DBSA

Development Bank of Southern Africa Limited
Annual Report 2003/04

Financier

To contribute to the delivery of basic services and promote economic growth through infrastructure funding.

Advisor

To build institutional, financial, technical and knowledge capacity for development.

Partner

To leverage private, public and community players in the development process.

In Africa, the calabash is used to store food and water and to brew traditional drinks. It is an image of abundance and nurturing. Here it symbolises the Bank's contribution to the reconstruction of a democratic South Africa and the development of all its people.

Development Bank of Southern Africa Limited

Vision

To further the progressive realisation of an empowered and integrated region, free of poverty, inequity and dependency.

To be a leading change agent for sustainable socio-economic development in the SADC region, and a strategic partner in Africa south of the Sahara.

Mission

To maximise our contribution to development by mobilising and providing finance and expertise and by establishing partnerships to develop infrastructure to improve the quality of life of the people of Africa.

Governance structure

Sole owner: South African government

Shareholder representative: Mr T A Manuel, MP – Minister of Finance

Chairman of the Board: Mr Jayaseelan Naidoo

Chief Executive Officer and Managing Director: Mr Mandla Gantsho

Board of 15; 14 non-executive

Goals

To improve the quality of life of the people of the region and accelerate the sustainable reduction of poverty and inequality.

To advance broad-based economic growth and regional economic integration.

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Development Bank profile

The Bank's mandate

The Development Bank of Southern Africa is a development finance institution wholly owned by the South African government.

The *mandate* of the Bank is to:

- Fund infrastructure, broadly defined to include economic, social and institutional infrastructure
- Provide financial, technical and institutional advisory services
- Act as a catalyst to maximise private sector involvement

The Bank is guided by the *principles* of additionality, development impact, financial and environmental sustainability, risk management, complementarity with other South African development finance institutions, partnerships, and knowledge management.

Geographical area of operations: The Bank has the following geographical Business Units:

- Gauteng, Free State and North West
- KwaZulu-Natal and Mpumalanga
- Western and Northern Cape
- Eastern Cape
- Limpopo
- International Finance: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe

Strategic thrusts

- Broadening and deepening of development impact
- Knowledge management
- Smart partnerships
- Black economic empowerment
- Responsible risk taking and management
- Innovation and entrepreneurship
- Alignment of strategy, structure, culture and processes
- Performance recognition and reward

The Bank's triple role

Financier

Since inception, the Bank has approved loans and equity of R32,2 billion (resulting in commitments of R25,7 billion). In addition, the Bank has provided cumulative guarantees to the value of R275 million. The total number of borrowers at year-end was 326.

Advisor

Since inception, the Bank has approved grants of R133,2 million. In addition to these grants, the Bank's advisory role included knowledge support and agency services. The DBSA Development Fund also provides capacity building grants to municipalities.

Partner

The Bank emphasises the role of partnerships in maximising the impact of development interventions. It draws partners from a wide spectrum of development stakeholders, such as national governments, provincial and municipal governments, the private sector, bilateral institutions, multilateral development agencies, community-based organisations and non-governmental organisations.

Financial structure

The Development Bank is a self-funding institution and raises its funding from domestic and international capital markets, bilateral and multilateral institutions, and internally generated resources.

The Bank has access to a callable capital facility of R4,8 billion, which is part of its capital structure. It is rated by three rating agencies: Fitch, Moody's Investors Service, and Standard and Poor's. All three agencies reaffirmed the Bank's investment grade ratings:

- Fitch: AAA – domestic rating
- Moody's: Baa2 – international rating
- Standard and Poor's: BBB – international rating

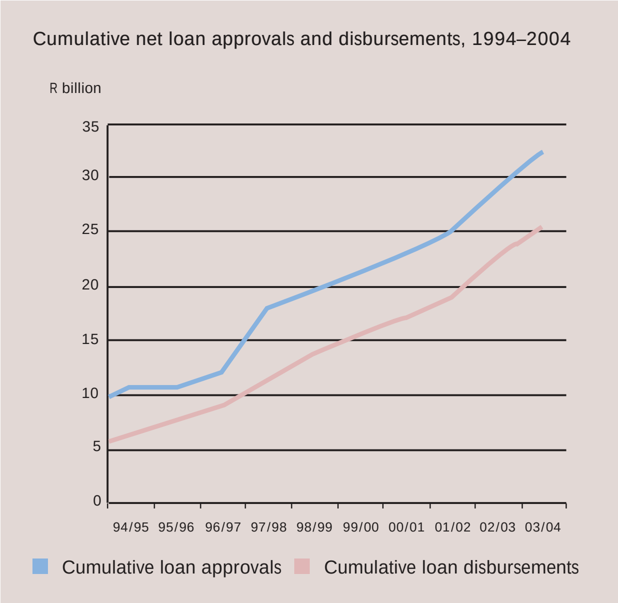
Business performance at a glance, 1984–2004

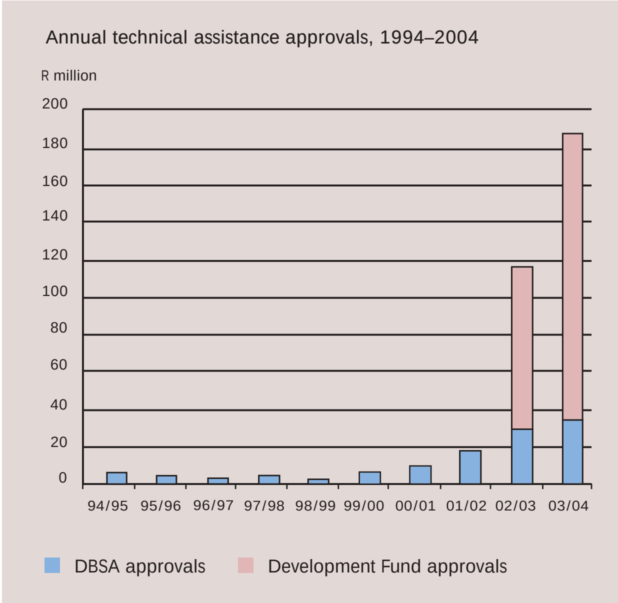
Key indicators	1994–2004	1984–1994
Number of staff at end of period	485	571
Total loan approvals in period	R25,03 billion	R8,89 billion
% of cumulative total net approvals (excluding savings)[1]	77,7%	27,6%
Total loan disbursements in period	R19,98 billion	R5,36 billion
% of cumulative total disbursements	78,8%	21,2%
Total investment value approved in period, Bank and co-funders	R83,05 billion	Not measured
Leverage ratio for period: Bank to co-funders	1:2,32	1:0,33 in 1993/4
Number of projects approved in period	1 030	1 475
Total technical assistance approved in period (excluding DBSA Development Fund)	R102 million	R31 million
% of cumulative technical assistance approved	76,7%	23,3%
Technical support approved via DBSA Development Fund	R239 million (initiated 2001/02)	Nil
Total households benefitted in period	4,03 million	Measured only since 1997
Impact on GGP by DBSA and co-funders due to approvals in SADC including South Africa	R63,53 billion	Not measured
Total employment created by DBSA and co-funders due to approvals in SADC including South Africa	527 874	Not measured
Growth in total assets under management	R18,11 billion	R5,57 billion
% of cumulative total assets	76,5%	23,5%
Defaults/write-offs in period	R85,67 million	R239 000
Operating surplus achieved in period	R4,86 billion	R1,51 billion
% of cumulative operating surplus	76,7%	23,3%

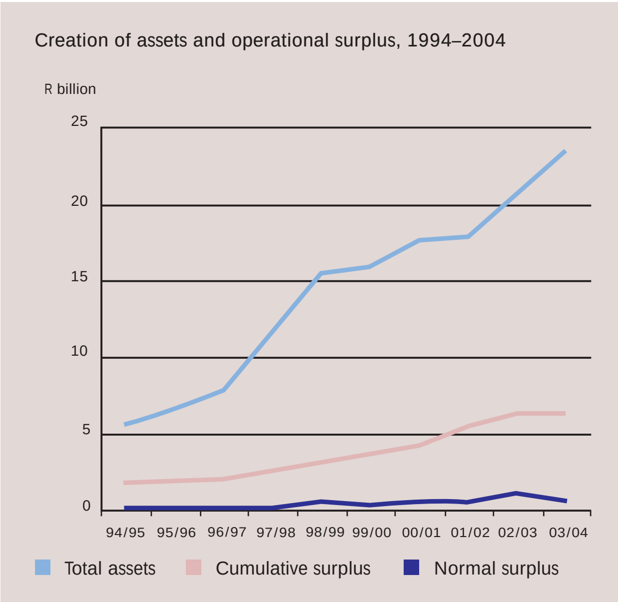
1. Due to savings on completed projects, the contribution to the total will not tally to 100%.

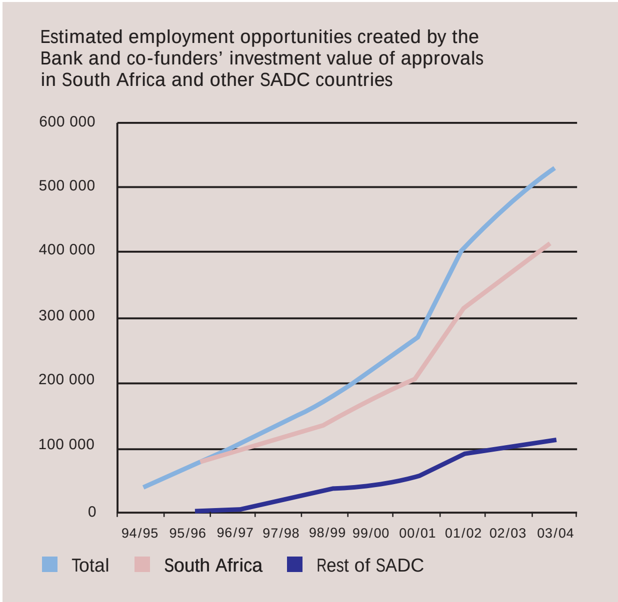
West Coast internal roads project – Saldanha Bay, Western Cape

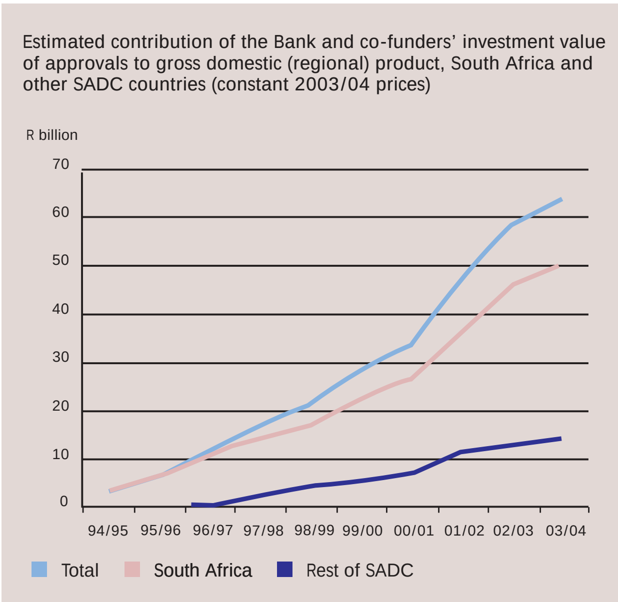
Mainline outputs, financial health and development impact











Business performance

Selected indicators	2003/04	5-year average (1999–2004)	2002/03	2001/02	2000/01	1999/2000
Total capital cost of approvals, DBSA and co-funders (R million)	5 535	10 460	13 775	13 484	13 897	5 607
South Africa	3 929	5 888	10 278	8 477	3 106	3 648
Other SADC countries	1 606	4 572	3 497	5 007	10 791	1 959
Total DBSA contribution to approvals (R million)	3 348	2 918	3 833	3 151	2 217	2 040
% of total capital cost funded by sources other than DBSA	65,3	72,3	72,2	76,6	84,0	63,6
Disbursements (R million)	2 729	2 299	3 661	1 781	1 622	1 702
South Africa	2 315	1 749	2 903	1 101	1 139	1 286
Other SADC countries	414	550	758	680	483	416
Total operating costs (R million)	382,3	267,6	286,9	255,0	232,1	181,3
Total operating costs as % of approvals	11,5	10,7	7,5	8,1	10,5	8,9
Number of employees at year-end	489	450	470	430	430	431
Net contribution per employee (R million)[1]	5,6	5,0	7,8	4,1	3,8	4,0
% of employment equity managers at year-end	77,0	78,4	86,0	81,0	72,0	76,0

1. Calculated on the net contribution of the average number of employees to disbursements.

Financial performance

	2003/04	5-year average (1999–2004)	2002/03	2001/02	2000/01	1999/2000
Financial results						
Income excluding provisions and exceptional items (R million)	1 446	1 156	1 651	920	969	797
Interest on development activities (R million)[1]	1 872	1 572	1 686	1 505	1 465	1 333
Interest on investments (R million)	663	587	597	579	577	519
Interest paid (R million)	1 101	1 064	967	1 150	1 151	950
Surplus for the year (R million)	763	737	1 284	593	632	414
Financial position						
Cash and cash equivalents (R million)	1 913	1 391	1 306	1 376	1 092	1 268
Financial market assets/investments in government bonds (prior to 2002) (R million)	5 723	4 118	5 107	3 253	3 253	3 253
Investment in development activities (R million)[1]	15 832	13 047	14 296	12 004	12 306	10 798
Other assets (R million)	216	842	210	2 010	1 104	672
Total assets (R million)	23 684	19 398	20 919	18 643	17 755	15 991
Issued share capital (R million)	200	200	200	200	200	200
Total capital and reserves (R million)	11 197	9 226	10 231	8 898	8 328	7 479
Financial market liabilities/medium- and long-term financing (prior to 2002) (R million)	11 736	9 081	9 971	8 341	7 521	7 836
Other liabilities (R million)	751	1 091	717	1 404	1 906	676
Total liabilities (R million)	12 487	10 172	10 688	9 745	9 427	8 512
Financial ratios						
Return on shareholder's funds (%)	6,8	8,0	12,5	6,7	8,0	5,9
Return on assets (%)	3,2	3,8	6,1	3,2	3,7	2,6
Operating costs to income (%)	26,4	23,7	17,4	27,7	24,0	22,7
Interest cover (times)	2,3	2,0	2,4	1,8	1,8	2,0
Reserves to loans ratio (%)	72,0	71,6	72,4	75,0	68,5	69,9
Long-term debt to equity (%)	105,9	98,9	98,3	95,5	90,3	104,8
Cash and cash equivalents to total assets (%)	8,1	7,2	6,2	7,4	6,2	7,9
Issued capital to assets (%)	0,8	1,1	1,0	1,1	1,1	1,3
Total capital and reserves to assets (%)	47,3	47,5	48,9	47,7	46,9	46,8
Financial market liabilities to investment in development activities (%)[1]	74,1	69,4	69,7	69,5	61,1	72,6
Weighted average interest rate on development loans (%)	11,0	12,4	13,5	12,8	11,7	13,0
Total impairment as percentage of development loans (%)[2]	6,6	6,9	6,1	7,5	7,3	7,3
Impairment for loans considered irrecoverable as percentage of development loans (%)	3,1	3,3	2,3	3,6	3,7	3,6

1. Development activities include development loans and investments.
2. Includes reserve for general loan risks.

Illovo miller-cum-planter commercialisation project, KwaZulu-Natal

Abbreviations

C.A.P. E.	Cape Action for People and the Environment
CDO	collateralised debt obligation
DBSA	Development Bank of Southern Africa Limited
DFID	Department for International Development
€	euro
GDP	gross domestic product
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ISDA	International Swaps and Derivatives Association
ISMA	International Securities Market Association
ISRDS	Integrated Sustainable Rural Development Strategy
KfW	Kreditanstalt für Wiederaufbau
LGNet	Local Government Network
NEPAD	New Partnership for Africa's Development
R	South African rand
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SMME	small, medium and microenterprise
UNEP	United Nations Environment Programme
US$	United States dollar

Exchange rate

On 31 March 2004 the R/US$ exchange rate was 6,3013 (2003: 7,885) and the R/€ rate was 7,7303 (2003: 8,619).

Financial year

The financial year of the Development Bank is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2003/04, are to the financial year ended 31 March.

Contents

Governor's statement

The year 2004 is a momentous milestone in South Africa's history. This year we celebrate a decade of democracy, and mark unprecedented progress in addressing the development challenges of our country, and in playing our rightful role as a constructive neighbour committed to regional peace and prosperity, and indeed global cooperation.

This Annual Report quite aptly takes a retrospective view of the Development Bank's contribution to sustainable development over the past decade. The Bank itself has undergone fundamental transformation from an institution of grand apartheid to its current incarnation as a dynamic and well-managed development finance institution, committed to improving the quality of life of our people.

Looking back on its contributions to the progress that has been achieved in South Africa and elsewhere in the SADC region over the past decade, the Development Bank can indeed be proud. Today, it is a highly respected development finance institution, playing the diversified, synergistic roles of financier, advisor and partner, both locally and internationally. It works closely not only with its clients, but also with its stakeholders and partners, across the public and private sectors. Significantly, it has also weaned itself from dependence on subsidies from government, becoming a financially self-sustaining institution that has achieved premier domestic credit ratings and attained international credit ratings on par with the sovereign rating. The positive impacts of the Bank's interventions on the life of our people and economies, as documented in the Report, attest to the sound track record of this development finance institution, and are to be lauded.

During my tenure as Governor of the Development Bank, I have consistently challenged its management and staff to think "outside of the box" in seeking solutions to the complex development challenges. I am pleased that the Bank has responded by introducing organisational changes to sharpen its strategic foci on highly challenged provinces and municipalities, as well as the region; by strengthening its knowledge banking function and regional outreach; and by establishing a Development Fund dedicated to capacity building in poor and institutionally weak areas of the country.

Minister of Finance
Republic of South Africa
Mr Trevor Manuel, MP

However, we have now entered our second decade of freedom, and the bar has been raised. Millions of our citizens still lack access to the most basic services and sustainable livelihoods. The aim is not to alleviate poverty per se, but rather to eradicate it. We must accelerate delivery of basic services and at the same time rapidly stimulate broad-based economic development. We must deal with the spatial designs and environmental problems that make many townships unsafe and unlivable for their communities. The lessons of experience here in South Africa, and indeed in the region, reveal how difficult it can be to translate political will and resources into real development outcomes. It is clear that the lack of effective institutions and creativity is at the heart of the paradox we face.

