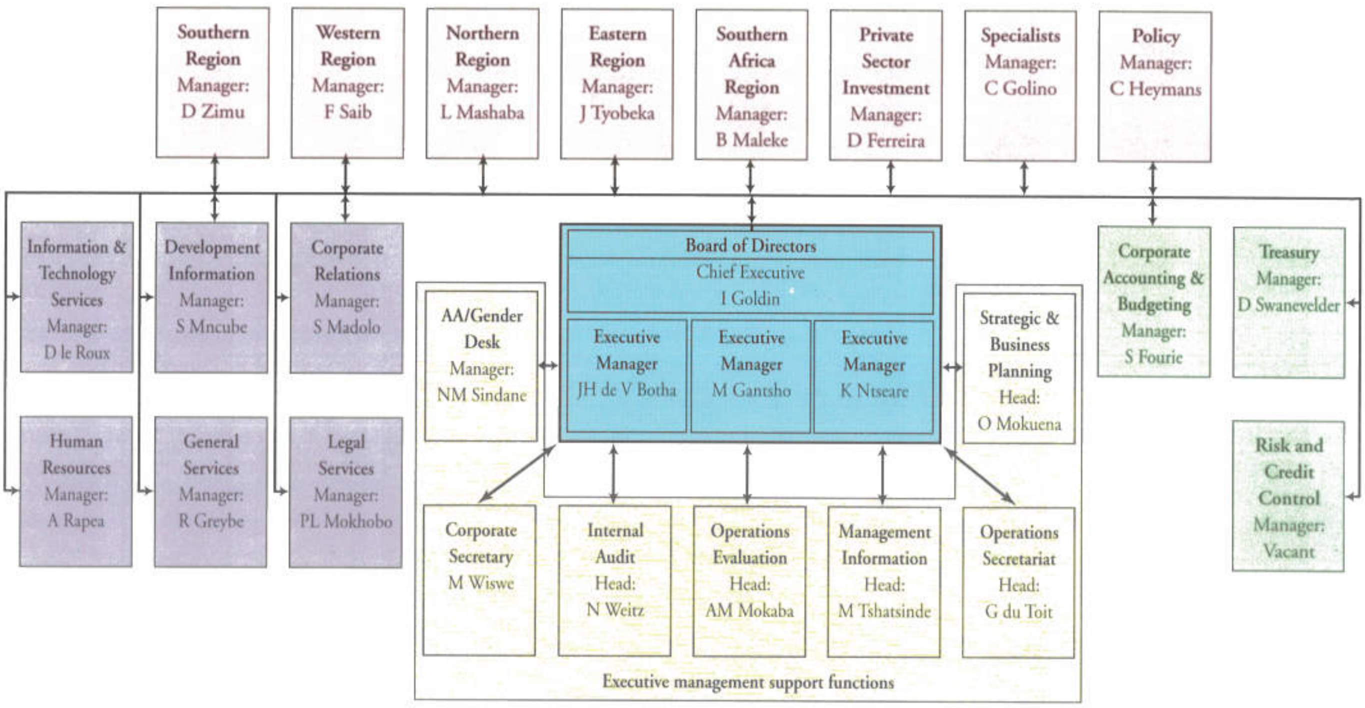
A substantial increase in SDI programmes in southern Africa seems likely. Already arrangements are being made to support the Mozambique and Zimbabwe governments' Beira Development Corridor and Nacala Development Corridor, and the Republic of Angola's Malanje and Benguela Development Corridors.

Conclusion

Over the past year a new DBSA has emerged which is significantly better equipped to meet the challenges of reconstruction and development. Its mandate has been focused on infrastructure, the SADC region and acting as a catalyst for investments in partnership with the private sector. Its financial base has been made secure and sustainable. With 1996/97 commitments of R2.2 billion, the 1997/98 year is set to mark a rapid upturn in activity. The higher contribution of the Bank will be achieved through productivity increases reflecting greater efficiency and client focus. Accordingly, the outlook is most positive and augurs well for the Bank's enhanced ability to meet the development challenges of South Africa and the region.

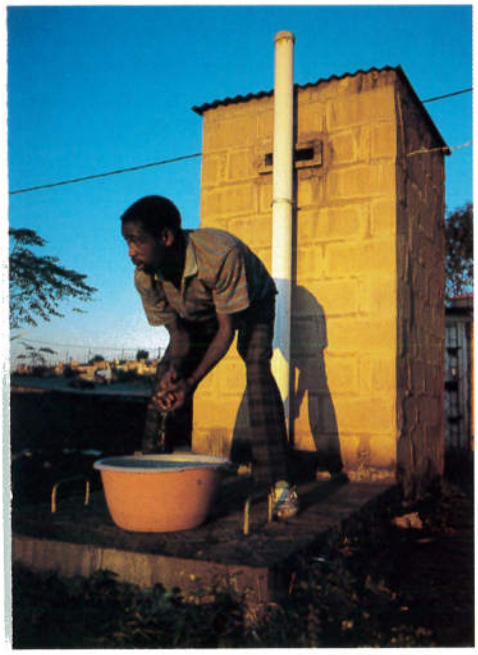
Ian Goldin

DBSA structure



Management

Standing from left to right: S Madolo (Corporate Relations), S Mncube (Development Information), D Swanevelder (Treasury), B Maleke (Southern Africa Region), F Saib (Western Region), S Fourie (Corporate Accounting and Budgeting), L Mashaba (Northern Region), A Rapea (Human Resources), C Heymans (Policy), M Wiswe (Corporate Secretariat), R Greybe (General Services), O Mokuena (Strategic and Business Planning), D Zimu (Southern Region), C Golino (Specialists), N Weitz (Internal Audit), B Mokaba (Operations Evaluation), D le Roux (Information and Technology Services).
Seated from left to right: M Gantsho (Executive Manager), M Sindane (Affirmative Action /Gender), I Goldin (Chief Executive), J Tyobeka (Eastern Region), JH de V Botha (Executive Manager), K Ntseare (Executive Manager).
Absent: P Mokhobo (Legal Services), G du Toit (Operations Secretariat), D Ferreira (Private Sector Investments).



The DBSA's operating philosophy recognises the need to mobilise private sector resources for infrastructure development. Over the past three years, the Bank has placed emphasis on securing private sector *co-financing* for projects within its public sector lending portfolio, where the borrower and operator is a public entity. This approach has proved successful and will continue as an integral part of the Bank's operations.