Going forward, business as usual will not lead us to the common development goals that we and our various partners have committed ourselves to reaching in the medium and long term. It is important, therefore, that the Bank’s emerging Vision 2014 has placed renewed emphasis on innovation and capacity building, while adopting strategic flexibility in the interpretation of its mandate to enable it to respond creatively to key initiatives and complex challenges, in particular the imperatives of accelerated delivery, local economic development and regional integration. Greater outreach, an increased risk appetite, and strong, smart partnerships will be key in achieving greater development impact. I believe that there is significant scope to mobilise further the Development Bank’s considerable financial and knowledge resources and unlock the constraints that retard delivery, economic development and regional integration.

Our new consensus in South Africa, coupled with the New Partnership for Africa’s Development and the SADC Regional Indicative Strategic Development Plan present the Bank with a golden opportunity to rise to new heights of development activism and concerted action. I am confident that great things will be achieved in the decade ahead.

I would like to express my appreciation to the Bank’s Chairman, Jay Naidoo, the Board of Directors, the Chief Executive, Mandla Gantsho, and the entire cadre of development activists within the Bank for their dedication and commitment to the cause of sustainable development.

Extending energy provision to poor communities in the region has important socio-economic benefits

Board of Directors

Name and designation:	Dr Iraj Abedian (48) CEO and Chief Economist: Pan-African Advisory Services
Academic qualifications:	PhD (Economics), Simon Fraser University, Canada (1993) MA (Economics), University of Cape Town (1982) BA Hons, University of Cape Town (1980) BEcon, University of Tehran, Iran (1977)
DBSA Director as from:	1 August 2001

Name and designation:	Ms Lucienne Abrahams (43) Director: Link Centre, Wits Graduate School for Public and Development Management, University of the Witwatersrand
Academic qualifications:	Postgraduate Diploma in Public and Development Management, University of the Witwatersrand (1995) BSc (Chemistry), University of Cape Town (1983)
DBSA Director as from:	1 June 1995

Name and designation:	Prof. Brian de Lacy Figaji (59) Vice Chancellor: Peninsula Technikon
Academic qualifications:	MEduc (Administration, Planning and Social Policy), Harvard University (1989) Diploma in Tertiary Education, University of South Africa (1987) Graduate Diploma (Engineering), University of Cape Town (1985) BSc (Engineering), University of Cape Town (1972) BSc (Science), University of the Western Cape (1969)
DBSA Director as from:	1 August 1997

Name and designation:	Mr Mandla Sizwe Vulindlela Gantsho (42) Chief Executive Officer and Managing Director, DBSA
Academic qualifications:	MSc (Project Management), George Washington University (2002) CA (SA) (1987) BCom Hons (Financial Management), University of Cape Town (1986) CTA, University of Cape Town (1985) BCom (Accountancy), University of Transkei (1983)
DBSA staff member as from:	1 October 1995
DBSA Director as from:	1 February 2001

Name and designation: Ms Nomboniso Gasa (36)
Independent gender and policy analyst

Academic qualifications: Certificate in Women's Studies, University of the Western Cape (1996)
BA (Political Science), University of the Western Cape (1990)
Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1988)

DBSA Director as from: 1 August 2003

Name and designation: Dr Deenadayalen Konar (50)
Consultant

Academic qualifications: DCom, University of South Africa (1989)
MAS, University of Illinois (1981)
CA (SA) (1978)
Postgraduate Diploma in Accounting, University of Durban-Westville (1978)
BCom, University of Durban-Westville (1975)

DBSA Director as from: 1 August 2001 (co-opted to Audit Committee: 1 June 1995)

Name and designation: Mr Johannes Bhekumuzi Magwaza (62)
Retired

Academic qualifications: MA (Industrial Relations), Warwick University (1985)
BA (Psychology and Social Anthropology), University of Zululand (1966)

DBSA Director as from: 1 June 1995

Name and designation: Mr Jayaseelan Naidoo (49)
Director: J&J Group

DBSA Director as from: 1 May 2000

Chairman of the DBSA Board as from: 24 August 2000

Name and designation: Prof. Wiseman Lumkile Nkuhlu (60)
Chief Economic Advisor: President's Office and Chairman of the Steering Committee of NEPAD

Academic qualifications: MBA, New York University (1983)
CA (SA) (1976)
BCom, University of Fort Hare (1970)

DBSA Director as from: 1 July 1983

Name and designation: Mrs Hixonia Nyasulu (49)
Director: TH Nyasulu and Associates

Academic qualifications: International Programme for Board Members, IMD, Lausanne, Switzerland (1997)
Executive Leadership Programme, Cambridge, Massachusetts (1995)
BA Hons (Psychology), University of Zululand (1978)
BA (Social Work), University of Zululand (1976)

DBSA Director as from: 1 August 1997

Name and designation: Mr Ignatius Sehoole (44)
Executive President: South African Institute of Chartered Accountants

Academic qualifications: Diploma in General Management, Ashridge College, United Kingdom (1995)
CA (SA) (1991)
CTA, University of South Africa (1989)
BCompt Hons, University of South Africa (1988)
BCom, Vista University (1987)

DBSA Director as from: 1 August 2001

Name and designation: Mr Nkululeko Sowazi (41)
Executive Deputy Chairman: Tiso Capital (Pty) Ltd

Academic qualifications: MA (Urban and Regional Planning), University of California (1991)
BA, US International University (1989)

DBSA Director as from: 1 August 2001

Name and designation: Mr Zamindlela Titus (47)
Advisor to the Minister: Provincial and Local Government

Academic qualifications: LLB, University of Fort Hare (1980)
BJuris, University of Fort Hare (1977)

DBSA Director as from: 1 August 1997

Name and designation: Mr Madoda Vilakazi (40)
Corporate Services Manager: Qualifications Authority, Mining Qualifications

Academic qualifications: MBA, University of the Witwatersrand (2000)
Management Advancement Programme, University of the Witwatersrand (1997)
Industrial Relations Diploma, Damelin Institute (1994)
Certificate in Arbitration, Mediation and Conflict Resolution, IMMSA (1993)

DBSA Director as from: 1 August 2001

Board member during the year under review

Name and designation: Ms Maria da Conceicao das Neves Calha Ramos (45)
Chief Executive Officer: Transnet Limited

DBSA Director: 1 August 1997 to 30 September 2003

DBSA Corporate Secretariat
Dr Paul Kibuuka (Corporate Secretary)
P.O. Box 1234, Halfway House 1685

Chairman's report

The 2003/04 reporting process has been a special one for the Development Bank. We took stock not only of our performance during the year under review, but also of our historical performance. In particular, we looked at our contribution to development during the first ten years of democracy and freedom in South Africa. This longer-term review is a key theme of this year's Annual Report.

The year that has just passed proved to be a strong developmental one. The Bank enhanced its knowledge banking function substantially, and strengthened its partnership and advisory roles. In implementing its knowledge management strategy, the Bank set up a knowledge mobilisation centre and came closer to realising both the Vulindlela Training Academy and the Local Government Resource Centre, with its associated network, LGNet. The efforts of the DBSA Development Fund were also leveraged, helping the Fund to achieve record performance levels in financing and facilitating local capacity building. Overall, almost all of the Bank's targets in promoting sustainable development, learning and growth were met or exceeded, while all financial sustainability targets were met.

It was inspiring and refreshing to take an historical perspective on the Bank's performance and contribution over ten years. We appreciated the substantial contribution the Bank has made towards poverty reduction, economic growth, and regional integration and cooperation, as set out in the Annual Report. We realised how far the Bank has come in transforming itself from an agency of apartheid into a balanced, well-managed and strategically focused development finance institution, working intelligently with a variety of stakeholders, partners and allies across the public, private and international sectors.

At the same time, the ten-year review was humbling. We were made aware of how daunting the reconstruction, development and transformation programme remains, both in South Africa and the wider region.

In South Africa, although basic services have been delivered to several million additional people over the past decade, many more still suffer deprivation. Notably, in the two most populous provinces of the Eastern Cape and KwaZulu-Natal, nearly 40 per cent and 30 per cent of households respectively still lack access to basic water services. In the same two provinces access to basic electricity is just as desperate. This pattern of extensive deprivation has a strong rural character and is mirrored in several other provinces, notably Limpopo. The lack of basic services is also felt in many urban pockets across the rest of the country, some of them concentrated, others quite sizeable. It hardly needs to be said that a profound lack of economic opportunity - of livelihoods, jobs and assets - is experienced everywhere, and dramatically exacerbated by HIV/Aids, tuberculosis and malnutrition. In the rest of Southern Africa and virtually the whole of the continent the situation is similar; indeed, it is often worse.

Chairman
Mr Jayaseelan Naidoo

The Bank enters this second decade of democracy in South Africa sensitised to this challenging context, and charged with the same sense of urgency that President Thabo Mbeki expressed as he assumed his second term of office. Armed with its new Vision 2014, the Bank is determined to redouble its efforts, innovate further and build greater synergies with key stakeholders and partners.

The Bank's new vision and strategy will see it aligning its resources and capacities closely with the goals, priorities and timetables of government, as set out by the President. It will also be responding proactively to the imperatives, programmes and projects set out in both the SADC Regional Indicative Strategic Development Plan and the New Partnership for Africa's Development. In this respect, the Bank plans to gear up and expand its partnership and advisory roles in Africa south of the Sahara. However, its investor role will remain largely confined to the SADC, as it has been in the past, with the possible exception of strategic projects that, for instance, integrate Southern Africa with East and Central Africa.

The leading strategic thrust going forward will be to deepen and broaden development impact in the country, through new and expanded initiatives to accelerate the elimination of backlogs and stimulate local economic development. One such initiative, undertaken in partnership with similarly committed development institutions, will be the establishment and funding of a special intervention team, which will help to package and launch focused projects and programmes, and to turn around severely challenged municipalities. Another initiative will be a more proactive effort to blend municipal infrastructure grants, intergovernmental transfers and donor funds with the development finance and specialised knowledge and project management capabilities of the Bank.

Knowledge management and greater risk taking, with responsibility, will remain key thrusts, in order to engender innovation, synergy, organisational learning and entrepreneurial action beyond the boundaries of "business as usual". In the area of financing, the Bank will seek to introduce and scale up new products and services, such as the collateralised debt obligation instrument and bond guarantees. More broadly, it will seek to build and foster dynamic learning and action networks to promote productivity and creative new solutions to complex problems, such as those posed by unlivable human settlements. These efforts will be undertaken not only in partnership with the Development Fund and our emerging Vulindlela Training Academy, but also in collaboration with our sister development finance institutions, development agencies, and private sector and international development partners, such as the African Development Bank, the World Bank and the United Nations.

Smart partnerships are essential if the Bank is to realise its envisioned role as a leading change agent in the region, and if complex, multidimensional problems, such as poverty, inequality and HIV/Aids, are to be addressed meaningfully. The Bank will step up efforts to forge such partnerships, with the twin aim of harnessing the relative strengths of different partners in initiatives and projects, and of leveraging the meaningful participation of previously disadvantaged people in development and the economy, in line with public policy. The Bank will continue to leverage private investment in infrastructure and economic development; and to bridge institutional and agency weaknesses that obstruct or slow down the implementation of projects and programmes in which it has a comparative or developmental advantage.

The financial focus of our intermediation efforts will continue to fall on filling the gaps in domestic lending capabilities, especially of a longer-term nature, arising from undeveloped or underdeveloped capital markets and financial systems. We will also seek to maintain our favourable credit ratings and keep our business model efficient. This is important if the Bank is to position itself well to pass on cost-effective and favourable funding terms to its public sector clients. These clients face huge backlogs, difficult trade-offs and opportunity costs as they strive to accelerate service delivery, in a context where there are many poor people with diminished ability to pay for services. Providing affordable finance will be crucial in development projects that offer limited financial returns, but substantial positive externalities and development benefits.

The Bank remains firmly committed to the goals of the Growth and Development Summit, the government's black economic empowerment strategy, and NEPAD. We are excited by the many opportunities to play a meaningful role as a leading change agent and reliable strategic partner. The strong developmental results achieved this year were produced by dedicated efforts on the part of management and staff. I would like to thank and congratulate them on behalf of the Board. I am also grateful to my fellow Board members for their unfailing guidance and commitment to governing the Bank.

Jayaseelan Naidoo

Management and organisational structure

Executive

Name and designation:	Mr Jacob Henry de Villiers Botha (55) Executive Manager: Strategic Initiatives
Academic qualifications:	Pr Eng (1978) BSc (Eng) (Civil), University of Pretoria (1972)
DBSA staff member as from:	1 October 1988
Executive Manager as from:	1 October 1996

Name and designation:	Dr Snowy Joyce Khoza (46) Executive Manager: Knowledge Management
Academic qualifications:	Economics and Public Finance Certificate, University of South Africa (1999) PhD (Social Policy), Brandeis University, USA (1996) MA (Social Science), University of South Africa (1990) BA Hons (Social Work), University of Fort Hare (1986) BA (Social Work), University of the North (1981)
Executive Manager and DBSA staff member as from:	1 October 2002

Name and designation:	Mr Magare Luther Mashaba (52) Executive Manager: South Africa Operations[1]
Academic qualifications:	MSc (Ag. Econ), Michigan State University (1993) BSc Hons (Ag. Econ), University of Pretoria (1986) BSc (Ag. Econ), University of Fort Hare (1981)
DBSA staff member as from:	14 January 1985
Executive Manager as from:	1 September 2001

Name and designation:	Ms Zanele Joyce Matlala (41) Chief Financial Officer[2]
Academic qualifications:	Advanced Management Programme, Insead (2002) CA (SA) (1997) BCompt Hons, University of South Africa (1996) BCom (Accountancy), University of South Africa (1993)
Executive Manager and DBSA staff member as from:	1 January 2002

Name and designation:	Ms Disebo Moephuli (40) Executive Manager: Treasury[3]
Academic qualifications:	MBA (Finance), Dalhousie University, Nova Scotia, Canada (1996) BA (Economics), National University of Lesotho (1986)
DBSA staff member as from:	1 April 2000
Executive Manager as from:	1 June 2004

Name and designation:	Mr Lewis Maxwell Musasike (43) Executive Manager: Private Sector and International Investments[4]
Academic qualifications:	MBA, University of Warwick (1995) AMCT (UK) (1995) ACMA (CIMA-UK) (1987) CA (Zimbabwe) (1985) BAcc Hons, University of Zimbabwe (1982)
DBSA staff member as from:	1 April 1998
Executive Manager as from:	1 October 2001

Development Fund

Name and designation:	Ms Jeanette Nhlapo (33) Chief Operating Officer: Development Fund[5]
Academic qualifications:	BA Hons (Social Sciences), University of South Africa (1996)
DBSA staff member as from:	18 December 2000
Executive Manager (Acting):	1 March 2003 to 31 May 2004
Chief Operating Officer as from:	1 June 2004

Executive Manager during the year under review

Name and designation:	Mr Abdul-Kader Mohamed (35) Executive Manager: Corporate Finance and Administration
Academic qualifications:	Advanced Management Programme, Oxford University (2003) CA (SA) (1994) Postgraduate Diploma in Accountancy, University of Cape Town (1991) BCom, University of Cape Town (1990)
Executive Manager:	1 May 2003 to 30 June 2004

1. As from 1 June 2004; previously Jeanette Nhlapo.
2. As from 1 June 2004; previously Abdul-Kader Mohamed.
3. As from 1 June 2004; previously Lewis Musasike.
4. As from 1 June 2004; previously Joyce Matlala.
5. As from 1 June 2004; previously Luther Mashaba.

Organisational structure

- **Board of Directors**
  - **Chief Executive Officer and Managing Director**
    Mandla Gantsho
    - Africa Partnerships – Bane Maleke
    - Corporate Secretariat – Paul Kibuuka
    - Corporate Strategy – Admassu Tadesse[2]
    - Internal Audit – Norman Weitz
    - Manager: Office of the CEO – Greg White
    - **Development Fund – Jeanette Nhlapo[1]**
    - **Corporate Finance and Administration – Joyce Matlala[3]**
      - Contracts Administration – Cynthia Anthony-Maistry
      - Financial Management – Leonie van Lelyveld[2]
      - Information Technology – Graham Tate
      - Legal Services – Pule Mokhobo
      - Procurement Administration and Facilities Management – Tom Snyman
      - Risk Management – Sonwabo Mateyisi (A)[4]
    - **Knowledge Management – Snowy Khoza**
      - Development Information – David Viljoen
      - Employment Equity – Mamathe Kgarimetsa-Phiri
      - Human Resources – Loyiso Pityana
      - Operations Evaluation – James Ndlovu
      - Policy – Janine Thorne
      - Specialists – Grace Rapholo
      - Training – Makgoshi Sindane
    - **Private Sector and International Investments – Lewis Musasike[1]**
      - Corporate Finance – Frencel Gillion
      - International Finance – Tladi Ramushu
      - Project Finance: South Africa – Phuti Malabie
    - **South Africa Operations – Luther Mashaba[1]**
      - Eastern Cape – Oupa Mokuena
      - Gauteng, Free State and North West – Bethuel Netshiswinzhe
      - Limpopo – Pumla Mannya
      - Mpumalanga and KwaZulu-Natal – Tladi Ditshego
      - Operations and Credit Administration – Landiwe Mahlangu
      - Structured Finance – Andrew Lorking[2]
      - Western and Northern Cape – Dennis Thabaneng
      - Workout – Bruce Berry (A)
    - **Strategic Initiatives – De Villiers Botha**
      - Agencies – Christina Golino
      - Change Management – Enoch Gxwala
      - Corporate Communications and Marketing – Nonnie Letsholo
      - Strategic Projects (Project Office) – Alta Theron
    - **Treasury – Disebo Moephuli[1]**
      - Deputy Treasurer – Vacant[5]
      - Head: Treasury Operations – Farzana Amod

Changes after 31 March 2004:

1. *As from 1 June 2004.*
2. *As from 1 April 2004.*
3. *As from 1 June 2004; previously A-K Mohamed.*
4. *As from 1 May 2004; previously Precious Sibiya.*
5. *Disebo Moephuli until 31 May 2004.*

Managing Director's report

The past year marked the dawning of a new era for the Development Bank. The year started on a high note, with the Bank achieving unprecedented business and development impact results during 2002/03. The year also marked the twentieth anniversary of the Bank's existence, and the beginning of its tenth year as a contributor to sustainable development in a democratic South Africa and as a credible development finance institution in the broader SADC region.