The Bank also takes the view that private *provision* of infrastructure (PPI), whether through public-private partnerships or the privatisation of infrastructure services, is a key element in the development strategy of South Africa and the southern African region. It has therefore broadened the scope of its activities to include support for PPI, and a new business unit called Private Sector Investments was established in October 1996 as one of the outcomes of the transformation process. The unit is responsible for development of the Bank's portfolio of PPI projects. It formulates operational policies and procedures for PPI and disseminates information and conducts dialogue on it. It identifies, appraises and manages PPI projects and in such projects provides technical assistance to public sector clients, coordinates interaction with private sector developers and financiers and interacts with bilateral and multilateral organisations on co-financing and technical assistance for PPI projects.

Technical Assistance

These services entail the provision of professional support by DBSA staff, and assistance in the mobilisation of financial and technical assistance for public sector clients. The Bank focuses its support on those stages of the process and those issues that are pivotal to structuring the project so as to best protect the interests of taxpayers and consumers. In instances where private sector entities are better placed to provide technical services to clients, the Bank assists the clients in securing appropriate professional support.

A range of services is available and a flexible approach is adopted based on the particular requirements of the project in question. Potential areas of technical assistance include:

- advice on the options for structuring PPI projects
- assistance in preparation of terms of reference for consultants to be engaged by clients and in mobilising grant funding for the appointment of legal, financial and other advisers
- facilitating consumer and labour involvement in project design and implementation
- preparation of documentation inviting bids from the private sector
- assistance in pre-bid discussions with the private sector
- assistance with the evaluation of bid submissions and the negotiation of contracts with the private sector.

The principle of cost recovery normally applies to the services rendered.

Finance

The DBSA is able to provide a range of financial products to private providers of infrastructure services including loan finance, equity investments, guarantees and refinancing commitments.

The precise terms on which these products are provided are specified on a project-by-project basis depending on the particular project and the nature of the risks involved. This maximises the flexibility with which the Bank can respond to the needs of clients.

The catalytic nature of its financing role implies that the Bank provides only a part of the total financing requirement of a project and only in exceptional circumstances will it consider providing the greater part.

A key guiding principle is that, where the Bank's involvement is not necessary to finance the project efficiently (including from the point of view of consumers and taxpayers), it will not consider a financing role. The Bank sees its role as that of channelling private sector investment into infrastructure projects through judiciously targeted financial and technical support.

Managing conflict of interest

Conflict of interest can arise when the Bank is both a source of technical assistance and a possible source of finance for a project. As maintenance of the Bank's objectivity and professional reputation is central to its success in promoting PPI, the management of potential areas of conflict of interest is accorded the highest priority. Areas of potential conflict of interest are identified and discussed with clients and other relevant parties at the outset. Guidelines for managing conflict of interest are approved by the Board of Directors.

Private Sector projects

Through the Private Sector Investments Unit, the Bank is already involved in a wide range of public-private partnership projects. Examples include the following:

Witbank-Maputo Toll Road

The Witbank-Maputo toll road will be one of the first non-recourse project financing ventures in the southern African region. The concessionaire will need to raise over R1,3 billion in equity and debt to finance the initial capital investment. It will obtain a 30-year Build-Operate-Transfer (BOT) concession, under which it will maintain and operate the road. The financing and cost of the project will be recovered from the toll revenue to be collected by the concessionaire.

The DBSA is a co-arranger of the debt facilities for the project and is considering a total investment of approximately R200 million, divided equally between senior and subordinated debt. The Bank's financing of the project was approved in principle by the Board of Directors in June 1997.

The project has been identified as one of the key infrastructure projects required to support the Maputo Development Corridor initiative. Others include upgrading the railway line from Ressano Garcia to Maputo, rehabilitating the port of Maputo and dredging the harbour. A range of associated investment projects was also identified in the planning process for the Maputo Corridor, including exploitation of the Pande gas field in Mozambique, an aluminium smelter in Maputo and the Transfrontier Park initiative between South Africa, Mozambique and Zimbabwe.

Nelspruit Water and Sanitation Concession

During 1996, the Nelspruit TLC took a pioneering decision to investigate options for involving the private sector in the financing, expansion and operation

of its water and sanitation system. The decision was taken against the backdrop of significant challenges faced by the TLC in providing adequate water and sanitation services to a population of more than 280 000.

The DBSA was approached by the Nelspruit TLC to provide technical assistance. This included assisting the TLC with project structuring, undertaking technical and financial investigations, pre-marketing the transaction with the private sector, design of the bidding process, preparation of bidding documents. Liaison with provincial and national government agencies and consultation with stakeholders including consumers and labour also formed part of the process. Ultimately, the TLC decided to enter into a 30-year concession agreement with the private sector.

The initial phases of the process culminated in the finalisation of a Request for Proposals (RFP) from the private sector on 9 December 1996, five months after preparatory work had commenced. Subsequent phases entailed a competitive bidding process and evaluation of bids after the closing date of 30 April 1997. The DBSA recused itself entirely from the bid evaluation process in view of the possibility that it might provide finance to the successful bidder. Negotiations on the concession agreement and its financing are expected to be finalised during 1997.

Commonwealth Africa Investment Fund

The DBSA has become a shareholder in the Commonwealth Africa Investment Fund (Comafin) through a total commitment of US$5 million of which US$1 million has already been invested. The Commonwealth Development Corporation (CDC) is the principal Comafin shareholder along with Asian and other southern African investors. Comafin is a 10-year closed-end fund designed to make equity investments in unlisted private enterprises throughout Commonwealth Africa. Investments will be made in newly established ventures or existing ones (to restructure, expand or rehabilitate them). Comafin will be a minority equity partner, with an investment of between US$500 000 (or less in exceptional cases) and 10 per cent of the total size of the fund (currently US$63,5 million). Comafin will also seek representation on the boards of companies in which it invests.

Aside from being an investor in Comafin, the DBSA is represented on both its Board of Directors and its Investment Committee. It has developed a close working relationship with Comafin and the CDC through this initiative.

By July 1997, Comafin had invested US$1,8 million in property and commercial agriculture in Tanzania and Zimbabwe and was processing further proposed investments worth US$25 million in telecommunications, export processing zones, transport and commercial agriculture in Kenya, South Africa, Uganda, Zambia and Zimbabwe.