Managing Director
Mr Mandla Gantsho

Looking back over a decade of democracy, the Development Bank can be proud of its contribution. Of the total disbursements it has made in its 20 years of existence, 80 per cent have been made during the past ten years. The R23 billion disbursed on development projects between 1994 and 2004 has resulted in a contribution to GDP of R17,7 billion and the creation of more than 92 000 jobs. In 1996, the Bank's mandate was expanded to include all member countries of the SADC. Since then the SADC lending and investment portfolio (excluding South Africa) has grown to reach R8,3 billion in 2004.

Over the past decade, the Bank has been transformed into a vibrant and dynamic development finance institution, one that increasingly reflects the demographic composition of South Africa and has a rich human capital base. The 2003/04 period was the final year of implementation of the Bank's five-year Vision 2004 "Quantum Leap" strategy. This envisioned the Bank becoming "a leading change agent for socio-economic development in Southern Africa" by 2004. I believe that we have made great strides towards achieving this goal.

In line with the new vision, a range of strategic objectives were introduced in 2001, and then reinforced in 2002 by five strategic thrusts – all of which were programmed into a medium-term planning and performance framework. The key strategic thrusts were knowledge management, smart partnerships, innovation, responsible risk taking and management, and performance recognition and reward. Key strategic objectives were to grow the Bank's lending and investment portfolio, and optimise the developmental benefits of its interventions, while maintaining sound financial health.

An early midterm review of Vision 2004 led to the realisation that the strategic vision needed a boost, in view of mounting backlogs and the slow pace of delivery. This resulted in the adoption of a Quantum Leap strategy in 2001 to intensify the Bank's various developmental functions, notably its capacity building and financial intermediation functions. In 2003, the vision received a further boost with the adoption of the "hotspots" initiative, which sought to intensify the Bank's partner and advisor role in two particularly poor and under-capacitated South African provinces.

The implementation of Vision 2004 and the Quantum Leap resulted in the doubling of disbursements and massive grant allocations for local capacity building. The Bank has also developed a knowledge management strategy to mobilise, disseminate and transfer knowledge to its clients and partners.

As far as business performance is concerned, disbursements on development loans and investments, a key indicator of progress in the physical implementation of development projects, did not meet targets. Disbursements of R2,8 billion were made – 24 per cent below the 2002/03 levels and 22 per cent below the target for the year. This is partly attributable to the cyclical nature of the Bank's business, but also to increased private sector financing of municipal infrastructure, which is a highly encouraging development. Another factor that contributed to lower than expected disbursements was the Bank's sharpened focus on its core infrastructure financing mandate, which led to the relinquishing of certain projects that were viewed as being on the boundaries of the mandate. Also significant was the strengthening of the rand, which made the R/US$ exchange rate less favourable for the Bank and resulted in a 40 per cent drop in the rand value of approvals to the SADC.

Likewise, new project approvals of R3,3 billion were 13 per cent lower than the target and the levels of 2002/03. The same factors mentioned above impacted negatively on the value of approvals in the SADC, while on a positive note a higher approval level was achieved within South Africa. The Bank's performance during 2003/04 is expected to result in the creation of 24 700 jobs, a contribution to GDP of R4,3 billion, as well as a contribution to the earnings of low-income households of R600 million. These are substantially lower than the previous financial year, mainly as a result of the absence of large co-funder partners during the year under review. However, this is cyclical in nature and the figures should increase in the coming year.

The Bank's development impact and outreach have been enhanced by the establishment of the DBSA Development Fund, which is now fully operational. The Fund exceeded all key business and development impact targets in 2003/04. Project approvals for capacity building initiatives during the year were R153 million, and disbursements of R37 million exceeded target by 123 per cent. While sustainable capacity building initiatives are by definition long-term processes, these early results are encouraging – one rural municipality that received support from the Development Fund is currently in negotiation with the Bank regarding a loan financing facility.

In order to enhance the Bank's outreach further, dedicated Business Units were established during 2003 to service the "hotspot" provinces of the Eastern Cape and Limpopo. These Units have contributed significantly to the Development Fund's capacity building programmes in the "hotspots", and to growing the lending portfolio of the Bank in these provinces, with project approvals of R274 million in 2003/04.

The Bank's support for development in the SADC region and beyond continued to gain momentum during 2003/04. While the investment focus of the Bank remains within the SADC, in 2002 the Board approved a strategic framework for the Bank's engagement with the continent-wide NEPAD initiative, which focuses on advocacy, policy support and resource mobilisation. A dedicated Africa Partnerships Unit was established in 2003 to support the implementation of this strategy.

Highlights of the year included the establishment of a joint R25 million Project Preparation Facility for NEPAD projects in partnership with the French Development Agency, Agence Française de Développement. In November 2003, a Development Report titled *Financing Africa's Development: Enhancing the role of private finance* was published in partnership with the NEPAD Secretariat. As a knowledge product, this represents ground-breaking research and analysis on the potential for private investment to act as a catalyst in realising the huge development potential of the African continent on a sustainable and equitable basis.

The Endumeni Municipality infrastructure development programme, KwaZulu-Natal

The knowledge management focus of the Bank, which is a key value-adding component of its development banking role, was significantly sharpened during the year. Cooperation agreements were concluded with five universities on issues such as research, staff exchange and curriculum development.

The Bank's Board of Directors approved the establishment of a Training Academy, and good progress was made with the initial planning and preparation phases.

The year also saw the launch of the LGNet project, which provides Internet connectivity to municipalities. The pilot project involved some 22 municipalities of different sizes and levels of sophistication, and more than 50 are now participating. LGNet will form the infrastructure backbone of the Local Government Resource Centre, a virtual private network that will provide online access to information, training and other vital knowledge resources.

The Vuna Awards, held in partnership with the Department of Provincial and Local Government, the National Productivity Institute and the South African Local Government Association, were launched and implemented during the year. These awards recognise the achievements of municipalities in attaining excellence in service delivery, productivity and efficiency.

The financial health and performance of the Development Bank remain sound. It has maintained its premier domestic credit ratings, and investment grade international ratings, on par with the sovereign ratings. This financial strength enables it to mobilise resources on domestic and international capital markets and from international finance institutions on highly competitive terms, to the benefit of its clients and beneficiaries.

Looking ahead, the Bank faces growing challenges. The Board of Directors has approved a "Vision 2014" strategic framework, which provides a roadmap for the forthcoming decade. In essence, this envisions an empowered and integrated region free of poverty, inequity and dependency. Towards this end, the Bank will be a leading change agent for socio-economic development and economic integration in Southern Africa, and a strategic development partner to the wider Africa region, south of the Sahara. If South Africa's transformation agenda is to be achieved, if the goals of both NEPAD and the Millennium Summit are to be reached, the region has to grow out of pervasive poverty, which means investing in human, physical and social capital. Without such investment, the additional jobs, tax revenues and basic services needed to help uplift the poor will not materialise. Also required is improved international development assistance that reverses the net outflow of resources from the region, through a combination of debt forgiveness, grant aid and new investment, plus a reversal of the HIV/Aids pandemic, which is closely linked with poverty.

In respect of the Bank's investment focus, Vision 2014 envisages increased emphasis on development impact and on clients whose access to financial markets is constrained as a result of capacity and affordability issues. The challenge is compounded by the need to maintain the financial integrity of the Bank and its ability to intermediate favourable financial terms on domestic and international financial markets, on an ongoing basis, for both public and private sector clients.

I would like to thank the Chairman of the Board, Mr Jayaseelan Naidoo, and fellow Board members for their unstinting support during what has been a challenging year. I am deeply appreciative of the guidance provided by the Governor and Shareholder representative, Minister Trevor Manuel.

The Bank's most important asset is its human capital base, those "development activists" who give tangible effect to its vision and mission. My sincere thanks go to all who have contributed so enthusiastically to the Bank's achievements. I look forward to your contribution to our goal of "a better life for all" in the year ahead.

Mandla Gantsho

South Africa Operations

Executive Manager: Jeanette Nhlapo[1]

The South Africa Operations Cluster is structured geographically, with dedicated operational Units responsible for delivering products and services in the nine provinces. The Units in the Cluster focus on providing financial and technical assistance for public sector infrastructure development. The Cluster's projects mainly involve the financing of infrastructure services programmes through its lending operations and the provision of advisory and other technical services to support the design and implementation of integrated local development plans. Besides supporting its core mandate, which is to finance infrastructure, the Cluster's initiatives also help to build development capacity, spearhead the gathering of development intelligence, and facilitate dialogue and policy debate. The Cluster makes knowledge interventions in conjunction with or in support of other Clusters in the Bank, such as Knowledge Management. It also supports the DBSA Development Fund, for which it provides staff in respect of capacity building services.

Lending for the provision of infrastructure services

Over the past year, the Cluster continued to provide technical and financial support to a wide range of municipalities, parastatals, utilities and other clients in all nine provinces. In accordance with the Bank's operational strategy, a larger number of relatively smaller infrastructure projects were funded compared to previous years, so as to increase the development impact of the lending operations. The broadening of the municipal client base was made possible by the acceleration of technical assistance provided by the DBSA Development Fund in the last two years. This assistance was specifically aimed at addressing the capacity building and planning needs of the smaller municipalities. The Cluster maintained its support to the larger municipalities and utilities, providing financial and technical services to address the development challenges faced by the metro municipalities. Important breakthroughs were also made in promoting investment deals in which public and private sector cooperation is a priority; and in assisting intermediaries such as development corporations and water boards to address large-scale infrastructure needs in rural areas.

Increasing support for economic infrastructure in areas lacking development

The Bank embarked on a special initiative to expand its support for the development of various economic sectors, especially in the targeted provinces of the Eastern Cape and Limpopo. Over the past year, there was an increased level of technical and financial assistance in these provinces, aimed at stimulating the development of economic infrastructure in sectors such as commerce, tourism and agriculture. Importantly, there was increased cooperation from and involvement by the private sector in these more rural areas. Progress was also made, in conjunction with the provincial governments and the Development Fund, in laying a sound institutional foundation at the programme level.

Rendering technical assistance and customer services

Within South Africa, the technical assistance rendered by the Cluster focused largely on the implementation of local economic plans. Projects included the provision of technical assistance for feasibility and viability studies in support of economic development initiatives, new business ventures and black economic empowerment deals.

The Bank applied several instruments to increase the financial sustainability of municipalities. These included the restructuring of historical debt with the Local Authorities Loans Fund and the Development Bank itself, and the financing of balance sheet restructuring.

Mobilising and leveraging resources through partnerships

The Cluster continued to expand its role as mobiliser and facilitator by establishing partnerships. It strengthened its relationships with provincial governments, and entered into memoranda of understanding with most of the provincial authorities and national government partners. A key thrust

1. Luther Mashaba as from 1 June 2004.

is to become more programme-oriented in the delivery of integrated solutions for urban and rural development.

Facilitating development and support to other Clusters in the Bank

The Cluster actively supported the Bank's knowledge interventions and other strategic initiatives. Of particular importance was support for the Local Government Resource Centre and LGNet. When it is fully operational, this system will be of great help to municipalities, the government, and the Bank itself in identifying and addressing development needs and constraints.

Supporting clients in distress

The municipal landscape has undergone tremendous change during the past five years, and many municipalities are facing severe developmental problems as a result. The Cluster provides special assistance to municipalities and other clients experiencing capacity difficulties, using a variety of support mechanisms to help them normalise their affairs. By strengthening the capacity of municipalities to manage their affairs sustainably, the Bank also protects its asset base and minimises write-offs. Increasingly, the Cluster's support is channelled through management teams appointed by provinces to provide critical care to municipalities in distress. This level of cooperation is a positive step towards coordinating public sector activities at the municipal level.

Securing access to the capital markets for municipalities

While municipalities can be assisted to some extent through debt financing and the national government's equitable share, these alone cannot meet the backlog in infrastructure. The next available source of finance should be the capital markets.

Institutional investors in South Africa are wary of municipal debt. An understanding of this asset class has been clouded by recent changes in the laws and regulations pertaining to municipalities. The Bank has recognised the need to play a catalytic role in developing the capital markets as an alternative source of capital for municipalities.

To this end, the Bank initiated two major interventions during the year under review, both of which should be completed in the current financial year: a partial guarantee for a municipal bond issue and a collateralised debt obligation.

Partial guarantee
This transaction will have the effect of enabling a municipality to issue a bond at a credit rating three notches above its own balance-sheet credit rating. A wider range of investors will be attracted to such an issue and so the municipality will be able to raise longer-term unsecured funding (ten years and more) in the capital markets.

Collateralised debt obligation
A collateralised debt obligation (CDO) is the securitisation of a debt portfolio into a separate securitisation vehicle, which issues structured notes to institutional investors in the capital markets.

A CDO is an optimal means for investors to gain exposure to municipal debt without the perceived difficulties of direct investment in individual municipalities. It resolves a

Roads in the Pilanesberg National Park, North West problem peculiar to South Africa at present, which is that investors in the capital markets have no credit exposure to municipalities and are therefore unfamiliar with municipal credit as an asset class.

The CDO is a structured investment, with investors being exposed to a portfolio of municipal credits. Investors will gain comfort from the fact that all the credits in the portfolio have been analysed and approved by the Bank.

Both the Bank and the rating agency reduce the burden on investors of having to develop all the necessary credit skills before investing in municipal debt. These skills will develop over time, as investors come to recognise the asset and the different municipalities in the CDO. The CDO is thus part of a process of developing an efficient capital market in municipal debt. It is a starting point, the first of a number of structured financial transactions in this sphere.

Prospects for the coming year

The Bank has entered into an agreement with the National Department of Education to render technical and financial assistance in the transformation of the higher education sector. Support for this sector is therefore expected to increase in coming years. During the past year, the Bank consulted with a number of provinces on how it can assist with upgrading primary and secondary education facilities.

The lead-up to the national municipal elections in 2005 has already started and will have a twofold impact on the Cluster in the coming year. On the one hand, there will be more requests for support to enable municipalities to deliver on priorities, associated with tight timelines and huge community expectations; on the other hand, capacity for planning, decision-making and delivery will increasingly be stretched as councillors gear up for the election. This will place special demands on the Cluster to provide appropriate support.

The national government has reaffirmed its commitment to alleviating infrastructure backlogs at the municipal level, and huge amounts of funding for development programmes will be transferred to municipalities whose capacities are already strained. The Cluster sees this as a challenge, as an opportunity to support capacity building in these municipalities and enter into funding partnerships aligned with national, provincial and municipal priorities. Close alignment with government on these priorities will be crucial in the year ahead.

Cities that will be hosting soccer World Cup events are likely to accelerate their development programmes. The Cluster is ready to support demands in this area.

Private Sector and International Investments

Executive Manager: Joyce Matlala[2]

The Cluster was restructured towards the end of the previous financial year in order to bring more focus to its three main markets, namely, public and private sectors in the SADC, private sector project finance in South Africa, and black economic empowerment initiatives in South Africa. The 2003/04 period was therefore one of refocusing and consolidation.

Lending support and advice

In all its investment support, the Cluster tries to strike a balance between development impact and financial sustainability. In the year under review, it therefore applied sound risk management principles to ensure that its development support was of a long-term nature.

A range of support services and advice was offered to various institutions. This included technical assistance grants that enabled clients to undertake feasibility studies in preparing business cases. For instance, a technical assistance grant was provided to South African Disability Investment Holdings for preparing a private investment project. Through its Treasury Unit, the Bank also advised on the pricing of the Lunsemfwa Hydro Power Company bond issue in Zambia.

Partnerships

The Cluster will continue to promote partnerships as a way of building its clients' capacity to the levels needed to achieve sustainable development and eradicate poverty. The Cluster has also successfully mobilised resources for co-funding with institutions such as Norsad on various projects, such as the Industrial Credit Company (Zambia), Golden Tulip Hotel (Tanzania) and Loita Investment Company (Malawi). Norsad, a development finance institution focusing on private sector investments, is a joint venture between certain SADC and Nordic countries.

The Business Units

The reconstituted Cluster comprises three Business Units: International Finance, Project Finance South Africa and Corporate Finance.

International Finance

The Southern African region is rich in human and natural resources. However, as single markets, individual countries are ill-equipped to take advantage of the benefits of

2. Lewis Musasike as from 1 June 2004.

globalisation. Regional economic integration is therefore seen as a key to attracting the international trade and foreign investments required to grow local economies and eradicate poverty.

Accordingly, the role of the International Finance Unit is to fund the development, rehabilitation and expansion of economic infrastructure projects, which are instrumental in supporting economic integration within the SADC. The assessed needs of individual countries and the region as a whole guide this activity. There is also close liaison with the Africa Partnerships Unit on business development and the implementation of NEPAD strategies.

One of the highlights of the year was the signing of a long-term loan funding arrangement for the gas pipeline from Mozambique to South Africa, a project sponsored by Sasol. For the first time, the Bank participated in the project bond issue in Zambia in support of the Lunsemfwa Hydro Power Company's privatisation and rehabilitation project. In addition, the Bank approved the first investment loan in Angola for a credit line of US$30 million to Banco de Poupança e Crédito.

The major challenges of doing business in the region are political and economic instability, the small economies of some SADC member countries, and the overall constraints on governments when it comes to implementing large infrastructure projects. However, the prospects for providing much-needed basic infrastructure are improving, with the trend in the region towards growing political stability, trade and economic liberalisation, and greater involvement and support from multilateral agencies such as the World Bank, the European Investment Bank and the African Development Bank.

Project Finance South Africa

The Project Finance Unit focuses on financing bulk economic infrastructure with the aim of maximising private investment. This is facilitated through limited recourse financing, public-private partnerships and, where possible, co-financing with other commercial banks and development finance institutions.

Two highlights in the period under review can be mentioned. Firstly, the Bank invested in a unique urban renewal initiative in Khayelitsha, structured as a public-private partnership and aimed at expanding public infrastructure services. Secondly, a R125 million loan was provided to the Roodeplaat Temba Water Services Trust, representing 25 per cent of the total funding. The Trust was established as a public-public partnership, and the goal is to design, finance, construct, maintain and operate two water treatment facilities in the north of the Tshwane Metropolitan Municipality.

South Africa's huge infrastructure backlogs pose many challenges. Among these are the length of time it takes for projects to be prepared for financing, the lack of sponsors with robust balance sheets, and the competition resulting from South Africa's well-developed capital markets.

Corporate Finance

The Cluster regards broad-based black economic empowerment as a crucial means of meaningfully transforming South Africa's economy. The Corporate Finance Unit facilitates black economic empowerment, in the form of equity ownership and operational management, by providing debt, equity and other financial instruments. It also invests in private equity funds managed by third parties.

The highlight of the year was the provision of R60 million in debt financing to an empowerment group, which enabled it to acquire from its foreign partner the remaining 40 per cent share in Evertrade Medical Waste Manufacturing (Pty) Ltd. The group thus obtained 100 per cent control over a world-class medical waste bin manufacturing facility, backed by an off-take agreement with the foreign partner.

Black economic empowerment has become a fundamental national imperative, and the Unit will be required to align itself with national needs if it is to contribute meaningfully towards empowerment transactions. The major drivers of black economic empowerment transactions are the transformation charters adopted by various industries. The Corporate Finance Unit has developed a black economic empowerment financing framework that will guide the Bank's interventions in this regard.

Prospects for the coming year

The Cluster aims to expand its role in promoting economic growth and development in the SADC by investing in key economic sectors and facilitating regional integration. Its focus will be on diversifying the loan portfolio, both geographically and sectorally. The improving political climate in Angola and renewed hope for peace in the Democratic Republic of Congo, where there are major potential investment opportunities in all sectors, should reinforce this strategy. Finally, the Cluster will promote and support black economic empowerment transactions as a national priority.

Agency services[3]

The Development Bank, being acutely aware of the capacity constraints on implementing and managing development projects, has established an agency services programme to assist local and international development and funding agencies. Agency Services acts on behalf of these bodies in planning, programming and implementing development initiatives. Such assistance is usually rendered in South and Southern Africa, but also elsewhere on the continent for certain initiatives related to NEPAD. The Bank is currently involved in 25 agency projects, which are diverse in nature (details of these are contained in the Addendum). The services rendered range from simple management and administration of funding to the provision of comprehensive project management, as in the case of the voluntary aids counselling and testing facilities funded by KfW.

In support of this work, the Bank provides its extensive corporate infrastructure and development knowledge base; and, as far as good corporate governance is concerned, its policies and procedures.

The services offered are flexible and include the following:

- Policy research and development
- Studies and appraisals
- Planning and programming
- Programme and project management
- Funding and disbursements management
- Budgeting, accounting and treasury services
- Logistics, procurement and contracting services
- Corporate services, such as human resources management

The Bank charges a fee ranging from about 2 to 10 per cent, depending on the nature of the services rendered. The fees and recovery of costs charges are not standardised and are usually negotiated according to the unique requirements of each project.

3. Executive Manager: De Villiers Botha

Kathu infrastructure development project, Northern Cape

Treasury

Executive Manager: Lewis Musasike[4]

In 2003/04, the Treasury Cluster continued to provide the Bank with critical support in its drive to maximise its development impact and ensure financial sustainability. The Treasury sought to:

- Optimise the terms and conditions of funding
- Identify, monitor and manage financial risk, as well as counterparty credit risk and operational risks associated with its investment and funding activities
- Maintain and improve the creditworthiness of the Bank and ensure that it is adequately capitalised
- Provide a total solution to the other Clusters and external clients
- Maintain sound investor and banking relationships
- Perform asset and liability management functions prudently

The Treasury made a number of strides in its operations, including the approval of the following key policies by the Audit and Finance Committee:

- Liquidity risk policy
- Asset and liability management policy
- Credit risk policy
- Funding policy
- New instruments policy
- Corporate paper investment

One of the challenges faced by the Treasury in the past year was to establish the Cluster as a profit centre. Projects that received attention and are still ongoing include:

- Business process mapping and analysis to facilitate the implementation of a Treasury management and asset and liability management system
- Implementation of transfer pricing and capital allocation
- Restructuring of Treasury operations to enhance control on the operational risks front and to strengthen skills transfer among staff
- Broadening of the Bank's revenue base

Market conditions

The environment in which the Treasury operated in the past year was characterised by volatility in interest and exchange rates, increased competition in the field of development finance, and the growing sophistication of borrowers. Treasury also ensured a smooth transition as regards compliance with Accounting Statement AC133.

Short-term interest rates in South Africa declined by 550 basis points as domestic inflation pressures subsided. By the end of 2003 the CPIX, targeted by the South African Reserve Bank, experienced the lowest annual increase in 44 years of 4,1 per cent and the prime lending rate was at a 22-year low of 11,5 per cent. The period under review was characterised by the strong performance of the rand against most other currencies, largely as a result of the weakening of the US dollar in response to, among other things, the huge fiscal and current account deficits in the United States. The rand strengthened from R8,19 to the US dollar on 28 May 2003, to R6,30 to the US dollar on 31 March 2004. The prudent monetary and fiscal policies of government translated into the tightening of yields on high credit quality bonds. The government long-term R153 bond also declined from 10,29 per cent on 9 April 2003 to a low of 8,73 per cent on 29 October 2003, before ending the financial year on a higher level of 9,52 per cent.

Overview of operations

Funds mobilisation

During the year, the Treasury mobilised funds in the domestic capital market and also from bilateral and multilateral sources. The Bank's funding is underpinned by the following:

- Improving terms and conditions for sustainable development impact
- Diversifying sources of funding and funding instruments
- Matching assets and liabilities prudently
- Complying with the debt to equity policy of 250 per cent

The Bank raised R648 million in long-term funding from international bilateral or multilateral institutions. The bulk of this funding was earmarked for US$-based projects in the SADC. The capital market funding comprised the R500 million 20-year bond (DV23), which was issued under the R5 billion Domestic Medium Term Note programme. It was issued at an "all-in" cost fixed rate of 9,87 per cent. Of the R3,6 billion approved under the borrowing programme, the Bank has used R1,23 billion, which amounts to 34 per cent of the budgeted figure. The low level of funding was mainly due to the slow rate of disbursements as well as increased repayments of loans.

4. Disebo Moephuli as from 1 June 2004.

Following the implementation of the borrowing programme, total outstanding debt as at 31 March 2004 stood at R12,4 billion, resulting in a debt to equity ratio of 91,93 per cent.

Asset and liability management

The Asset and Liability Management Committee was established during the year. It reports to the Audit and Finance Committee of the Board. The establishment of the Management Committee has considerably strengthened the existing asset and liability management in Treasury.

During the period under review, the Audit and Finance Committee approved the following strategic documents:

- Credit limits review
- Restructuring of the R150 bond portfolio
- Establishment and driving of the Asset and Liability Management Committee process

A fair match was achieved between maturities, the currency and interest rate bases of development loans, and the Bank's liabilities. The average weighted maturities of development loans and liabilities were about 11 and 13 years, respectively. In a period of declining interest rates, Treasury reduced the Bank's positive interest rate gap through the use of interest rate derivatives.

Investment and liquidity management

In the year under review, the average liquidity amounted to about R2,16 billion, including the funds managed by external fund managers. At the end of March 2004, liquidity levels were above the upper bound limit of 30 per cent of undisbursed loan commitments, in anticipation of accelerated loan disbursements projected for the first half of the new financial year. A new liquidity risk policy was adopted by the Asset and Liability Management Committee and will become operational in the new financial year.

During the year, the Board approved the restructuring of the Bank's portfolio of R3,36 billion nominal of R150 government bonds. This was necessitated by the imminent maturity of a third of the R150 issue. In order to contain the reinvestment risk, Treasury embarked on a strategy of switching a portion of the R150 portfolio into longer-dated, liquid government bonds, most notably the R194 (2008), R153 (2010) and R157 (2015) issues.

Total investment income for the year (excluding interest income on R150 bonds) amounted to R253 million, compared to R190 million earned in 2003. Investment income on the R150 bonds amounted to R415 million.

Credit ratings

The rating agencies Fitch, Moody's Investors Service, and Standard and Poor's reaffirmed the Bank's investment grade ratings. These investment grade credit ratings enabled the Bank to raise funds efficiently and cost-effectively, and to raise its profile in international capital markets. In the past two years, Treasury has embarked on various non-deal roadshows, with the primary objective of introducing the Bank's credit to international capital markets in the United States, Europe, Asia and the Middle East. These roadshows enabled Treasury to gauge the appetite and particular interests of international investors with respect to the tenor, structure and nominal size of debt issues.

Loan products and financial instruments

During the year, Treasury developed or assisted in the development of the following products and instruments:

- The establishment of a development credit facility to be used with the grant facility of the DBSA Development Fund. This facility was developed to assist clients who do not have the ability to access and service normal Development Bank or other loans
- Treasury and the South Africa Operations Cluster made progress on implementing the collateralised debt obligation structure. The objective is to facilitate the access of municipalities to capital markets
- Treasury also facilitated and participated in the City of Johannesburg bond issue

Given the Bank's limited balance sheet, the huge development challenges it faces, especially in the SADC, once again underlined its triple role as financier, advisor and partner. By the same token, some of the direct loans had to be complemented by other income-generating products, namely, arranging, underwriting, syndication, asset-backed securities and credit enhancements.

The Bank offers fixed and floating rate loans, as well as prime-linked loans. It also offers equity, quasi-equity and guarantees. These products can be denominated in rand, euro or US dollar.

Corporate Finance and Administration

Executive Manager: A-K Mohamed[5]

Overview of operations

Financial Management

The Financial Management Unit focuses on designing, maintaining and implementing sound financial policy controls and systems, and on ensuring full compliance with accounting and regulatory requirements. Its main functions are financial accounting, financial reporting to management and stakeholders, and controlling the Bank's budget.

In the coming year, the Unit will focus on gearing itself to support the Vision 2014 objectives, improving the efficiency of its service delivery and promoting greater

5. Joyce Matlala as from 1 June 2004.

awareness of the principles and practices of financial discipline and control.

Contracts Administration
This Unit is tasked with administering, controlling and reporting on the financial affairs of the agencies and the loan assets of the Bank. Needs and opportunities for improvement are identified within different areas of responsibility, with the aim of minimising the risk to the Bank.

The Unit's primary responsibility is to ensure that the disbursements made and repayments received are in accordance with the approved loan agreements.

Achievements in the year under review included:

- Adopting AC133 in the accounting of loan impairments
- Capturing of financial records of all agencies on the ACCPAC system
- Revising and updating all client names affected by demarcation changes

Information Technology
This year the Information Technology Unit focused on shifting the information contained in the Bank's information systems onto a platform that supports decision-making, and on preparing and implementing the Local Government Resource Centre portal and LGNet.

A virtual data warehouse has been set up. All information from the Bank's transactional information systems is now fed into the warehouse, where it constitutes a single, common source of information to feed the various decision-making systems. The business intelligence system was also implemented and executive dashboards were installed for the executive managers, displaying strategic, context-sensitive information in real time. The warehouse allowed the Unit to proceed with the financial management reporting system, which will be extended to include budgeting in the new year.

The LGNet rollout has been slow because of the lengthy consultative process required to get stakeholders at different levels to buy into the system. In the first half of the financial year, a pilot project that demonstrated the capabilities of the technology was successfully completed, and involved 22 municipalities. To date some 50 sites have been connected, and a growing stream of applications is coming in as a result of marketing efforts over the past year. The services offered to local authorities include e-mail, Internet access, collaboration/instant messaging, and of course access to the Local Government Resource Centre portal. Another exciting development is the establishment on LGNet of a national geographic information system (GIS) to serve local government. This service, which will consolidate the layers of GIS information derived from various sources for use by municipalities, is currently being piloted with eight LGNet users and the Council for Scientific and Industrial Research (CSIR).

A new addition is a GIS service, offered in collaboration with other GIS stakeholders. This will give municipalities access to the national library of current GIS information, which means that in future they will only be required to maintain their local data. The service is being piloted with six local authorities that already have GIS capabilities, and it is expected to gather momentum once aerial photographs and satellite images have been incorporated into the offering.

Risk Management
This Unit coordinates the implementation of the Bank's enterprise-wide risk management framework. It is required to develop and refine risk management policies, procedures and methodologies, review risk exposures and report to the Board on risk-related matters. Importantly, it is required to provide an independent and objective opinion on risks arising from loan applications.

In the past year, the Unit continued to support the Bank in managing its significant risk exposures. Risk reports provided to the Board of Directors and the Board's Audit and Credit Committees helped those bodies to meet their risk management responsibilities.

Further progress was made in implementing the enterprise-wide risk management framework. The consultancy assignment regarding the risk strategy and capital-at-risk methodology was concluded, although work is still required to institutionalise the strategy and methodology in the Bank's processes.

Particular attention was paid to upgrading the Bank's business continuity plan to ensure that all mission-critical functions are covered. The Bank's internally developed credit rating methodologies were also validated by an external credit rating agency.

The Bank's limit structures were reviewed and a limit for investment in equity/quasi-equity was introduced. Country limits were revised following a thorough review of the economic, political and legal frameworks of each country.

The Risk Management Unit continued to provide clients with risk management training during the past year. An introductory training manual was developed and will provide the basis for future risk management training.

Overview of financial results

The Bank is generally satisfied with its levels of profitability and confident that it has the financial flexibility to absorb loan risks and fluctuations in investment income. The projected financial results for the next five years indicate that the Bank will continue to be financially sustainable. The following are some of the highlights of the financial results for the year under review.

Surplus from operations

The surplus generated from operations before revaluation adjustments increased to R1,15 billion, which represents an increase of 8,4 per cent on 2002/03. This was mainly due to the following factors:

- Net interest income increased by 9,0 per cent from R1,32 billion to R1,43 billion. Interest income increased by R252 million (11,0 per cent) offset by the cost of funding, which increased by R134 million (13,8 per cent).
- An increase in the write-back of prior year impairments of R31,2 million, coupled with the fact that there were no actual bad debts written off during this year.
- Operating expenses increased by 33 per cent from R287 million to R382 million, mainly due to an increase in staff costs of 30 per cent (R57,6 million). An additional charge to the income statement arising from the change in the basis of calculating the post-retirement medical benefit liability accounted for R32,6 million of the increase in staff costs. Excluding this, staff costs increased by 12,8 per cent. Technical assistance grants increased by 48 per cent (R6,7 million). General and administration expenses increased by 40 per cent (R28,6 million). This was mainly as a result of consulting fees, which were 95 per cent up on the previous year (R9,0 million); data processing costs, 31 per cent up on the previous year (R4,7 million); and public relations activities, 100 per cent up on the previous year (R6,1 million).

Surplus for the year

The surplus for the year comprises the surplus from operations, after taking into account a grant to the DBSA Development Fund, as well as revaluation adjustments on derivative financial instruments, and foreign assets and liabilities. The surplus for the year decreased by 41 per cent from R1,28 billion to R763 million.

A charge to the income statement of R300 million was made in respect of a grant due to the DBSA Development Fund, which was approved by the Board of Directors in July 2003. By comparison, R80 million was granted in the year ending 31 March 2003.

Derivative financial instruments are used to hedge against adverse movements in interest and exchange rates. Although the net result of the differences on the revaluations should approximate the costs of hedging strategies undertaken over the life of the underlying loan, fluctuations from year to year are expected. The extent of these fluctuations is dependent on market conditions and movements in both the local and international environments, and therefore cannot be quantified accurately.

Unrealised profits and losses, resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans (including the implementation of AC133 during the current year), have had a significant impact on the financial results compared to the previous year. An unrealised loss of R41 million was recorded in respect of the revaluation of derivatives for the current financial year, compared to a profit of R379 million in the previous year. In addition, an unrealised foreign exchange loss of R43 million was reported for the current period, compared to a loss of R74 million in the previous year. The above revaluation adjustments have resulted in a net decrease in profits of R389 million compared to the previous year.

The ratio of operating costs to operating income increased from 17,4 per cent to 26,4 per cent. Excluding the unrealised foreign exchange profits and losses and the fair value adjustment to derivatives, this ratio increased from 21,3 per cent to 24,7 per cent. Stringent budgetary controls were maintained over the period, despite the increased demands arising from various strategic initiatives undertaken during the year, which were aimed at promoting the Bank as a knowledge institution.

Assets

Total assets increased from R20,9 billion to R23,7 billion, and the return on average assets declined from 6,1 per cent to 3,2 per cent. Excluding the unrealised foreign exchange profits and losses and the fair value adjustment to derivatives, this ratio decreased from 4,7 per cent to 3,7 per cent.

Development loans increased by R1,43 billion (10 per cent), financial market assets increased by R557 million (11 per cent), and cash and cash equivalents increased by R607 million (46 per cent).

The weighted average interest rate per year on development loans decreased from 13,5 per cent to 11,0 per cent. The total book debt of loans considered to be irrecoverable decreased from R819 million at 31 March 2003 (5,4 per cent of total loan book debt) to R757 million at 31 March 2004 (4,7 per cent of total loan book debt).

The total loan impairment, including the reserve for general loan risks, decreased from 6,8 per cent of the total loan book debt as at 31 March 2003 (as restated after the implementation of AC133) to 6,6 per cent as at 31 March 2004. The impairment on loans considered to be irrecoverable decreased from 3,3 per cent of the total loan book debt as at 31 March 2003 to 3,1 per cent as at 31 March 2004, which was a decrease from R502 million to R497 million. The reserve for general loan risks increased from R534 million to R557 million. The decrease in the total loan impairment as a percentage of total book debt is mainly due to an increase in book debt of R796 million and to partial payments on amounts due made by certain defaulters.

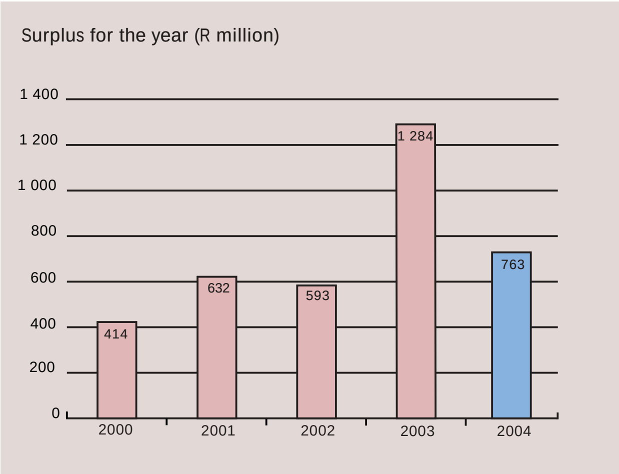
The net increase in development investments was R109,7 million. This was mainly due to new investments of R65,4 million and an increase in existing investments of R40,1 million.