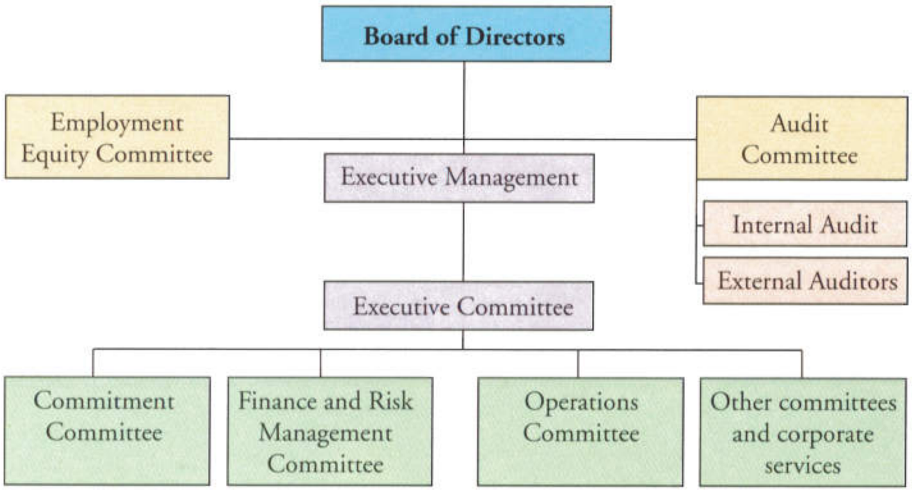
Risk management structure

The business of development banking is conducted in an environment of complex risks. The DBSA has therefore introduced a set of policies for managing, monitoring and controlling risk proactively.

This year the Bank has given greater attention to risk management than ever before. Given the changing risk profile of the Bank nationally and regionally, it has been made mandatory for all Board submissions to include a summary of risk assessments. Further, all significant project appraisals are subjected to independent scrutiny by the Risk Management Business Unit.

Risk management process

The Bank's major risks are monitored and managed on an integrated basis through the following structure:



Risks	Strategic risk	Market risk
	Credit risk	Foreign exchange exposure
	Project impact risk	Capital adequacy risk
	Liquidity risk	Corporate risk
	Interest margin risk	Asset and liability mismatch

The structure shown above is given effect by a Risk Management Unit, which was established in the restructuring process. This unit applies and promotes an integrated risk management approach throughout the Bank.

While pragmatically dealing with each functional activity of the Bank according to its risk exposure, the general risk management process involves:

- identification of risks
- setting of norms and standards
- measurement and evaluation of risks

- risk optimisation including preventive and contingent control measures
- risk mitigation strategies
- surveillance and control of the process on both a detailed and a macro basis
- regular reporting to management and the Board on risk profiles.

As part of the DBSA's transformation process a structured set of revised delegated authorities was instituted. These delegations assist in determining accountability and authority in the decision-making processes. A reporting and notification system was instituted in the Bank in which loan decisions made under delegated authority are reported on to a higher decision-making body. These are the Finance and Risk Management Committee, Operations Committee and Commitment Committee. These enable management to thoroughly review, screen, mitigate and manage risk exposure and exercise review.

While the Board of Directors takes final accountability for risk management, the committee structures depicted above serve to identify and decide on risk issues. The Finance and Risk Management Committee gives consideration to financial and risk policy and strategy. The Operations Committee performs a similar task in respect of operational policy and guidelines. Implementation of these policies, strategies and guidelines is given effect and managed through the Commitment Committee in its deliberations on, for example, project appraisal reports tabled at that committee.

Management of specific risk areas

The following risks typically confront the DBSA and hence require specific attention:

Strategic risks

Strategic risks are evaluated under broad scenarios developed for the Bank. Regular and critical analysis of the political, social, economic, environmental, legislative, technological, institutional capacity and fiscal environments is undertaken to identify trends or changes which may have an impact on the strategies of the Bank. Plans and projects are initiated to address these critical changes.

On the basis of these analyses, the Bank responds to risk concerns at policy, strategic and project level. Where appropriate, it engages with authorities and other parties to influence policy.

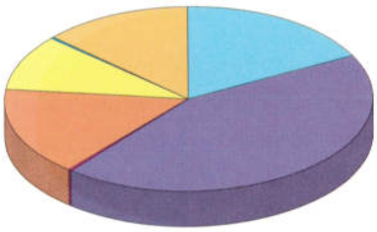
The Bank's strategic planning, business planning and budgeting processes are also sequentially programmed to deal effectively with changes in the environment. Strategic guidelines are used in financial modelling to generate objectives for detailed budgeting and capital planning. The financial planning process extends over a 10-year horizon, of which the first one and a half years form the basis of a budget for the forthcoming year. The aforementioned exercises serve to integrate business plans and financial budgets while taking cognisance of the strategic risks the Bank faces.

Credit risk

In accordance with the Bank's risk philosophy, credit risk exposures are managed proactively through a portfolio management approach. The purpose is to ensure maximum developmental impact while minimising losses within acceptable risk profiles.

The Bank's exposures to the various sectors within the mandate are shown below.

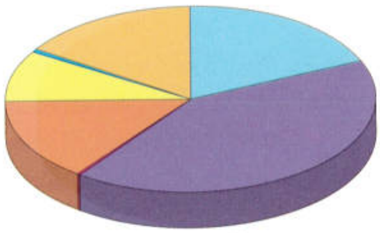
Loan book per sector at 31 March 1995



R5 856 million

- Bulk infrastructure, 17,60%
- Connector/ distributor infrastructure, 43,53%
- Development planning, 0,11%
- Entrepreneurial development, 15,90%
- Human resources development, 9,60%
- Information, 0,03%
- Institution building, 0,42%
- Policy, 0,01%
- Service infrastructure, 12,80%

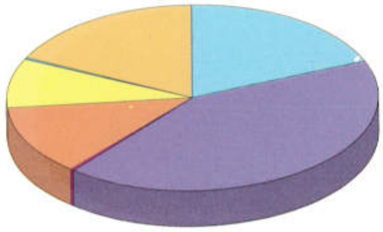
Loan book per sector at 31 March 1996



R7 040 million

- Bulk infrastructure, 18,88%
- Connector/ distributor infrastructure, 41,47%
- Development planning, 0,10%
- Entrepreneurial development, 14,56%
- Human resources development, 9,15%
- Information, 0,02%
- Institution building, 0,33%
- Policy, 0,01%
- Service infrastructure, 15,48%

Loan book per sector at 31 March 1997



R8 332 million

- Bulk infrastructure, 19,01%
- Connector/ distributor infrastructure, 42,32%
- Development planning, 0,06%
- Entrepreneurial development, 12,38%
- Human resources development, 8,48%
- Information, 0,02%
- Institution building, 0,25%
- Policy, 0,01%
- Service infrastructure, 17,47%

The risk profile of exposure to non-mandate sectors and sectors that are not directly revenue-generating has improved significantly over the past three years. Provisions for bad and doubtful debts are kept well below the acceptable norm. The provision for loan losses expressed as a percentage of loan book has decreased from 4,3 per cent in 1996 to 3,8 per cent in 1997. The general improvement can be attributed to:

- improved approval policies
- improved borrower portfolio composition
- a more focused mandate

- early identification of problem loans
- improved economic conditions.

Loan loss provisioning

Management adopts a conservative approach to raising provisions in anticipation of any potential losses. Loans at risk are defined to be loans in arrears by two instalments and these are provided for in full. The balance of the portfolio is assessed on the criteria of low, medium and high risk and a general provision of 2 per cent, 4 per cent and 6 per cent respectively is made against it.

Project appraisal cycle

Loan applications are appraised according to the following criteria:

- **Economic aspects:** the extent to which the investment is expected to generate economic benefits larger than the economic costs and also contribute to economic growth
- **Policy fit:** the extent to which the investment is designed and implemented in accordance with national, provincial, local and DBSA's development objectives and principles
- **Programme fit:** the extent to which the investment fits into an integrated development framework and optimises linkages and multipliers
- **Social aspects:** the level of the recipient communities' participation and the impact on empowerment, gender equity, social structures and quality of life in general
- **Institutional and legal aspects:** the capacity of the implementing institution and the suitability of arrangements for the design, implementation and maintenance of the assets to be created
- **Environmental aspects:** mitigation of the impact of the development on the environment, and planning for the management of environmental risk during the project's lifetime
- **Financial aspects:** the ability to sustain the financial costs of the investment
- **Technical aspects:** the appropriateness of project design through the use of appropriate technical solutions
- **Employment and empowerment:** the extent to which the investment creates jobs, training, black empowerment or small/medium enterprises.

To ensure that risks are minimised, the lessons of past experience are assessed by the Operations Evaluation Unit. The unit provides an independent evaluation of the effectiveness of the Bank's development projects in accordance with the above criteria during implementation and upon completion of projects. Working alongside other units (eg Policy) it refines the indicators for assessment on an ongoing basis.

Liquidity risk

The Bank can obviously not function without sufficient cash resources. To enable it to meet all expected and unexpected financial commitments, liquidity risk is managed by maintaining a liquidity level of 15 to 30 per cent of outstanding fixed loan commitments. It has emergency credit lines in addition to surplus liquidity. These multiple-use credit facilities can be used for overdraft or term borrowings as needed. The Bank has also developed a coherent liquidity management system in which short, medium and longer term cash flow forecasts provide the Treasury Business Unit with a reasonable estimate of future cash positions.

The risk of not having sufficient funds, in appropriate currencies, to meet obligations is constantly monitored and new policies were approved during the year to further enhance risk management in this area.

Interest margin risk

The Bank carefully monitors, on a portfolio basis, the interest spread between the rate of return on assets and the cost of borrowings while controlling the risk associated with generating a sustainable spread. Spread management involves the use of cash flow forecasting models to set the financial parameters for gearing and the composition of assets and liabilities.

There is a risk to earnings whenever assets and liabilities carry different interest regimes. The Bank has developed financial models to strategically evaluate the impact of its marginal concessional lending and its marginal borrowing from the capital markets on the bottom line and on its long-term self-sustainability.

Market risk

Exposure to investment risk is controlled by restricting liquidity investments to particular markets and instruments and within strictly defined limits. Taking cognisance of factors such as existing and expected interest rate patterns, the Bank strives to maximise its return over time by continually managing the investment mix of its liquidity portfolio.

Apart from the impact of expected cyclical trends, the portfolio mix is also influenced by the composition of the funds. The investment portfolio has been created as a liquidity buffer and is managed in close relationship with the debt portfolio.

Foreign exchange exposure

The main reasons for the Bank to engage in foreign financial markets are:

- to overcome possible limitations in local financial markets (market diversification)
- to fund at more favourable interest rates or terms as foreign concessionary sources are offered to South Africa and the DBSA.

In a flexible currency market this brings risk. As a rule, the Bank strives to immediately eliminate any currency risk by taking out forward cover for the total commitments.

Capital adequacy

The Bank is not regulated by the Banks Act and, unlike the commercial banks, is therefore not required by law to maintain minimum capital adequacy levels.

Relevant financial policies, however, ensure that this risk is managed effectively. Most importantly, the debt-equity ratio is kept at 0,5:1 against a norm of 2,5:1 and a callable capital of R4,8 billion is set against borrowings of R2,8 billion.

Corporate risks

Corporate risks within the Bank comprise the following:

Systems and procedures	Information technology
Business continuity	Legal liabilities
Human resources	Physical security
Fixed asset management	Image
Political	Statutory
Moral	Environmental issues
Professional liability	

Formal structures have been created to identify, evaluate and manage these operational risks.

A key element of the Bank's risk management structure is the Internal Audit Unit. To ensure independence and objectivity the unit reports to the Audit Committee of the Board of Directors. The Audit Committee approves both the work programme and reports of the unit. The Audit Committee meets four times each financial year to consider audit issues. In addition to its normal role of addressing transactional risk the Internal Audit Unit independently reviews project transactions including visits to project sites.

Fraud risk is endemic to business internationally. While the DBSA has a robust set of internal controls in accordance with good corporate governance, subsequently to the financial year under review a firm of forensic accountants was appointed to consult with the bank on fraud prevention methodologies. This exercise is continuing.

Private sector risks

The risk relationship with the private sector deserves special attention. Private sector funding will be attracted to where the risk perception is low. The Bank will in essence be expected to support projects with higher levels of risk, an approach which may not easily be compatible with self-sustainability. The challenge will be to ensure proper management of the risk profile while doing justice to the developmental mandate and commitment of the Bank. This means that the Bank will endeavour to play a catalytic rather than a competitive role in funding development.

Best practice principle

All these risks are dealt with in the new and evolving best practice risk management framework, which is based on firm and consistent best practice risk principles.

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

We have audited the annual financial statements on pages 43 to 64 which have been prepared on the basis of the accounting policies set out on pages 53 to 54.