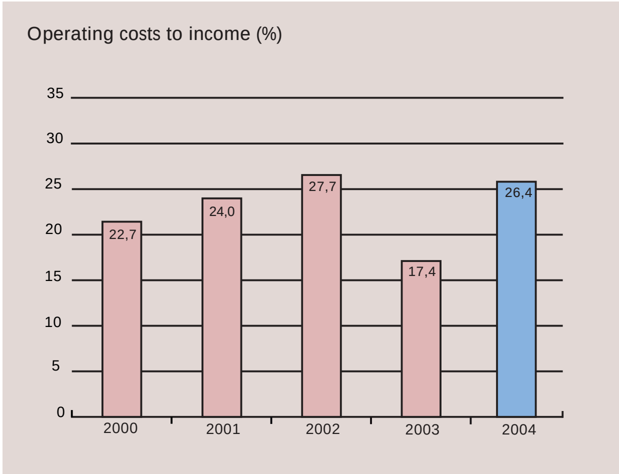
Liabilities

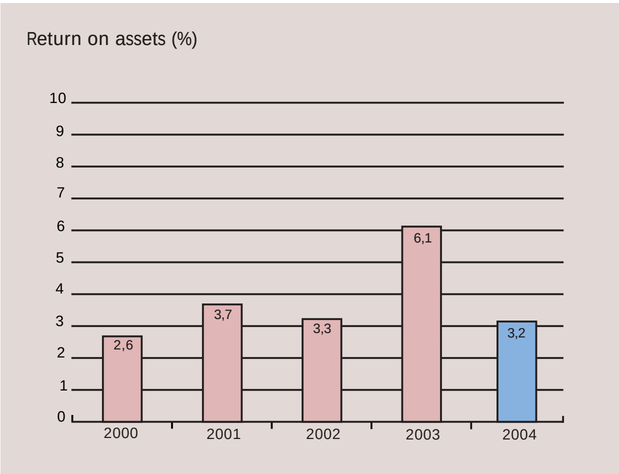
Total liabilities increased by R1,8 billion. This was mainly due to an increase of R1,77 billion in financial market liabilities, as well as increases of R235 million and R39 million in other creditors and provision for post-retirement medical benefits, respectively.

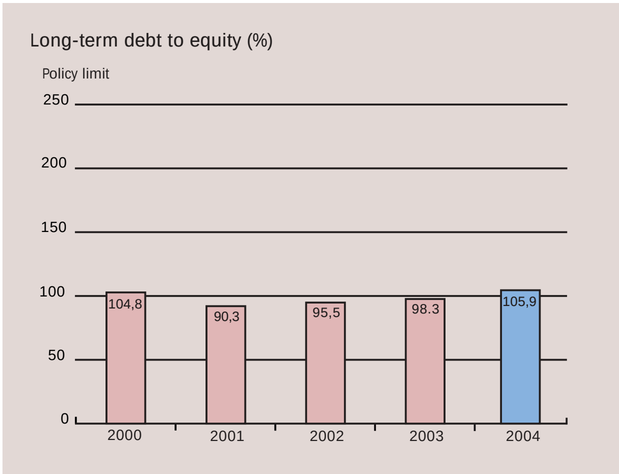
Accounting policies

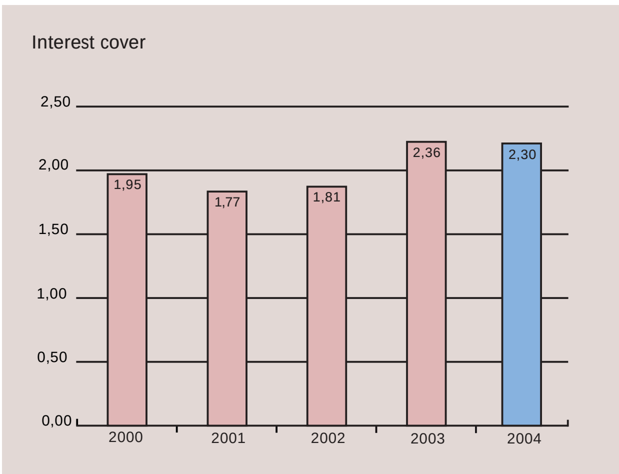
All accounting policies have remained consistent with the previous year, with the exception of the full implementation of AC133. The adoption of AC133 resulted in a net adjustment to opening accumulated surplus of R402 million. Full details of the effects of this are provided in note 2 to the annual financial statements.











Knowledge Management overview

Executive Manager: Snowy Khoza

The role of the Knowledge Management Cluster is to support the Development Bank's strategic thrust of becoming an advanced knowledge-based organisation. It facilitates an environment in which a culture of knowledge can flourish, while also ensuring the recruitment and retention of appropriately qualified staff members. The activities of the Cluster are organised around the knowledge management strategy, which sets out the vision and processes for the achievement of knowledge management across the organisation as a whole. The Cluster aims to coordinate the production of knowledge throughout the Bank, in support of the greater goal of increasing the development impact of its activities.

A key achievement during the year has been the implementation of the knowledge management strategy and the setting up of the Knowledge Mobilisation Centre. Learning from the past experiences of other international organisations, the knowledge management strategic approach initially focused on laying the foundations for sustainable implementation. The achievements during the year have enhanced the Bank's capacity to build and deliver knowledge. What were some of these achievements? Organisational arrangements, such as the knowledge management decision-making structure and the apportioning of roles and responsibilities, were institutionalised. Knowledge management was aligned with the overall strategy of the Bank. The knowledge management strategy was translated into a detailed five-year business plan, and appropriate measures and targets for the Corporate Balanced Scorecard were identified. The knowledge management agenda was integrated into the people management, development and performance frameworks. Finally, several communication initiatives, aimed at building internal awareness and support for knowledge management, were also undertaken this year.

The Knowledge Mobilisation Centre was established to give the Bank's vision of becoming a "knowledge bank", a visible face, as well as to provide a central administrative, coordinative and integrative service for all knowledge management activities across the organisation.

Focusing on development research

The main external arm of the Knowledge Management Cluster is the Policy Unit, which provides policy research, analysis, advice and applications to a range of external and internal partners and stakeholders. In this process, the Unit establishes partnerships with external research and analysis capacities to harness synergies.

During 2003/04, highlights of the Unit's achievements included the publication of the third DBSA Development Report, *Financing Africa's Development: Enhancing the role of private finance*, which was launched on 19 November 2003, in partnership with NEPAD. The Unit managed several projects on behalf of external partners, including the Municipal Finance Management Technical Assistance Programme on behalf of the South African National Treasury, which appointed international advisors to assist municipalities in improving financial management. The success of this project attracted further funding from DFLD and gave rise to the Consolidated Municipal Transformation Programme. In another project for the National Treasury, with the national Department of Trade and Industry, the Unit led a team to conceptualise an Apex or wholesale fund for microfinance in South Africa. The Unit also led the World Bank Water and Sanitation Programme for the Africa Region on a cost recovery basis. Further, on behalf of the Department of Environmental Affairs and Tourism, the United Nations Development Programme and the World Tourism Organisation, it led the compilation of a preliminary assessment of the tourism sector in South Africa. The Unit also managed the publication of the accredited *Development Southern Africa* journal, compiled around 80 articles and publications, and provided structured advice to about 30 internal and external clients.

In the year ahead, the Unit will seek to strengthen its partnerships with national and international capacities. Policy research will be focused on five main areas – human development, macroeconomics, governance and finance, regional development, and spatial (rural and urban) development – and will be aimed at stimulating the broader development debate in South Africa, the region and internationally.

Providing development information

In addition to policy support, the Cluster also provides development information products and services to the Development Bank, its clients and the wider development fraternity in South and Southern Africa. During the year under review, its Development Information Business Unit compiled country perspectives for eight countries in the rest of the SADC region, while socio-economic profiles were compiled for all the provinces of South Africa. Data and information analysis support were provided to several national and provincial departments and 125 municipalities. Three publications were produced, *The Role of Information in Development*, *People of Gauteng: Projections 1996–2021*, and *South Africa Infrastructure Backlogs: Progress and Challenges – A Comparison between the 1996 and 2001 Population Results*. In addition, the Unit is the implementation project manager and secretariat of the Second Generation Africa Live Database Project, a collaborative venture by the World Bank, the Development Bank and the SADC Secretariat; this year, the emphasis was on training trainers in the recipient countries.

During the year ahead, the Unit will continue to develop competitive products to deal with a rapidly changing external environment. The information industry is characterised by institutional and organisational changes due to the emergence of new players, technological innovations, and the timely availability of reliable information. However, information costs are rising dramatically, while the ability of clients in the development community to pay is low. The Unit is therefore exploring new ways of adding value to the data, while remaining cost-effective.

Ensuring good practice in development

In addition to providing advice and support to external stakeholders, the Knowledge Management Cluster has the crucial role of ensuring best practice in the operations of the Bank and building the capacity to follow such practice among the Bank's clients. This is the main focus of the Specialist Unit, which works in a number of infrastructure-related fields. During the year, the Unit faced a rapidly changing environment, which required it to keep abreast of changes to a plethora of Acts, policies, regulations and procedures. In the construction sector, for instance, the challenges concerned the establishment of project empowerment charters, how to fund, monitor and audit them, and how to build the client's capacity to do likewise. Emphasis was put on the empowerment of women in the construction sector, job creation, labour-based construction, skills training, SMME and small contractor development, benchmarking, and evaluation and development of training case studies. This will continue in 2004/05.

During 2003/04, the Unit provided support to the Department of Public Works on the Expanded Public Works Programme; to a programme funded by the KfW for upgrading voluntary counselling and testing facilities for the Department of Health; and to the DFLD Parliamentary Support Programme. In the tourism sector, it assisted clients in responding to environmental and heritage policies and legislation. Its key achievement in this regard was the development of tourism planning guidelines. The focus this year will be on implementing these guidelines, especially at municipal level, where capacity for tourism is limited.

In the water and sanitation sector, the Strategic Framework for Water Services came into effect in September 2003. Also, the Waste Management Strategy for South Africa requires all municipal authorities to submit integrated waste management plans to their provincial governments. Many of the Bank's clients have not been able to prepare these plans because of institutional constraints, and the Bank offered technical assistance to many municipalities for this purpose. As a result of these plans, several projects were identified for possible loan funding from the Bank.

The Unit also provided extensive support to the operational Units of the Bank. For instance, in social appraisals, the Unit focused on ensuring that the relevant legislation was implemented, that the "culture of public participation" and "participatory governance" were promoted, and that people were put first in projects. In the education sector, the Unit assisted clients with mergers in higher education; this will remain a key focus area in 2004/05. In parallel with these requests, the Specialist Unit updated its review of the transport sector in both South and Southern Africa.

Assessing the impact of our operations

To ensure continuous quality control and project knowledge tranfer, the Operations Evaluation Unit provides independent evaluations of the Development Bank's programmes and projects to feed back lessons learnt into the project cycle. It also builds capacity in monitoring and evaluation. The Unit contributes to the Bank's knowledge management strategy by analysing factors that affect the sustainability of development interventions and suggesting ways to mitigate potentially negative outcomes. It works in cooperation with other Units to identify information gaps with respect to best practices, development impact and the efficiency of operations, among others.

During the year under review, the Unit completed ten evaluations as part of the evaluation of the KwaZulu-Natal Provincial Support Programme. It also produced a new knowledge product, the *Development Effectiveness Report*, which synthesises the main findings of evaluations since 1997, making them more accessible by drawing out key lessons learnt by sector or type of project. This was funded in part by the KfW. The Unit also trained 260 internal and external clients, with assistance from a range of international trainers. The first draft of a monitoring and evaluation training curriculum was completed. The Unit also compiled a dictionary of 800 indicators for use on projects, as well as a high-level set of key indicators of the Bank's development impact, in consultation with internal Units and other external institutions.

In the year ahead, the Unit will focus on developing bank-wide development impact indicators to assess the overall impact of the Bank's programmes. It will also introduce a monitoring and evaluation tracking system for systematic collection of data on the Bank's operations. A Lessons Learnt Report drawing on past evaluations of projects will also be prepared.

Attracting and retaining quality employees

The Human Resources Unit is the arm of the Knowledge Management Cluster that focuses on managing the attraction, retention and exit of employees. In support of this, the overarching human capital strategy encompassed all of the activities and focus areas, and sought to define a value for the human capital base within the organisation. Supporting activities included, among others, a procurement of resources strategy; a retention strategy; the review of over 70 human resources policies; a human resources liability review; and the refinement of the integrated recognition and reward system, which enables the Bank to manage and reward knowledge-based outputs and innovation.

To meet the need of employees for more flexibility of remuneration, the Bank investigated the possibility of making salary packages more adaptable. The Human Resources Unit also entered into service level agreements with all Units in the Bank, which define its consulting responsibilities.

The parallel focus on the management of the organisational environment and interactions with the key employee stakeholder, SACCAWU, has culminated for the first time in a three-year labour agreement. This bodes well for future labour relationships, as it will allow the Bank to begin to interact with labour on organisational issues and engage them as strategic partners in the running of the organisation. In the coming year, the Unit will endeavour to build on this secure foundation to ensure that its triple strategy in relation to employees – attract, retain, advise – is maintained and gains momentum to deliver impact within the organisation.

Entrenching diversity

The Bank recognises that it operates in a competitive and diverse environment, which requires world-class standards. Issues of equity impact significantly on this socio-economic context. The Bank acknowledges that inequitable distribution of skills and human capital, inequitable access to infrastructure resources, the impact of HIV/Aids on development initiatives, and poverty remain a barrier to sustainable development. Equity is embedded in the processes that seek to address national priorities and the challenges facing the African continent, such as poverty and underdevelopment. Equity processes and products are also aligned with NEPAD's primary objectives, specifically those related to poverty eradication, sustainable development and accelerated empowerment of women. The Bank also recognises that it needs a diverse workforce in order to gain access to differentiated market segments in its areas of operation, especially in the SADC and Africa. Because employees' cultural backgrounds, values and norms affect the way they work, the Bank aims to value and celebrate the diverse skills and competencies of its staff in order to learn and grow. It also continues to pursue employment equity as part of the broad transformation and change management processes in the Bank, as an empowerment mechanism and a valuable tool for attaining sustained high levels of productivity within the organisation.

During the year under review, the Employment Equity Unit successfully implemented the Employment Equity Tracking System. It also developed the DBSA HIV/Aids strategy, which aims to assist Bank staff and their families with a comprehensive HIV/Aids treatment system. The Bank is currently providing financial support for a community

Dolphin Coast water and sanitation infrastructure, KwaZulu-Natal

project in Ikwezi Lomso (Engcobo Municipality) in the Eastern Cape, to empower Aids orphans and community members affected by the pandemic.

The Unit also led the establishment of the DBSA Alumni programme, including a database, a web page and the participation of alumni at the twentieth anniversary celebrations. Further, it developed and implemented a framework to assist the Bank's clients on employment equity and gender issues, and drafted a proposal to establish a Women's Development Programme. The Unit also engaged in activities such as the employment equity report to the Department of Labour, awareness creation, and preferential procurement processes. An analysis of the composition of the Bank's project, programme and assignment teams was undertaken, and an employment equity training manual for use by Bank clients has been finalised.

In the year ahead, the Unit will address issues of inequity and inequality with renewed energy. The focus will fall on further implementing the Employment Equity Tracking System, building the capacity of the Bank's clients in the areas of employment equity, gender and disability, and strengthening the fit between people, the environment and prosperity. This will enhance the social functioning of development beneficiaries in a region working to free itself from poverty, inequity and dependency.

Building capacity of internal and external clients

The Development Bank is passionate about developing the capacity of its staff and its clients, to ensure that development impact is maximised. To this end, it set up a separate Training Unit in 2002/03. During its first 18 months, the Training Unit focused on establishing the DBSA Vulindlela Training Academy, implementing human resource development programmes and delivering Bank effectiveness training. In order to lay a firm foundation for the DBSA Training Academy, policies were developed to guide investment in human capital. These policies will contribute to the achievement of the Bank's corporate strategy, and accelerate skills development in compliance with and support of the South African National Skills Development Strategy.

By participating in knowledge management promotions and implementing a marketing and communication strategy, the Training Unit has built its own identity. Initiatives to market the Unit's products and services included a monthly newsletter, a training calendar, and roadshows to potential clients.

During 2003/04, the Bank piloted three training programmes for young graduates. These initiatives are in line with the Bank's strategic objective of becoming a knowledge-based organisation, and in response to the National Skills Development Strategy and its associated legislation. The objectives are to create a skills pool for the Bank and to give young graduates opportunities to acquire skills and thus enhance their employability.

Under the three programmes, candidates were placed in the various Business Units of the Bank. The *Young Professionals Programme* placed 18 candidates (12 female and 6 male) for a year; the *Internship Programme* placed 6 candidates (3 female and 3 male) for periods ranging from three months to two years; and the *Training Outside Public Practice (TOPP) Learnerships Programme* placed a single male candidate for a period of three years. The Bank has developed an exit strategy that sets out various internal and external options for candidates who have completed their learning contracts, with some being placed outside while others are retained in the Bank.

With regard to the establishment of the DBSA Vulindlela Academy, the Unit has completed the conceptual framework and embarked on the implementation. The Academy should be fully functional by 2010. During the year under review, the Unit conducted a feasibility study to assess the demand for and supply of training, and identify the gaps. The Unit looks forward to positioning the Academy effectively in order to service its clients' needs and close the capacity gaps in its target market.

In the year ahead, the Training Unit will be reviewing the skills development programmes and policies, with a view to improving on service delivery. The Unit is focused on service delivery in all areas of operation. It considers learnerships to be of paramount importance to the Bank: they make effective use of the skills development levy to build the capacity of both internal and external clients.

Training Unit staff are actively engaged in Bank-wide projects such as Corporate Reporting; the Corporate Balanced Scorecard; the Women's Development Programme; the Local Government Resource Centre and Value Innovation.