Respective responsibilities of directors and auditors

The directors are responsible for the annual financial statements. It is our responsibility to form an independent opinion, based on our audit, of these annual financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards issued by the South African Institute of Chartered Accountants.

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. The audit included an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence that supports 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 auditing procedures were appropriate in the circumstances to enable us to express our opinion presented below.

Opinion

In our opinion these financial statements fairly present the financial position of the Development Bank of Southern Africa at 31 March 1997 and the results of its operations and cash flow information for the year then ended in conformity with generally accepted accounting practice and in the manner required by the South African Companies Act.

Ernst + Young

Ernst & Young
Chartered Accountants (SA)
Johannesburg
19 June 1997

General review of operations

A detailed review of the Bank's operations is contained in the chief executive's Report set out on pages 10 to 30.

Financial review

The financial highlights of the year are tabled below:

Operating results		
Net surplus	R102,6 million	(1996: R113,9 million)

The operating results for the year under review show a 9 per cent decrease in the surplus. Net interest income decreased by 6 per cent although interest income increased by 18 per cent. The significant increase in interest expense (54 per cent) is a direct result of the transformation of the funding structure of the Bank.

The Bank had, up to March 1994, been funded by the South African government in the form of annual appropriations (development contributions). These funds were geared with funds from market sources and on-lent at highly concessional rates (average approximately 8 per cent). Although the Bank reviewed its lending policy following the transformation of its funding structure, commitments of approximately R2,5 billion, at highly concessional rates, had to be funded at market rates during the past three years.

The return on loans approved in terms of the new lending policy of the Bank was 14,3 per cent on average compared with 9,24 per cent on loans previously approved.

Non-interest income of R1,3 million (1996: R205 000) relates to cost recovery transactions in terms of the Bank's policy on income targeting.

Operating expenditure decreased by 3,7 per cent to R130,2 million. It was reduced by the reversal of an accrual created in the previous financial year for expenditure that did not materialise. Ignoring the effect of this accrual on both the current and previous financial years the increase in operating expenditure is approximately 4 per cent, reflecting strict budgetary control.

Funds mobilisation

Domestic borrowings	R991 million	(1996: R383 million)

The Bank's status as a reputable borrower in local financial markets has been maintained.

Foreign borrowings	R180 million	(1996: R319 million)

The foreign borrowing was in the form of concessionary and co-financing facilities directly or indirectly relating to development programmes.

Lending activities

Development loan disbursements	R1 378 million	(1996: R1 241 million)

Disbursements for development loans set a further record this year. The Bank also invested a further R5 million in the shares of development entities to bring the investment to R86 million (1996: R81 million). The Bank will continue to finance its disbursement commitments from cash generated from operations, local financial markets and foreign financial sources.

The performance of the loan book remained satisfactory with a default rate below 1 per cent. Loans amounting to R35,9 million were written off against the loan loss provision. The loan loss provision of R287 million was maintained at approximately 4 per cent of the loan book (1996: R279 million).

Post-balance-sheet event

The authorised share capital of the Bank was increased to R5 billion with the promulgation of the Development Bank of Southern Africa Act in April 1997. The callable capital of the Bank has therefore increased to R4,8 billion (R200 million was paid up in 1983).

Responsibility for financial reporting

In terms of the Development Bank of Southern Africa Act, read with the Companies Act, the directors are responsible for preparation of annual financial statements which fairly present the financial position and state of affairs of the Bank. These financial statements are compiled in accordance with South African generally accepted accounting practice.

The external auditors are required to give an independent opinion of the fair presentation of the annual financial statements on the basis of the results of their audit.

The directors are of the opinion, based on information and explanations given by management and the internal auditors, that management has introduced and maintained adequate internal controls. These ensured that dependable records exist for the preparation of the financial statements, the assets of the Bank are safeguarded and all transactions are duly authorised and transacted.

To the best of their knowledge and belief the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review. The auditors concur with this statement.

The directors are satisfied that the Bank will continue as a going concern for the foreseeable future and the annual financial statements have accordingly been prepared on the basis of this assumption.

The directors of the Bank accept responsibility for their report and the financial statements which appear on pages 43 to 64.

W Nkuhlu
Chairman of the Board
19 June 1997

RA Plumbridge
Chairman of the Audit Committee
19 June 1997

+*__Prof WL Nkuhlu__ (Chairman)

First appointed to the Board in January 1983. Has 20 years experience in executive management positions in a variety of organisations, including serving as a managing partner for an audit firm, principal of a university, chief executive of a major development institution and director of a number of listed companies (Chartered Accountant (SA))

+**Ms L Abrahams**

Appointed with effect from 1 June 1995. Commissioner: Gauteng Provincial Service Commission, Adviser to Minister of Welfare on gender and employment equity, Adviser to Central Statistical Service on gender statistics, Chairperson: National Information Technology Forum, Technical Adviser to CA Theme Committee Vll: Public Service (Postgraduate Diploma in Public and Development Management)

+**Mr CJW Ball**

Appointed with effect from 1 June 1995. chief executive Officer: Cape Town 2004 Olympic Bid, Trustee of President Mandela's Children's Fund and READ Organisation (Dip juris M)

Ms A Bernstein

Appointed with effect from 1 June 1995. Executive Director: Centre for Development and Enterprise, Trustee of the Institute for Multiparty Democracy (MA Agriculture and Planning)

*__Mr HP de Villiers__

First appointed as President of the Council of Governors in 1993. Appointed to the Board with effect from 1 June 1995. Former Chairman of the Standard Bank Investment Corporation and Standard Bank of South Africa (Chartered Accountant (SA))

+**Mr DR Geeringh**

Appointed with effect from 1 June 1995. Senior General Manager: Standard Bank Investment Corporation, director of various companies in South Africa and Africa (Chartered Accountant (SA), AMP)

+**Mr JB Magwaza**

Chairman of the Employment Equity Committee and appointed to the Board with effect from 1 June 1995. Executive Director: Tongaat-Hulett Group, director of various companies, member of the publications board of the Institute of Personnel Management (MA Industrial Relations)