Finally, as part of its twentieth anniversary celebrations, the Bank successfully organised and hosted the "Soul of Africa: Art as a Cornerstone of Development" exhibition from 4–19 September 2003. Dr Ben Ngubane, former Minister of Arts, Culture, Science and Technology, opened the exhibition, which focused on young and upcoming artists (although works by established black South African artists were also shown). A total of 163 artists participated from Mpumalanga, KwaZulu-Natal, Eastern Cape, Limpopo, Mozambique and Namibia; 226 artworks were displayed and 110 sold. The Development Bank purchased another 49 of these artworks for its collection.

Development Fund overview

Chief Operating Officer: Luther Mashaba[6]

The raison d'être of the Development Fund is to build the capacity of municipalities for effective service delivery. The notion of "accelerated service delivery" thus lies at the core of this independent, dedicated grant-making entity.

In the year under review, the Development Fund appointed four additional programme managers. This was to ensure that each province had dedicated development support, thus maximising the Fund's outreach programmes and accelerating its capacity building efforts.

Overview of operations

The Bank continues to provide logistical and other support services to the Fund, which is housed on its premises. To date, the Fund has been capitalised with an amount of R450 million.

In its second year of operation, the Fund again exceeded the targets set for approvals in its capacity building and portfolio programmes. An evaluation was commissioned to track and measure the development impact of its interventions. In all five of the projects evaluated, the projected outcomes were achieved or exceeded.

Development credit facility: In the changing environment in which it operates, the Development Fund faces many challenges, especially those arising from the transformation of local government. The Fund focuses mainly on building capacity and delivering services to communities where new financial mechanisms are required. However, grant funding is not always available to meet the development needs of clients, and when it is available is not always sufficient. The need for a soft loan-funding window was therefore identified and incorporated into the Fund's mandate.

The development credit facility is currently in its pilot phase. To date, three projects have been approved by the Board. Once the credit facility has been evaluated and adapted accordingly, the Fund intends to offer its full complement of products and services.

Strategic partnerships and leveraging of funds
The institutional capacity constraints in South Africa are extensive and represent a major threat to the consolidation

6. Jeanette Nhlapo as from 1 June 2004.

Training on performance management systems

of transformation and good governance. The constraints are such that no organisation working alone can hope to overcome them. Accordingly, the Development Fund places strong emphasis on smart partnerships, aiming to leverage the efforts of a range of actors and produce synergies between these efforts and its own.

During the year under review, the Fund continued to build existing and explore new partnerships with a range of public and private organisations, both upstream and downstream. At the level of principal stakeholders, relationships were fostered and deepened with the Department of Provincial and Local Government and various local government associations. An agreement was concluded with the Department of Provincial and Local Government, involving a capacity building programme to the value of R7 million. A cooperation agreement was also signed with Ithala Development Finance Corporation Limited in KwaZulu-Natal, regarding capacity building initiatives for local economic development.

As far as funding is concerned, new macro funding agreements were successfully negotiated with KfW and the Standard Bank Limited, and these will be implemented in the new financial year. New relationships were explored with other international donors, such as the Japan International Cooperation Agency (JICA). Efforts were also made to resuscitate and sustain an earlier macro funding partnership with Agence Française de Développement. Strategic and operational partnerships were formed with Siemens, the South African Communications Forum, the South African Local Government Association and the Department of Provincial and Local Government, regarding graduate internships in support of technical capacity at municipalities.

Accelerating development support
The Development Fund supported six additional Integrated Sustainable Rural Development Strategy (ISRDS) nodes, which means it is now exposed to 11 of the 13 nodes.

In 2003/04, the Fund supported a total of 132 municipalities. All in all, 266 municipalities around the country have now benefited from the Fund's capacity building support. This constitutes a portfolio of investments totalling R153 million in grant funding.

Revising the funding policy
In an effort to encourage further participation and ownership, and to extend the rand value of its development support to municipalities, the Board has revised the Fund's funding policy. With regard to the first of these objectives, namely, encouraging participation and ownership, the leverage ratio of grant funding was amended to increase

Computer systems have improved municipalities' finances

the contribution byrecipients; and with regard to the second, namely, extending the rand value of development support, the development credit facility was introduced.

Actual grant approvals of R153 million far exceeded the target of R84,5 million, which reflects the Fund's own contribution to programmes and projects. This is a clear sign of the importance municipalities attach to capacity development.

Prospects for the coming year

The Development Fund's support to date has enhanced municipal capacity in various areas, including planning, municipal management systems, skills transfer and local economic development.

Going forward, the Fund will consolidate its support in the various sectors for municipalities in all the provinces. The Fund's success in the 27 months of its existence has established a solid base upon which to mobilise resources for capacity building, both locally and internationally.

Corporate governance

Governance principles

The Board of Directors endorses and is fully committed to complying with the recommendations in the King II Report. The Bank is in the process of assessing its level of compliance with King II and the Protocol on Corporate Governance in the Public Sector. By supporting principles of good corporate governance, the Bank demonstrates its commitment to the highest standards of integrity and ethical conduct in dealing with all its stakeholders.

The Bank is committed to an open and transparent governance process that gives its shareholder and other stakeholders the assurance that, in adding value to and protecting the Bank's financial and human investment, the Bank is being managed ethically in line with best international practice and all applicable legislation and predetermined risk parameters. The Directors subscribe fully to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have been adhered to in discharging their duties.

Strategic objectives and performance management

The Board sets the Bank's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of the objectives, in line with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies by management through a comprehensive system of reporting to mandated Board Committees.

Strategic planning and development finance landscape review

In October 2003, the Bank's Board of Directors and management conducted a review of the development finance institutional (DFI) landscape. The study identified no gaps between the mandates of the five DFIs making up the development finance system, but concluded that there were mandate overlaps and execution gaps with implications for effective service delivery. The review found that there were no major mandate implications for the Bank.

Following the study, Vision 2010 was reconsidered to produce Vision 2014, a corporate long-term strategic perspective and medium-term plan aligned to the South African government's strategic planning cycle and the United Nations' millennium development goals. The plan is founded on the basic objectives and elements of South Africa's Reconstruction and Development Programme (RDP), the SADC Regional Indicative Strategic Development Plan (RISDP) and NEPAD's long-term strategic agenda.

The Board of Directors and management will be reviewing the corporate and capital structure during the coming financial year to align with the requirements of Vision 2014.

Business planning and performance assessment

The Board of Directors approved a three-year Corporate Balanced Scorecard in April 2003. This was used as a basis for compiling business plans. Between October 2003 and January 2004, business plans and activity-based budgets were prepared in succession.

In July 2003, the Board carried out a self-evaluation exercise. The Board has accepted the results of its annual evaluation and those of its supporting Committees. Corporate performance assessment against predetermined objectives and targets in the Balanced Scorecard was conducted by executive management and approved by the Board. The Remuneration Committee of the Board evaluates the performance of the Managing Director and reviews the performance of the Executive Managers.

Code of Business Ethics

The Bank's Code of Business Conduct was revised during the financial year and renamed the Code of Business Ethics. The Code was revised, among other reasons, to align it with the Bank's policy on outside interests; to provide for the granting of information in terms of the Promotion of Access to Information Act, No. 2 of 2000; and to adapt the Bank's code for the DBSA Development Fund. The Code commits management and staff to high standards of ethical conduct in their dealings with each other and the Bank's stakeholders.

Internal controls

Responsibility for the systems of internal financial and operational control rests with the Board. The foundations for internal control processes are in the Bank's governance principles, which incorporate ethical behaviour, legislative compliance, and sound accounting practice. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines. Executive management is responsible for determining the adequacy, extent and operation of these systems.

In accordance with the Public Finance Management Act and the Development Bank of Southern Africa Act, the Bank appoints external auditors to conduct the audit of the annual financial statements. The Bank's Board of Directors makes decisions in this regard, and consults with the Auditor-General in terms of the Public Finance Management Act. The Auditor-General does not prohibit the appointed external auditors from providing non-audit-related services, but encourages the minimisation of such provision in order to maintain the auditors' independence. As a general rule, the external auditors performing the statutory audit function should therefore not be contracted to execute any non-audit-related service as defined. Such a service is considered a normal "professional service" and is treated in terms of the Bank's procurement policy.

Regulatory environment and statutory compliance

During the year under review, the Bank established a compliance function headed up by a Group Compliance Officer, reporting to the Corporate Secretary. The function's purpose is to ensure that the Bank continuously manages its regulatory risk, that is, risk arising from non-compliance with applicable laws and regulations. Compliance is a proactive function, focused on raising awareness about relevant regulatory issues throughout the Bank. The Group Compliance Officer has direct access to the Chief Executive, and to the Chairpersons of the Audit and Finance Committee and the Board. The Group Compliance Officer is required to present a quarterly compliance report to the Finance and Risk Management and the Audit and Finance Committees, and to receive guidance from the Finance and Risk Management Committee on, among others, areas of alignment with strategy and best practice. The Bank applied the framework for levels of materiality and significance, as set in line with Regulation 28 of the Public Finance Management Act, No. 1 of 1999.

Reporting and disclosure

The Bank is committed to transparent reporting and disclosure. Information provided to all stakeholders, including financial results and the Annual Report, is presented in a meaningful and relevant manner to enable users to gain a proper and objective perspective of the Bank.

Governance structures

Shareholder linkages

The Bank, through its Board, is accountable to its sole shareholder, the government of the Republic of South Africa, and to Parliament in terms of the Development Bank of Southern Africa Act. A Corporate Plan was submitted to the National Treasury in February 2004, as required in terms of section 52 of the Public Finance Management Act, No. 1 of 1999. The Corporate Plan serves as a shareholder compact between the Bank and the shareholder. In September 2003, the Bank's 2002/03 Annual Report was launched in the presence of the Deputy Finance Minister at Gallagher Estate.

Minister of Finance

The Minister represents the shareholder, determines the Bank's mandate, and holds the Board of Directors accountable for managing and controlling the operations of the Bank in compliance with the stated mandate.

Board of Directors

The Board of Directors is appointed by the Minister of Finance in his capacity as the shareholder representative, and consists of a minimum of 10 and a maximum of 15 members. Currently, the Board consists of 15 members: 14 are non-executive; the Chief Executive Officer is the sole executive Director. Eleven members of the Board are independent Directors. The Board is chaired by Mr Jayaseelan Naidoo.

The Board reports to the shareholder by way of annual and interim reports, and regular meetings between the Chairperson of the Board, the Chief Executive Officer, and the Minister of Finance. During the last financial year, the Board met five times. In terms of the Development Bank of Southern Africa Act, No. 13 of 1997, the Board is required, as far as possible, to meet six times during each calendar year.

The DBSA Board of Directors' charter draws attention to the principal provisions of the Development Bank of Southern Africa Act and sets out matters of policy that the shareholder and the Board follow in order to ensure good corporate governance.

As may be noted from the résumés of current Board members on pages 12 to 15, the terms of service of five Board members expired in July 2003. The terms of four of the Board members were renewed for a further two years and one for an extra year. The three-year term of the rest of the Board will expire in August 2004, at which point the principle of rotation will apply.

The former Director-General of the National Treasury, Ms Maria Ramos, relinquished her ex officio membership of the Board with effect from October 2003. Ms Ramos has been replaced by the Deputy Director-General for Intergovernmental Relations, Mr Ismail Momoniat. Ms Nomboniso Gasa joined the Board as a non-executive Director from August 2003.

Board Committees

All committees of the Board have formal written terms of reference that are reviewed periodically, and updated as necessary, to take account of developments and any specific requirements of the Board. The Board has the following committees: Audit and Finance Committee, Credit Committee, Knowledge Strategy Committee, and Remuneration Committee.

Audit and Finance Committee

The Audit and Finance Committee has six members. Four are non-executive Directors; one is a co-opted member. The Committee is chaired by an independent non-executive Director, Dr Deenadayalen Konar.

The Audit and Finance Committee is tasked with overseeing the financial reporting, internal financial and other control systems. In addition, the Committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen the Bank's financial position in pursuance of its development mandate.

The Committee reviews internal and external auditing processes, and evaluates risk management, financial and compliance policies and reports. It reviews and approves the annual budgets, and annual and interim financial statements. The Committee is also responsible for advising the Board on appropriate financial policies, investment limits and funds mobilisation strategies; the annual income, expenditure and capital budget requirements of the Bank; and compliance and procurement policies.

The Committee is supported by the Finance and Risk Management Committee and the Asset and Liability Management Committee of management.

Credit Committee

This Committee comprises five members, four of whom are non-executive Directors. The Committee is chaired by Dr Iraj Abedian.

The Committee facilitates credit extensions up to a value of R100 million and is accountable to the Board for portfolio management and the review of significant credit exposures. To perform this function, the Committee reviews the Bank's credit strategy; the Bank's credit risk management programme; credit extension to legal entities in which officers or Directors of the Bank have an interest (including related policies); significant credit exposures; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board.

The Credit Committee is supported by the Operations Committee of management.

Knowledge Strategy Committee

The Committee consists of four Directors. Its primary purpose is human capital transformation, human resources development and knowledge management. The Committee serves as a sounding board to review all relevant knowledge management position papers and reports before submission to the Board. The Committee is chaired by Ms Lucienne Abrahams.

The Committee is supported by the Knowledge Management Committee of management.

Remuneration Committee

This Committee is chaired by an independent non-executive Director, Mr JB Magwaza, and has four other members – three non-executive Directors and the Chief Executive Officer.

The Committee is charged with the remuneration of staff and management. In addition, it assists the Chief Executive Officer with the appointment of executive managers and monitors their performance.

Chief Executive Officer and Managing Director

In terms of the provisions of the Development Bank of Southern Africa Act, the Managing Director is charged with the day-to-day management of the Bank's operations. The Managing Director assists the Board in providing strategic and policy direction to the Bank, and consults regularly with the shareholder representative. The Managing Director also holds the position of Chief Executive Officer.

Corporate Secretary

All Directors have access to the advice and service of the Bank's Corporate Secretary. In terms of the Development Bank of Southern Africa Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

Committee composition and record of attendance of meetings

	DBSA Board		Audit and Finance Committee		Credit Committee		Knowledge Strategy Committee		Remuneration Committee	
No. of meetings		5		4		3		3		4
Dr I Abedian	✓	3	✓	3	Chair	3				
Ms L Abrahams[1]	✓	4			✓	3	Chair	3	✓	1
Prof. B Figaji	✓	3					✓	1		
Mr M Gantsho	✓	5	✓	4	✓	3	✓	3	✓	4
Ms N Gasa[2]	✓	0								
Dr D Konar	✓	5	Chair	4					✓	4
Mr JB Magwaza	✓	4					✓	2	Chair	4
Mr J Naidoo	Chair	5	✓	3					✓	4
Prof. W Nkuhlu	✓	1								
Mrs H Nyasulu	✓	3								
Mr N Payne[3]	N/A	N/A	✓	3						
Ms M Ramos[4]	✓	2								
Mr I Sehoole	✓	5	✓	1						
Mr N Sowazi	✓	3			✓	2				
Mr Z Titus	✓	3								
Mr M Vilakazi	✓	3			✓	3				

✓ Membership of Board or Board Committee
1. Ms Abrahams joined the Remuneration Committee in July 2003.
2. Ms Gasa joined the Board as a non-executive Director in August 2003.
3. Co-opted member.
4. Ms Ramos resigned from the Board with effect from October 2003.

Risk management

The Bank's approach to risk management

Risk taking is inherent to the Bank's business as a development finance institution. In aligning its risk philosophy with its strategic objectives, the Bank balances the demands of development and financial sustainability through exercising responsible, proactive and sound risk management.

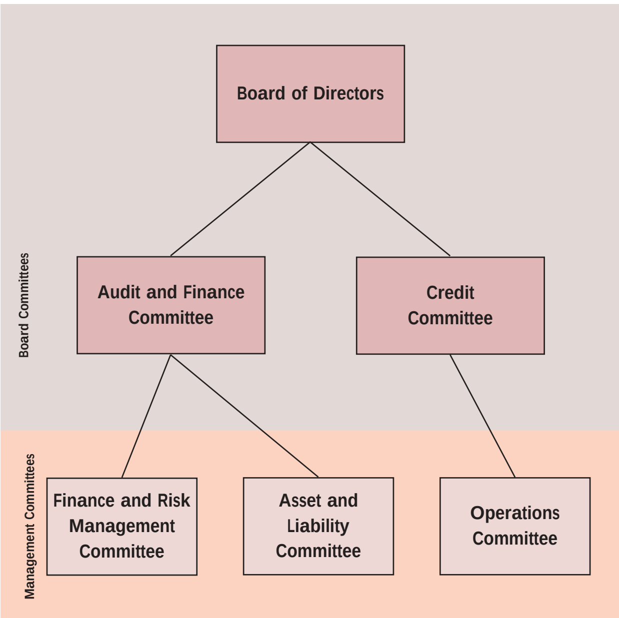
During the year under review, the Bank continued to implement its integrated risk management framework in support of enterprise-wide risk management, and once again invested significant resources to improve its capabilities in this regard. The Bank's approach is based on generally accepted risk principles, suitably adapted.

The Bank is working towards achieving full compliance with the King II code of corporate practices and conduct in relation to risk management.

Risk management governance structures

In line with the King II code, the Board of Directors is accountable for the Bank's management of risk. The Board has delegated certain functions to the Audit and Finance Committee and the Credit Committee, which provide assistance. The governance structures are outlined below.

Development Bank risk governance structures



Responsibilities

The Board of Directors

The responsibilities of the Board of Directors are in accord with those detailed in King II. The Board is responsible for:

- Overseeing the whole risk management process and forming an opinion on its effectiveness
- Establishing risk strategy policies in liaison with the Managing Director and senior management
- Determining the Bank's appetite for risk, as expressed in relevant risk management policies
- Ensuring that the Bank has implemented an effective, ongoing process to identify, quantify and proactively manage risk exposures
- Using generally recognised frameworks to maintain sound systems of risk management and internal control
- Ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken
- Reviewing the Bank's quarterly risk management reports
- Appointing a Board Committee to provide assistance in reviewing the risk management process and the significant risk facing the Bank
- Approving new risk management policies and amendments or refinements to existing policies

The Audit and Finance Committee

The Audit and Finance Committee is responsible for:

- Assisting the Board in evaluating the adequacy and effectiveness of the risk management processes
- Performing an assurance function in respect of enterprise-wide risk management
- Reviewing the Bank's significant risk exposures and making recommendations to the Board
- Assisting the Board in providing strategic direction on the Bank's asset and liability management
- Evaluating the audit policy and audit plan
- Evaluating management procedures with regard to internal control
- Evaluating and appointing external auditors
- Considering significant matters arising from the external audit
- Reviewing and evaluating management's comments on reports issued by internal and external auditors
- Advising the Board on strategic financial matters

The Risk Management Unit

While individual Business Units retain primary responsibility for managing the risk originating from their operations, the Risk Management Unit develops appropriate risk management policies and procedures; ensures, through independent oversight, that risk is identified, quantified, monitored and reported within the established risk management framework; and sees to it that risk remains within the risk appetite boundaries approved by the Board of Directors.

The Unit is independent and reports to the Chief Financial Officer, while the manager of the Unit has access to the Chief Executive Officer and the chairpersons of the Audit and Finance Committee and the Board.

Major risk exposures

The Development Bank, like all development finance institutions, assumes substantial risk in the natural pursuit of its business objectives. The most significant of these are credit risk, interest rate risk, currency risk, liquidity risk, and operational risk.

Credit risk

Credit risk is the risk of financial loss arising from the failure of a borrower or other financial counterparty to meet its contractual obligations to the Bank. The pursuit of the Bank's development objectives renders substantial credit risk an unavoidable and necessary consequence of its business operations. Credit risk is the major part of the Bank's overall risk, and, in ensuring that the institution remains financially sustainable and is therefore able to achieve its objectives, managing this risk takes precedence.

The Board of Directors and its subcommittee, the Credit Committee, authorise larger credit decisions, while the operations executives are authorised to approve smaller credits. All credit decisions, irrespective of nominal size, are based on a comprehensive and documented appraisal process. In evaluating and monitoring credit risk, the Bank employs well-tested internal rating models that ensure a thorough and all-embracing risk assessment of each client. Loans and guarantees provided are classified in accordance with the Bank's associated risk classification system and all clients are reassessed on a semi-annual basis, as part of the ongoing risk monitoring process.

The semi-annual risk classification process is documented in the form of a credit risk migration report, which forms the basis for determining the Bank's provisioning for impaired assets. Credit decisions are further subject to both single obligor limits and the appraised debt service capacity of the borrowers. As part of the credit risk mitigation process, the Bank also requires collateral in the form of eligible assets or third-party guarantees, when deemed prudent. Assets held as security against loans are revalued at prescribed intervals, which vary according to the nature and liquidity of these assets.

Country risk arises from the Bank's lending operations in other SADC countries. Country risk is managed through an all-inclusive risk assessment process, which takes cognisance of the political, economic and legal factors that determine the risk profile of individual countries. Investments are further governed by approved country limits aimed at managing concentration risk at the country level, as well as single obligor limits that address the risk of client concentration. In addition, aggregate investment in other SADC countries is limited to one third of the Bank's total investment portfolio.

Credit risk also arises in the form of financial counterparty risk from Treasury operations, primarily through the Bank's cash and liquidity management activities, and from in-the-money derivative positions entered into as hedges against undesired currency risks and interest rate risks. Both derivative and cash transactions are restricted to reputable and primarily top-rated financial institutions, and all transactions are governed by approved counterparty limits, and subject to ISDA and ISMA master agreements, where applicable. Counterparty credit limits are also supported by instrument limits. All counterparties are monitored continuously, and downward adjustments in limits are effected when deemed prudent. Limits are otherwise reviewed semi-annually, subject to an exhaustive analysis of each approved counterparty.

Interest rate risk

Interest rate risk arises from the adverse impact of interest rate movements on the net interest income and the assets and liabilities of the Bank. This risk stems from the Bank's funding and lending operations, and occurs mainly in the form of repricing risk caused by mismatches in the amount of assets and liabilities maturing at any one time. Other forms of interest rate risk include yield curve risk, basis risk and, to a lesser extent, embedded options risk. The Treasury Cluster, under the guidance of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk within acceptable boundaries. To this end, the Bank strives to match the interest rate basis of assets and liabilities as far as possible, and makes use of interest rate derivatives structured to eliminate undesired risk of this kind.

Currency risk

Currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. It arises from the Bank's foreign currency funding and lending activities. The Bank employs a conservative policy that requires all currency risk to be hedged. As a result, all currency exposures are hedged either naturally through offsetting asset and liability positions, or through the use of approved currency derivatives.

Liquidity risk

Liquidity risk is the risk of failure to fund a cash shortfall as and when required, without incurring financial loss. It therefore encompasses both the risk of failing to borrow sufficient funds at prevailing market rates, and the risk of failing to liquidate an asset in a timely manner, and without significant deviation from the prevailing market price. Liquidity risk at the Bank is managed within the framework of a conservative policy, which requires that the Bank at all times retain liquid assets to an amount ranging between 15 and 30 per cent of total undisbursed loan commitments. Integral to the Bank's asset liability management, liquidity risk management is centralised in the Treasury Cluster and takes place under the oversight of the Asset and Liability Management Committee, which in turn reports to the Audit and Finance Committee of the Board.

The liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptances, as well as liquid debt issues from government, parastatals and other approved issuers. Investments are guided by instrument limits aimed at ensuring sufficient liquidity, consistent with the Bank's requirements from time to time. In addition to ensuring that an adequate level of liquidity is maintained, the Bank further seeks to ensure a diverse range of funding sources, supported by credit lines with bilateral and multilateral development finance institutions.

The Bank also maintains committed credit facilities with selected domestic commercial banks. Additional methodologies used to assess and monitor the Bank's liquidity requirements and risk levels include cash flow forecasts and cumulative maturity gap analyses.

Operational risk

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is managed through a system of internal controls that govern all operations to ensure sufficient preventative measures and an adequate flow of information. Controls include policies and procedures for transacting, monitoring of transactions, timely verifications and reconciliation, effective internal audit programmes, and the appropriate delineation of incompatible responsibilities within each of the Bank's Business Units. As part of the Bank's integrated risk management framework, operational risk has received growing attention, and constant efforts are made to improve and refine its management. Significant risk areas addressed within the Bank's operational risk management framework include:

- Business continuity planning
- People risk
- Systems risk
- Fraud prevention
- Legal risk
- Regulatory and compliance risk
- Reputation risk

Capital adequacy

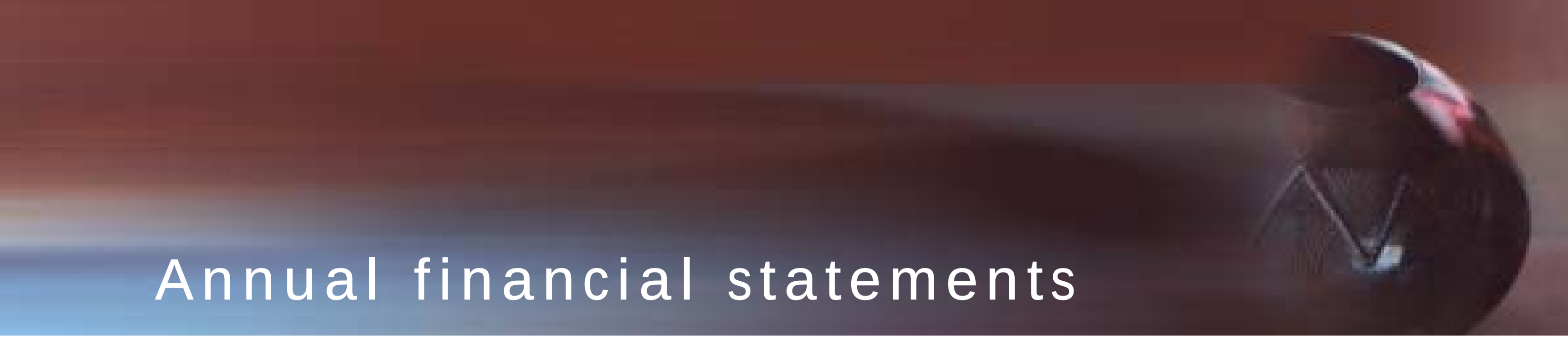
Although not required to comply with the capital adequacy regulations of the South African Reserve Bank, the Development Bank has implemented a capital management policy conservatively modelled on the Basle Accord. As at 31 March 2004, the Bank remained sufficiently well capitalised to support delivery on its development mandate.

Approved risk management policies

In managing the Bank's risk exposures, the Board of Directors has approved the following policies:

- Treasury counterparty limits
- Interest rate risk
- Approved financial instruments
- Foreign currency risk
- Liquidity risk
- Single obligor limits
- Equity/quasi-equity limits
- Country exposure limits
- Capital adequacy
- Loan loss provisioning
- Exposure to high-risk clients
- Core vs non-core limits
- Loan risk spread and pricing
- Security for loans
- Country risk pricing

The Bank reviews its risk management policies and limits periodically to ensure that they remain relevant, appropriate and applicable. During the year under review, the Bank formalised a policy on asset/liability management, incorporating interest rate, currency and liquidity risk. In addition, a policy to introduce prudential limits in respect of investments in equity/quasi-equity was approved. Country limits were reviewed and updated in line with changes in country risk factors. Treasury counterparty limits were also updated.



Annual financial statements

Directors' responsibility for financial reporting

The Directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the Bank and of the profit or loss for that period.

In preparing the financial statements:

- The Development Bank of Southern Africa Limited Act, No. 13 of 1997, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- South African Statements of Generally Accepted Accounting Practice have been adopted

To enable the Directors to meet their financial reporting responsibilities:

- Management designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain the accountability of the Bank's assets
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis
- The Audit and Finance Committee and internal and external auditors review the financial and internal control systems, accounting policies, reporting and disclosure

Based on the information received from management and internal and external auditors, nothing has come to the attention of the Directors to indicate a material breakdown in the systems of internal control during the year under review.

The Directors have a reasonable expectation that the Bank has adequate resources to operate in the foreseeable future and have adopted the going-concern basis in preparing the financial statements.

The financial statements that appear on pages 50 to 95 were approved by the Board of Directors on 15 July 2004 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Mandla Gantsho
Managing Director

DKonar

Deenadayalen Konar
Chairman of the Audit and Finance Committee

Report of the independent auditors to the Minister of Finance

We have audited the annual financial statements of the Development Bank of Southern Africa Limited set out on pages 50 to 95 for the year ended 31 March 2004. These financial statements are the responsibility of the Development Bank of Southern Africa Limited's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We have also audited the performance information included in the annual financial statements set out on pages 50 to 95. The performance information is the responsibility of the Development Bank of Southern Africa Limited's directors. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act (Act 1 of 1999), as amended, is fair in all material respects.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 60 and 61 of the Public Finance Management Act of 1999, have been complied with.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation

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

Audit opinion

In our opinion:

- the financial statements fairly present, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2004 and the results of its operations and cash flow for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act of South Africa and its regulations and other reporting requirements as set out in the Public Finance Management Act of South Africa
- the performance information of Development Bank of Southern Africa Limited furnished in terms of section 55(2)(a) of the Public Finance Management Act of South Africa, fairly presents in all material respects Development Bank of Southern Africa Limited's performance for the year ended 31 March 2004 against predetermined objectives as set out on page 51 on a basis consistent with that of the preceding year
- the transactions of Development Bank of Southern Africa Limited that have come to our attention during our audit were in all material aspects in accordance with the mandatory function of Development Bank of Southern Africa Limited, as determined by law or otherwise.

Gobodo Inc.

Gobodo Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg
15 July 2004

KPMG Inc

KPMG Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)
Pretoria
15 July 2004

Directors' report

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2004. The report deals with the performance of the Bank and meets the relevant statutory information requirements.

The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and the Development Bank of Southern Africa Act, No. 13 of 1997. The regulations of the latter Act require that the annual financial statements comply with sections 284 to 303 of the Companies Act, No. 61 of 1973, as amended.

The Directors subscribe to the principles and practices of good corporate governance and operate within the ambit of an approved Board charter.

The Directors draw attention to the fact that this report contains certain performance information on the impact of the Bank's participation in the economies of South Africa and other SADC countries through the funding of various infrastructure projects. This information is generated by an economic model, developed with the assistance of economists and academics, using various assumptions in respect of the development and socio-economic impact of the Bank's investments.

The inputs into the economic model are obtained from the Bank's information systems and statistical reports published by various external bodies. It is therefore acknowledged that the resulting performance information, in this regard, is subject to the limitations of the assumptions and information used by the model.

Despite a number of factors that impacted negatively on the Bank's operating environment and its ability to deliver support, acceptable levels of delivery were achieved.

The financial results were very positive once again, and the Bank made progress in delivering on its objectives. Specifically, it succeeded in expanding the development knowledge base in the country, and in delivering technical support to build capacity for development, in association with the DBSA Development Fund. Internal systems were refined further to strengthen the Bank's position as an empowered, efficient organisation, able to deploy its human capital optimally and delivers customer-oriented products and services in a sustainable manner. The Bank continued to follow best practice in respect of the social and environmental impacts of its activities on communities.

However, the Directors acknowledge that similarly high levels of success were not achieved in respect of loan approvals, disbursements and the envisaged impact on the economy. The reasons were mainly beyond the Bank's operational control. Firstly, changes in the R/US$ exchange rate during the reporting period impacted negatively on the rand value of approvals and disbursements in the SADC region. Secondly, within South Africa, although more investment projects were approved than in the previous year, the levels of co-funding were much lower, as fewer large metropolitan clients with the ability to mobilise further funding were involved in new support programmes with the Bank. However, the Bank is already engaged in multi-year metropolitan programmes, and it is anticipated that follow-up phases will be reconsidered in future years.

The functions of the Bank and nature of the business

The Bank is a development finance institution wholly owned by the South African government. It supports economic development and growth, human development and institutional capacity building in Southern Africa, mainly through the funding of infrastructure projects.

The Bank supplements the flow of development funds by forming partnerships with the private and public sectors for projects that develop socio-economic infrastructure. It is one of five national development finance institutions tasked with promoting development. The others are the Land and Agricultural Development Bank of South Africa, Khula Enterprise Finance Limited, the Industrial Development Corporation of South Africa Limited and the National Housing Finance Corporation Limited.

Objectives

The Bank's corporate strategy and business planning activities occur within a five-year business cycle. The current cycle is Vision 2004. This is now being revisited and expanded into Vision 2014, which will map the strategic path for the Bank over the next ten years. Annually, based on the Balanced Scorecard approach, strategic objectives for the organisation are set and approved by the Board. The Board approved the strategic objectives for the year under review on 20 February 2003.

Corporate objectives were derived from the following four perspectives of the Corporate Balanced Scorecard:

- Sustainable development impact
- Effective internal business processes
- Learning and growth
- Financial sustainability

On this basis, each Cluster and Unit developed their Balanced Scorecards covering targets for the next three years. Over the past year, the procedure defined in the Corporate Planning and Budgeting Framework and Procedural Manual, which was developed in 2003 to promote integration of the Bank's planning processes, was used to align the many elements involved. This activity has been placed in a wider context by the definition of the Bank's Strategic Management Framework. This now extends from the high-level Vision and Mission down to the feedback and control cycles involved in implementing plans, and includes the activities covered in the manual. Further enhancements will occur in the coming year, with the introduction of an annual "Corporate Calendar" to improve the management of all the major events in the Bank's yearly cycle.

Regular review reports and submissions to the Board monitored and measured progress in relation to the objectives. The budget, as approved by the Board, was aligned with the corporate planning process, and monthly monitoring and reporting took place.

As far as possible, the Bank continued to follow the best practice guidelines on sustainability reporting put forward by the Global Reporting Initiative, and expanded its reporting on economic, environmental and social performance accordingly. This report therefore evaluates the Bank's performance in the economic, environmental and social spheres. The high-level strategic objectives and performance results for the year are highlighted in the table, followed by more detailed comments on progress in relation to the "triple bottom line".

High-level performance in 2003/04

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Grow the lending and investment portfolio		
Approvals: R3,8 billion	R3,4 billion (89% of target achieved) (2002/03: R3,8 billion)	Business volumes in South Africa met targets, but the appreciation in the R/US$ exchange (around 35%) impacted on the value of approvals, commitments and disbursements in respect of transactions in the SADC
Disbursements: R3,6 billion	R2,8 billion (78% of target achieved) (2002/03: R3,7 billion)	
Commitments: R3,0 billion	R2,6 billion (87% of target achieved) (2002/03: R3,4 billion)	
95% of new customers: local authorities	55% of new investment approvals with local authorities	Majority of clients remained local authorities. Diversification of client base took place.
2. Strategic objective: Broaden the menu of products and services to customers		
10% growth in development of new appropriate financial instruments for markets 2 and 3 20% growth in scope of service for markets 2 and 3	Systems to measure growth per market segment not developed. Bank supported DBSA Development Fund in introducing a new instrument for lower end of market, namely, "development credits", thus expanding the products available.	Target measurement still being developed. The first "development credits" as new product range were approved.
3. Strategic objective: Improve the capacity of clients		
Technical assistance disbursements: R11,0 million (excluding DBSA Development Fund)	R10,9 million (99% of target achieved) (2002/03: R13,9 million)	Performance within acceptable variance norms
Development facilitation: 12% of professional time spent on advisory services	Approximately 13,9% (116% of target achieved) (2002/03: approximately 16,6%)	Significant volume of professional time utilised in client support.