INCOME STATEMENT

FOR THE YEAR ENDING 31 MARCH

	Notes	1997 R'000	1996 R'000
Interest income from development activities	14	**566 645**	464 446
Interest income from investments		**42 293**	48 008
Less: Interest expense		**329 069**	213 834
Net interest income		**279 869**	298 620
Non interest income		**1 383**	205
		281 252	298 825
Less: Technical assistance grants	15	**4 437**	5 743
Less: Specific and general risk provisions	8	**44 000**	44 000
Net income		**232 815**	249 082
Less: Operating expenditure		**130 201**	135 188
Auditors' remuneration	16	**970**	658
Governors' emoluments	17	**–**	2
Directors' emoluments	18	**499**	367
Depreciation	19	**1 776**	2 307
Other operating expenses	20	**126 474**	131 224
Foreign exchange losses		**482**	630
Surplus for the year		**102 614**	113 894

CASH FLOW STATEMENT
FOR THE YEAR ENDING 31 MARCH

	Notes	1997 R'000	1996 R'000
Net cash inflow from operating activities		**129 626**	226 051
Interest received from development activities	21	**457 271**	460 406
Interest received on investments	22	**42 072**	50 362
Interest paid	23	**(234 189)**	(159 684)
Other operating expenditure paid	24	**(135 528)**	(125 033)
Net cash outflow from development activities		**(1 138 014)**	(1 186 011)
Development loan disbursements	8	**(1 377 712)**	(1 240 830)
Development loan principal repayments	21	**249 386**	142 006
Development investments		**(4 687)**	(81 293)
Donor contribution funds disbursed	5	**(564)**	(151)
Technical assistance grants paid		**(4 437)**	(5 743)
Net cash outflow from investment activities		**(5 110)**	(1 177)
Purchase of fixed assets		**(5 273)**	(1 177)
Proceeds from sale of fixed assets		**163**	–
Net cash inflow from financing activities		**1 052 257**	745 640
Donor contribution funds received	5	**1 609**	–
Investments made		**(26 109)**	–
Short-term financing raised		**307 452**	35 173
Medium- and long-term financing repaid		**(293 399)**	–
Medium- and long-term financing raised		**1 062 704**	710 467
Net increase in cash, deposits and tradable securities		**38 759**	(215 497)
Cash, deposits and tradable securities at beginning of year		**389 846**	605 343
Cash, deposits and tradable securities at end of year		**428 605**	389 846

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on the historical cost basis in conformity with South African generally accepted accounting practice and conform to international accounting standards in all material respects. The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous year.

1.2 Development loans

Development loan commitments are recorded when the agreements are signed by the Bank and are reflected as assets when disbursed.

The carrying value of the loans is the principal amount outstanding and unpaid interest. Interest that accrues during the grace period, (ie the period during which interest on loans is not yet payable but continues to accrue) is deferred and does not form part of the carrying value.

Development loans are placed on a non-accrual status when the contractual payment of principal and 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.

1.3 Provision against development loans

The provision is established through annual charges to income in the form of a provision for specific and general potential losses on development loans. Development loans written off as well as subsequent recoveries are recorded against the provision for development loans.

The specific provision against development loans represents management's judgment as to identifiable losses on development loans including loans placed on a non-accrual status, ie where interest is not accrued.

General provisions are maintained against risks which, although not specifically identified, exist in a portfolio of advances.

1.4 Income recognition

Interest on development loans is recorded as income on an accrual basis. The Bank does not recognise income on development loans where payments of interest or principal are more than 180 days past due or when, in the opinion of management, the recovery of the whole or portion thereof becomes doubtful.

Interest capitalised during the grace period of the loan is recorded as deferred interest and credited to income only when it becomes due and payable per the loan agreement.

Interest on deposits and tradable securities is recorded as income on an accrual basis.

1.5 Deposits and tradable securities

The Bank's liquid assets comprise money and capital market assets. Capital market assets are valued at market value.

The Bank classifies the cash, deposits and tradable securities portfolio as an element of liquidity in the balance sheet and the cash flow statement in accordance with the Bank's policies governing the level and use of such investments.

1.6 Investments

Long-term investments made in development entities are classified as development investments.

Long-term development investments in stocks are stated at carrying value. Carrying value consists of cost plus adjustments in respect of discounts or premiums amortised.

Discounts and premiums are amortised over the term of the issue using the yield to redemption method.

Capital project bills are stated at cost.

Long-term investments in shares that do not meet the criteria for subsidiaries or associates are classified as investments. These investments are stated at cost unless in the opinion of the Directors a permanent diminution in the value of the investment has occurred. In these circumstances the related diminution is written off in the income statement.

Other long-term investments are stated at carrying value. The carrying value of investments with a fixed redemption period is the cost plus interest accrued at the effective interest rate.

1.7 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 method. Discounts, premiums, other bond costs and financing costs are amortised and recorded as an element of interest expenditure. The unexpensed portion of discounts, premium, other bond costs and financing costs at the balance sheet date is set off against the related liability.

1.8 Financial instruments

Secondary market positions held for hedging purposes are stated at market value and are set off against the underlying position. Profits and losses relating to these transactions are included in interest expense.

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 or paid on financial instruments entered into for trading purposes are stated at market value. The resultant profits or losses are accounted for in the income statement. Where not designated as trading transactions, the instruments are stated at cost and premiums amortised over the terms of the instruments.

1.9 Foreign currencies

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

Assets, liabilities and commitments in foreign currencies are translated into South African rand at the rates of exchange ruling at year-end unless covered by forward exchange contracts. Assets, liabilities and commitments covered by forward exchange contracts are recorded at the initial cash amount, with interest and forward exchange premium or discount accrued at the effective interest rate, less payments made.

Discounts and premiums on forward exchange contracts entered into to hedge specific foreign currency assets, liabilities and commitments are recognised over the term of such contracts at the effective interest rate. These discounts or premiums are identified by comparing the fixed forward rate for the purchase or sale of foreign currency to the spot exchange rate at the time the forward exchange contract is entered into.

1.10 Fixed assets and depreciation

Land and buildings

The head office was constructed on land donated to the Bank by the South African government. The land is stated at nil value. The building is stated at cost and is not depreciated.

Other operating fixed assets

Fixed assets are depreciated on a straight line basis at rates considered appropriate to reduce the cost to estimated residual values over the estimated useful lives of the assets at the following rates:

Computer equipment: 33,3% pa.

Other equipment: 10% – 20% pa.

1.11 Retirement benefits

Current contributions to the retirement benefit plan are charged against income as incurred.

	1997 R'000	1996 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

The unissued shares are under the control of the Governor of the Bank.

3. DEVELOPMENT FUND

The fund represents capital provided by the South African government and remains part of the permanent capital of the Bank.

Received to date	**3 792 344**	3 792 344

4. RESERVES		
General reserve		
Balance at beginning of year	**796 704**	682 810
Transfer from income statement	**102 614**	113 894
Balance at end of year	**899 318**	796 704

5. DONOR CONTRIBUTION FUND		
Balance at beginning of year	**76**	227
Grants received	**1 609**	–
Grants disbursed	**(564)**	(151)
Balance at end of year	**1 121**	76

The purpose of the financial contributions is exclusively to support specified projects. At the end of the projects unspent amounts will be refunded to the respective donors.

6. MEDIUM- AND LONG-TERM FINANCING		
Registered bonds (refer schedule A)	**2 260 684**	1 531 255
Other loans (refer schedule B)	**592 391**	353 520
Unamortised issue discounts and forward cover premium	**(185 552)**	(66 955)
	2 667 523	1 817 820

	1997 R'000	1996 R'000
7. FIXED ASSETS		
Buildings at cost	**35 603**	35 217

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,4 million were effected during the 1997 financial year.

The buildings are valued every three years and were last valued at R81 million on a replacement value basis by Farrow Laing, an independent valuer, on 31 March 1996. The land on which the buildings are constructed is Erf 3, Headway Hill and measures 24,6ha.

	1997 R'000	1996 R'000
Other operating fixed assets	**4 960**	2 012
Computer equipment	**3 985**	1 381
Balance at beginning of year		
Assets at cost	**6 993**	6 007
Accumulated depreciation	**(5 612)**	(3 379)
Current year movements		
Additions	**4 160**	986
Disposals	**(163)**	–
Depreciation	**(1 393)**	(2 233)
Other equipment	**975**	631
Balance at beginning of year		
Assets at cost	**840**	647
Accumulated depreciation	**(209)**	(135)
Current year movements		
Additions	**727**	193
Depreciation	**(383)**	(74)
	40 563	37 229

	1997 R'000	1996 R'000
8. DEVELOPMENT LOANS		
Total loan book	**8 332 028**	7 040 336
Balance at beginning of year	**7 040 336**	5 856 043
Loans disbursed	**1 377 712**	1 240 830
Interest capitalised	**656 536**	545 875
Development loans written off	**(35 899)**	–
Gross repayments	**(706 657)**	(602 412)
Provision against development loans	**(287 101)**	(279 000)
Specific provision	**(4 747)**	(4 039)
General provision	**(282 354)**	(274 961)
Deferred interest	**(707 870)**	(603 976)
Balance at beginning of year	**(603 976)**	(518 507)
Interest capitalised	**(136 347)**	(113 834)
Transferred to income statement	**32 453**	28 365
	7 337 057	6 157 360
Repayment analysis		
0-1 year	**618 667**	342 344
1-3 years	**835 794**	1 104 348
Thereafter	**6 877 567**	5 593 644
	8 332 028	7 040 336
Changes in the specific and general reserves against development loan losses		
Balance at beginning of year	**279 000**	235 000
Transferred from income statement	**44 000**	44 000
Development loans written off	**(35 899)**	–
	287 101	279 000
Expected future transfer from deferred interest to interest income		
0-1 year	**32 490**	26 362
1-3 years	**85 696**	116 037
Thereafter	**589 684**	461 577
	707 870	603 976

	1997 R'000	1996 R'000
9. DEVELOPMENT INVESTMENTS		
Unlisted:		
Northern Transvaal Water Board	**80 543**	80 543
Capital Project Bills of R 80,5 million (nominal value R 244,1million) with maturities varying from 30 April 1998 to 31 October 2005.		
Franchise Fund	**750**	750
7 500 Ordinary shares at cost	**8**	8
255 000 8% Redeemable cumulative preference shares at cost	**255**	255
487 500 15% Redeemable debentures at carrying value	**487**	487
Commonwealth Africa Investments Limited	**4 687**	–
100 ordinary shares at cost	**1**	–
100 8% redeemable preference shares at cost	**4 686**	–
	85 980	81 293

10. INVESTMENT		
Long-term derivative financial instrument	**27 463**	–

Interest is capitalised at a rate of 18,04% p.a. This investment serves as a hedge for the Caisse Française de Développement loan (refer Schedule B).

11. CASH, DEPOSITS AND TRADABLE SECURITIES		
Fixed deposits	**–**	30 000
Tradable securities	**266 828**	211 623
Cash	**161 777**	148 223
	428 605	389 846

	1997 R'000	1996 R'000
12. RECEIVABLES		
Accrued income on deposits and securities	**23 894**	11 025
Other receivables	**5 871**	2 620
	29 765	13 645
13. ACCOUNTS PAYABLE		
Trade creditors and accruals	**6 954**	13 683
Personnel costs provisions	**6 230**	4 736
	13 184	18 419
14. INTEREST INCOME FROM DEVELOPMENT ACTIVITIES		
Interest received on development loans	**553 064**	460 204
Interest suspended on non-accrual loans	**(431)**	(211)
Interest previously suspended on non-accrual loans recovered	**9**	413
Interest received from development investments	**14 003**	4 040
	566 645	464 446
15. TECHNICAL ASSISTANCE GRANTS		
Technical assistance grants disbursed	**4 437**	5 743

Technical assistance is provided in the form of grants which complement the Bank's investment activities. There are also policy cooperation grants which assist government and development institutions in policy making decisions. This is achieved by supporting capacity-building processes aimed at enhancing development delivery.

	1997 R'000	1996 R'000
16. AUDITORS' REMUNERATION		
For the audit		
Current year	**650**	498
Previous year	**100**	(7)
For other services		
Current year	**182**	151
Expenses		
Current year	**34**	16
Previous year	**4**	–
	970	658

	1997 R'000	1996 R'000
17. GOVERNORS' EMOLUMENTS		
Expenses	–	2
18. DIRECTORS' EMOLUMENTS		
For services as directors	**467**	344
Expenses	**32**	23
	499	367
19. DEPRECIATION		
Computer equipment	**1 393**	2 233
Other equipment	**383**	74
	1 776	2 307
20. OTHER OPERATING EXPENSES		
Consultants' fees	**4 726**	7 208
Communication costs	**1 904**	1 762
Information technology	**3 520**	3 199
Remuneration	**105 166**	95 518
Subsistence and travel	**6 372**	6 987
Other	**4 786**	16 550
	126 474	131 224
21. INTEREST RECEIVED FROM DEVELOPMENT ACTIVITIES AS PER CASH FLOW STATEMENT		
Gross development loan repayments (refer note 8)	**706 657**	602 412
Principal repayments	**(249 386)**	(142 006)
Interest repayments	**457 271**	460 406
22. INTEREST RECEIVED FROM INVESTMENTS AS PER CASH FLOW STATEMENT		
Accrued interest at beginning of year	**6 985**	9 339
Accrued interest (per note 12)	**11 025**	9 339
Accrued interest on development investments	**(4 040)**	–
Credited to income for the year	**42 293**	48 008
Accrued interest at end of year	**(7 206)**	(6 985)
Accrued interest (per note 12)	**(23 894)**	(11 025)
Accrued interest on development investments	**18 043**	4 040
Accrued interest included in investments	**(1 355)**	–
	42 072	50 362

	1997 R'000	1996 R'000
23. INTEREST PAID AS PER CASH FLOW STATEMENT		
Accrued interest at beginning of year	**140 715**	86 192
Current liabilities	**13 809**	11 848
Medium- and long-term liabilities	**126 906**	74 344
Charged to income for the year	**311 808**	198 819
Interest expense per income statement	**329 069**	213 834
Amortisation of issue discount	**(17 261)**	(15 015)
Accrued interest element of funding	**27 905**	15 388
Accrued interest at end of year	**(246 239)**	(140 715)
Current liabilities	**(28 290)**	(13 809)
Medium- and long-term liabilities	**(217 949)**	(126 906)
	234 189	159 684

24. RECONCILLIATION OF SURPLUS FOR THE YEAR TO OTHER OPERATING EXPENDITURE PAID

Surplus for the year	**102 614**	113 894
Adjustments for:		
Provision against development loans	**44 000**	44 000
Technical assistance grants paid	**4 437**	5 743
Interest expense	**329 069**	213 834
Interest received on investments	**(42 293)**	(48 008)
Interest received on development activities	**(566 645)**	(464 446)
Depreciation	**1 776**	2 307
Increase in receivables (refer note 12)	**(3 251)**	(22)
Decrease in accounts payable	**(5 235)**	7 665
	(135 528)	(125 033)

25. RETIREMENT BENEFIT AND MEDICAL AID FUND

The Development Bank of Southern Africa Provident Fund was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members. The fund, which is governed by the Pension Funds Act (Act 24 of 1956), is a defined contribution plan for employees on the permanent staff of the Bank

The Bank's contributions to retirement and medical aid funds amount to:

Provident fund Number of employees: 510 (1996: 569)	**5 936**	5 779
Medical aid fund Number of employees: 492 (1996: 513)	**6 278**	6 351
	12 214	12 130

	1997 R'000	1996 R'000

26. TAXATION

No provision is made for normal taxation as the Bank is exempted therefrom in terms of the Income Tax Act 62, 1961.

27. COMMITMENTS

At balance sheet date the Bank had the following commitments.

Loan commitments

	1997 R'000	1996 R'000
Loans approved by the Board of Directors but not signed	**1 083 289**	365 182
Loans signed but not disbursed	**2 278 230**	2 256 186
	3 361 519	2 621 368

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 of the expected disbursements for these commitments is 48% in 1998 and 52% thereafter.

The commitments are to be financed from cash generated from internal operations, local financial markets and foreign sources.

Technical assistance grants

	1997 R'000	1996 R'000
Grants approved by the Board of Directors but not signed	**70**	606
Grants signed but not disbursed	**5 840**	8 204
	5 910	8 810

Forward exchange contracts

Commitments in respect of inflow of funds:

Foreign amount	Rate	Maturity date
USD 7 339 000	4,541	June 1997

Commitments in respect of outflow of funds:

Foreign amount	Rate	Maturity date
USD 7 339 000	4,8806-6,7967	March 2000-March 2005

Development investment

The Bank has a commitment to take up 400 units (1 ordinary share and 1 8% redeemable preference share per unit) at a value of $10 000 per unit over a period not exceeding 4 years in tranches of not less than 10% and not more than 25% of the agreed amount.

Employee loans

The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.

	1997 R'000	1996 R'000
Loan balances secured	**1 616**	1 424

	1997 R'000	1996 R'000
28. CONTINGENT LIABILITIES		
The Bank has approved and issued guarantees on behalf of borrowers amounting to:	**3 724**	3 724

The Bank is disputing a R5m levy relating to a period during which it was exempt from all taxes.

29. COMPARATIVE FIGURES

Comparative figures have been restated to provide more meaningful information.

30. FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES

The Bank has entered into agreements with a number of development entities to administer funds on their behalf. The activities of these entities relate to development and include development research, policy formulation and loans. The funds are held separately in trust.

	1997 R'000	1996 R'000
Balance at beginning of year	**1 144**	85
Funds received	**131 541**	334 297
Funds disbursed	**(128 034)**	(333 238)
Funds at end of year	**4 651**	1 144

SCHEDULE A

REGISTERED BONDS AT 31 MARCH 1997

	Authorised value				Balance in issue	
	1997 Rm	1996 Rm	Coupon rate %	Repayment date	**1997 Rm**	1996 Rm
(i) Local						
DV05	**–**	290	10,0	1996	**0**	290
DV06	**1 000**	250	10,0	2001	**654**	44
DV07	**3 000**	1 500	14,5	2010	**1 132**	751
	4 000	2 040			**1 786**	1085
(ii) Foreign	**497**	497	10,0	1998	**475**	447
	4 497	2 537			**2 261**	1 532

Note: All local registered bonds carry an AAA rating (IBCA) and are referred to by their respective Reuters acronyms. An independent A1+ short-term rating was also assigned to the Bank (IBCA).
The foreign liability is fully covered forward and is guaranteed by the SA government.

SCHEDULE B

OTHER LOANS AT 31 MARCH 1997

	1997 Rm	1996 Rm	Interest rate %	Commencement date of repayment	Number of instalments	Loan currency
Chiao Tung Bank Co. Ltd.	**31**	31	3,0	March 2000	15 equal annual	USD
Caisse Francaise de Developpement	**80**	59	3,5	April 2004	26 equal semi-annual	FFR
Export-Import Bank of Japan	**481**	264	3,5	March 2000	20 equal semi-annual	JPY
	592	354				

Note: The foreign liabilities are fully covered forward or hedged as per note 10 and are guaranteed by the South African government.

DBSA

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