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Sustainable development impact		
4. Strategic objective: Enhance smart development partnerships		
Leveraging of funds: 1:4,0	1:0,66 (16% of target achieved) (2002/03:1:2,6)	The substantially lower level of co-funding achieved (due to the nature of programme approvals with metropolitan and other clients) and changes in the R/US$ exchange rate (in the SADC) impacted negatively on the leveraging ratio. In addition, inconsistencies in the recording of other contributions on the Bank's systems impacted on the reporting level, a problem to be rectified.
5. Strategic objective: Optimise the benefits of interventions		
Contribution to GDP in South Africa: R11,4 billion, the creation of 55 000 jobs and the connection of 794 000 households to basic infrastructure These targets were based on the anticipated levels of approvals, commitments and leveraging detailed above. In practice, they are not direct mainline targets but outcome-based lag targets, dependent on the achievement of other targets. The current targets and measurements do not provide a fair reflection of actual performance, and the Directors acknowledge that the basis for target setting requires review.	Based on actual achievements with regard to approvals and disbursements, and the recorded levels of co-funding, the Bank and its co-funders made an estimated contribution to GDP of R4,3 billion (R3,1 billion in South Africa; R1,2 billion in the SADC) On the same basis, the Bank and its co-funders created an estimated 24 700 jobs (17 400 in South Africa; 7 300 in the SADC), while an estimated 462 540 households were connected to infrastructure (2002/03: In South Africa only, the estimated contribution of the Bank and its co-funders was R8,4 billion to GDP and the creation of 42 000 jobs (10 200 jobs by the Bank directly). No reporting was done on the number of households connected) Also see "Development impact of the Bank's operations during 2003/04" on page 57.	Various factors had a negative effect on the contribution of the Bank and its co-funders to the gross geographical and regional products of South Africa and other SADC countries. These included the substantially lower levels of co-funding recorded, due to the nature of programme approvals with metropolitan and other clients, compounded by inconsistencies in the recording of co-funding on the Bank's systems. The strengthening of the rand against the US dollar also had an impact on transactions in the SADC. The same factors reduced the recorded levels of employment created.
6. Strategic objective: Ensure the sustainability of interventions		
70% of projects in implementation monitored annually	No central recording system in place, but projects in implementation monitored as part of project management functions of the Bank	Operational monitoring practices continued
Balanced Scorecard perspective: Effective internal business processes		
1. Strategic objective: Align critical business processes with the strategy for the achievement of the Bank's vision		
5% variation from determined baseline	Baseline not established, but formal business process management programme adopted to encourage commitment to benchmarking and measuring of business processes. Strategic framework and action plan prepared as first deliverable to guide planning, organising, monitoring and improving of enterprise-wide business processes.	Partially achieved; measurement system to be finalised

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Effective internal business processes		
2. Strategic objective: Align key management systems with business requirements		
5% variation from determined baseline on report use, logged complaints, down times	Baseline not established, but business intelligence strategy adopted as first deliverable of MIS strategy to align system capability with business requirements. Focus was on executive information, data warehousing and customer relations management. Phase 1 completed and implemented. Digital dashboard providing executive information operationalised.	Partially achieved; measurement system to be finalised
Balanced Scorecard perspective: Learning and growth		
1. Strategic objective: Attract, develop and retain core competencies		
5% turnover rate of employees in strategic job categories	1,8% turnover rate of employees in strategic job categories (3 terminations) (Target exceeded by 64%) Total staff turnover: 7,4% (2002/03: 4,7%)	Target exceeded
Investment in training as percentage of budgeted payroll: 5%	4,5% (Within 10% of target and same as 2002/03)	Performance within acceptable variance norms
2. Strategic objective: Establish a performance-based culture and a climate conducive to the achievement of organisational objectives		
100% of performance contracts concluded with staff in second month of financial year	Process started in July; 94% concluded by November 2003	Performance within acceptable variance norms
100% of performance reviews received	94% received by end November 2003	Performance within acceptable variance norms
3. Strategic objective: Achieve a balanced staff complement within the employment equity framework		
Staff falling into designated groups at all job levels: 62%	58,3% excluding white women; 75,9% total (2002/03: 55,7% excluding white women; 76,2% total)	Performance within acceptable variance norms
Vacancies filled by (external) black, women and disabled candidates: 90%	44% black women (2002/03: 77% black (including women); 86,9% from designated groups)	Target partially achieved
4. Strategic objective: Become a knowledge-based institution		
60% of planned interventions implemented over three years as outlined in the business plan	Knowledge Strategy identified 47 initiatives. Through Strategic Initiatives Cluster and other Units, 41 deliverables were initiated and their first year's targets achieved (87%).	Target exceeded; progress on knowledge interventions faster than anticipated

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Financial sustainability		
1. Strategic objective: Maintain sound financial health		
Quality of earnings		
Budget variance on operating expenses: 10%	Operating expenses less than budget by 9,2% (2002/03: Operating expenses exceeded budget by 4,6%; within variance parameters)	Performance within acceptable variance norms
Cost to income ratio: 29%	26,4% (2002/03: 17,4%)	Target exceeded
Quality of assets		
Maintain 2002/03 risk profile	Existing risk profile maintained	Target achieved
Loan loss provision as a percentage of loan book: 8%	Impairment provision as a percentage of total development loans: 6,6% (2002/03: 6,1%)	Target achieved; adequate provision made
Quality of capital		
Currency match: 90%	82,9% (2002/03: 88,2%)	Performance within acceptable variance norms
Interest rate match: 90%	75,2% (2002/03: 86,5%)	Performance within acceptable variance norms
Maturity match: 90%	ZAR match: 87% US$ match: 75%	Performance within acceptable variance norms
Debt to equity ratio: less than 250%	105,9% (2002/03: 98,3%)	Well within target
Credit rating		
AAA local rating	AAA (2002/03: AAA)	Target achieved
Maintain sovereign credit rating: (Baa2/BBB)	Baa2/BBB (2002/03: Baa2/BBB)	Target achieved

Economic report

Customers

The Bank supports programmes and projects that seek to address the social, economic and environmental needs of communities in South and Southern Africa. These communities are the main beneficiaries of the support provided by the Bank. Their needs and interests are served via intermediaries, normally public and private sector institutions, which form the Bank's main customer base.

Marketing

The rebranding of the Development Bank is in progress. The new corporate look and feel has been phased in through an ongoing advertising campaign targeting stakeholders and clients, while the Bank has raised its public profile by interacting actively with the marketplace through numerous events. The Knowledge Management Implementation Plan and the Local Government Resource Centre Marketing Plan have been completed, and will give the Bank more say in development issues and strategically align its vision with the national development agenda. In addition, all operational Units included market development and marketing as part of their business plans and contracted with their frontline staff to execute marketing.

Innovation

The Bank continued to implement the innovation programme initiated the previous year. It launched a number of initiatives under the aegis of the Strategic Initiatives Cluster, which seeks to broaden the Bank's menu of products and services to its customers and to strengthen its position as a knowledge-based institution. The Bank is striving to serve development through innovation, while optimising its role in the market and deepening its impact on development. These initiatives include:

- The institutionalisation of processes and structures that support the concept of Value Innovation. The aim is to identify, develop and implement new products and services for the Bank's clients, and to develop innovative ideas to improve its operations. A workshop approach on value innovation has been adopted, and the first workshop was completed in the year under review. Workshops focus on the sharing of value innovation ideas, the selection of new value curves to be quantified through customer surveys, and the identification of new business ideas to be implemented.
- The installation of the Local Government Network (LGNet) and the development and implementation of the Local Government Resource Centre.
- The launching of a training institute. This institute, the Vulindlela Training Academy, focuses on the training of staff and customers in the field of development.

Forming partnerships to deliver development impact

The Bank seeks to increase its development impact on its customers and beneficiaries by leveraging strategic alliances and building strong strategic partnerships.

For every rand approved by the Bank, another R0,66 (estimated) was invested in the development projects by co-funders and other organisations. Owing to changes in the customer mix since the previous reporting cycle, this ratio did not meet the initial target. The main reason is that fewer large metropolitan development programmes were approved during the year.

As a public entity, the Bank works in close partnership with the various levels of government, exploring synergies that will contribute to sustainable development.

The Bank signed an €80 million loan with the European Investment Bank. This is the fifth line of credit concluded with this particular bank in support of project finance in South Africa.

Within South Africa, existing strategic partnerships were maintained and new ones forged with national government, provincial governments and development organisations. New memoranda of understanding were concluded with Mpumalanga's Departments of Agriculture, Tourism and the Environment, and Local Government, Traffic Control and Traffic Safety; and with the Western Cape provincial government, Gauteng Tourism, and the Cape Action for People and the Environment (C.A.P.E.) project. These memoranda focused on the nature of support programmes required, regarding both investment and technical assistance. A memorandum of understanding was concluded with the national Department of Provincial and Local Government regarding existing and proposed cooperation on support for municipalities. The Vuna Awards were launched successfully in terms of an agreement between the Bank, the Department of Provincial and Local Government, the National Productivity Institute and the South African Local Government Association.

The Bank continued to undertake developmental activities on behalf of other organisations, being party to 25 agency agreements during the year. Agency work remained an important part of the Bank's development efforts.

In the SADC, the focus was on Africa south of the Sahara, and specifically on advocacy of the NEPAD strategy. This entails mobilising and engaging key stakeholders, building partnerships, strengthening implementation capacity, and facilitating the unlocking of constraints on NEPAD-related investment projects and programmes.

Particular emphasis was placed on partnerships: a joint project preparation fund of R25 million was established with Agence Française de Développement; a technical assistance cooperation agreement was concluded with Japan International Cooperation Agency; and there was cooperation with the African Development Bank on implementing a short-term action plan and preparing a medium- to long-term action plan for the continent. The Bank cooperated with KfW in investigating the establishment of a SADC Development Fund; reached an agreement with the City of Johannesburg on joint support for the development of five other African cities; and gave institutional support to the implementation of the NEPAD/UNDP Capacity Building Programme.

Capacity building support, in the form of expert advice and assistance, went towards the development of regional development programmes and national business plans, and towards helping member states to institutionalise the NEPAD strategy. In addition, grant funding was provided for initiatives such as project scoping and preparation, as part of the finalisation of the SADC Regional Indicative Strategic Development Plan (RISDP).

The Bank also supported programme and project development for the spatial development initiatives and the transfrontier conservation areas, among others.

Managing risks to deliver sustainable services

Sound risk management is critical if the Bank is to make sustainable support interventions for its customers. The Board of Directors is accountable for the Bank's management of risk. Based on information received from management, there is no reason to believe that there was a breakdown of risk management systems during the year under review. The Risk Management Unit is responsible for developing appropriate risk management policies and procedures, and for ensuring, through independent oversight, that risk is identified, quantified, monitored and reported, within the established risk management framework and risk appetite boundaries.

During the year, further progress was made in implementing the enterprise-wide risk management framework. The consultancy assignment in respect of the risk strategy and capital-at-risk methodology was concluded, although work is still required to institutionalise the strategy and the methodology within the Bank's processes.

Particular attention was paid to upgrading the Bank's business continuity plan to ensure that all mission-critical functions are covered; and to having the Bank's internally developed credit rating methodologies validated by an external credit rating agency.

The Bank's limit structures were reviewed and a limit for investment in equity/quasi-equity introduced. Country limits were revised following a thorough review of the economic, political and legal frameworks of each country.

The Risk Management Unit continued to provide clients with risk management training during the past year. An introductory training manual was developed and will provide the basis for future risk management training.

While the management of risk is continuously evolving, the Board of Directors is satisfied that the risk management processes deployed have enabled the Bank to manage its risk exposures appropriately. The risk profiles of the Bank's client base remained stable, with 2 per cent considered as high risk, 23 per cent as medium risk and 69 per cent as low risk. This compares favourably to last year, when the figures were 2 per cent, 30 per cent and 57 per cent, respectively. The default category has been reduced from 8 to 5 per cent.

Monitoring and evaluation of development interventions

The Bank continued to monitor its operational activities and funded projects, and to evaluate completed interventions, so as to determine lessons of experience, impact and best practice. These evaluations assess the project in terms of its planning, implementation (client capacity, technical issues and cost) and outcomes.

During the year, 12 projects in different economic sectors were evaluated (compared to 17 during 2002/03). There were ten full evaluations, one rapid assessment and one interim evaluation of a programme still being implemented. Ten case studies were also conducted.

Black economic empowerment

Black economic empowerment remains a strategic imperative. The Bank promotes the use of empowerment contractors on all its funded projects. It is estimated that approximately R300 million or 23 per cent of project value was allocated to such contractors on projects approved during the year.

The Bank also invested in equity deals and funding to promote black economic empowerment companies. Six projects were financed in South Africa to a value of R150 million during the year.

Delivery of products and services

Investment loans and equity

In the year under review, the Bank made new approvals to a total value of R3,4 billion. This is 11 per cent lower than the R3,8 billion of 2002/03. Approvals within South Africa reached R2,5 billion, 9 per cent higher than the R2,3 billion of 2002/03. The total cumulative net approvals for South African clients reached R23,9 billion (2002/03: R21,4 billion). Approvals in the SADC region amounted to R0,9 billion or 26 per cent of total approvals for the year, versus R1,53 billion or 40 per cent of total approvals in 2002/03.

The cumulative support programme in the SADC now amounts to R8,3 billion, as against R7,4 billion at the end of the previous year.

The decrease in approvals, in relation to both the target and the actual results for 2002/03, is mainly attributable to the fall in approvals to SADC countries (from 40 to 26 per cent of total approvals for the year). The main cause was

Olifantskop regional water supply scheme, KwaZulu-Natal

the strengthening of the rand against the US dollar, the major currency for transactions in Africa.

South Africa – provincial focus

Within South Africa, the creation of dedicated Business Units to focus on the poorest provinces - Eastern Cape and Limpopo - had positive results: technical support for capacity building provided by the DBSA Development Fund increased from R86 million to R153 million. As reported last year, it will take a number of years before such capacity building results in a growth in investments. Nonetheless, the investment portfolio in Limpopo grew during the year.

In the other provinces, the spatial distribution of investments followed the patterns of previous years, with KwaZulu-Natal receiving R850 million of new approvals, followed by Gauteng (R670 million) and North West (R490 million). Investment in the Western Cape was lower (R100 million versus R230 million the previous year) because a planned programme for the Metropolitan Council of Cape Town was not taken up, having been financed from other sources.

Sectoral focus

In sectoral terms, the funding portfolio of the Bank in South and Southern Africa was dominated by water infrastructure (38 per cent of approvals) and commercial infrastructure (31 per cent). If the total investment costs of the Bank and its co-funders are considered, 49 per cent of funding in South Africa went to water, indicating an increased emphasis on that sector. Other important sectoral focus areas were infrastructure for energy (13 per cent), communications infrastructure (5 per cent) and social, sanitation and roads infrastructure (3 per cent each). This is a continuation of the general investment focus reported during 2002/03, with an increased emphasis on social infrastructure.

Disbursements

A key indicator for the Bank during the year remained the actual payments to clients (disbursements) in accordance with the implementation of approved projects. The Bank succeeded in disbursing R2,8 billion, which was substantially lower (24 per cent) than disbursements during 2002/03. This can be attributed partly to a lower approval rate than the previous year; and partly to the lower rand value of disbursements to SADC clients, because of the strengthening of the rand against the US dollar.

Technical assistance

Technical assistance, aimed at enabling clients to plan and implement investment projects properly, decreased to a total approved grant portfolio of R10,9 million (22 per cent lower than 2002/03). This was in line with a lower target, given that the DBSA Development Fund, in its second business cycle, was created to support capacity building of clients at a much larger scale. Grants from the Bank (excluding the Development Fund) were mainly intended for institution building and planning activities.

Development impact of the Bank's operations during 2003/04

The Bank participates indirectly in the economy through the funding of various infrastructure projects, with the specific objective of alleviating poverty. Its focus thus falls on development dynamics that enhance economic and social benefits, thereby improving the quality of human life. As part of the broader public sector, the Bank has a claim on public funds that need to be used cost-effectively and in a way that reflects the society's preferences.

The development impact of the Bank's activities is estimated on an annual basis through the application of economic and statistical models. These models take into account the linkages created with other economic role players, for instance through the purchasing of materials or through the salaries and profits that are ploughed back into the economy in the form of additional spending.

The analysis for 2003/04 indicates that the development impact of funding commitments at all stages, whether approved, committed or disbursed, was significantly lower compared to the previous year. However, it is important to note that 2002/03 was an exceptional year as far as the magnitude of Bank funding is concerned. Although funding in 2003/04 was lower than in the previous year, it was still markedly higher than in 2001/02.

The relatively lower funding by the Bank in the year under review can be ascribed partly to slower general economic growth. The run-up to the general election also affected decision-making in local and provincial governments, which are the Bank's main clients. In addition, fewer large programmes with large co-funding contributions were approved during 2003/04. Such programmes, which contributed significantly to the total project investment levels in 2002/03, tend to be cyclical, and it takes a few years before they are implemented fully and follow-up phases are introduced.

Statistics South Africa has developed a Household Infrastructure Needs Index to guide infrastructure development support in the provinces. This index was compared with the funding approved for each province (in global and per capita terms) by the Bank and its co-funders. It was found that the distribution of the Bank's funding per province is in line with the Statistics South Africa index.

The table shows the estimated economic impacts on the SADC region (including South Africa) for the year under review, compared at constant prices with the adjusted impacts for 2002/03.

Estimated economic impacts of DBSA funding on the SADC (at constant prices)

Indicator	Estimated impact 2003/04[1]	Estimated impact 2002/03[2]
Funding of investments in infrastructure by the Bank and co-funders		
Total	R5,6 billion	R14,4 billion (R13,8 billion)
South Africa	R4,0 billion	(R10,3 billion)
SADC excluding South Africa	R1,6 billion	(R3,5 billion)
Impact on GDP		
Based on approvals, disbursements and commitments by the Bank and co-funders		
Total	R4,3 billion	N/A[3]
South Africa	R3,1 billion	R8,8 billion (R8,4 billion)
SADC excluding South Africa	R1,2 billion	N/A
Based on direct Bank disbursements only		
Total	R2,4 billion	N/A
South Africa	R2,0 billion	R2,5 billion
SADC excluding South Africa	R0,4 billion	N/A
Employment creation		
Based on total funding by the Bank and co-funders		
Total	24 700	N/A
South Africa	17 400	42 000
SADC excluding South Africa	7 300	N/A
Based on direct Bank disbursements only		
Total	12 400	N/A
South Africa	10 300	11 600
SADC excluding South Africa	2 100	N/A
Impact on low-income households		
Based on total funding by the Bank and co-funders		
Total	R0,6 billion	N/A
South Africa	R0,5 billion	R1,2 billion
SADC excluding South Africa	R0,1 billion	N/A
Based on direct Bank disbursements only		
Total	R0,3 billion	N/A
South Africa	R0,27 billion	R0,3 billion
SADC excluding South Africa	R0,03 billion	N/A
Capital employed		
Based on total funding by the Bank and co-funders		
Total	R11,1 billion	R24,7 billion
South Africa	R8,4 billion	R24,7 billion
SADC excluding South Africa	R2,7 billion	N/A
Based on direct Bank disbursements only		
Total	R6,1 billion	N/A
South Africa	R5,3 billion	R6,3 billion
SADC excluding South Africa	R0,8 billion	N/A

1. *For more information on the economic model, contact the Chief Information Officer of the Development Bank.*
2. *2002/03 reporting in current prices indicated in brackets. For comparison, these were adjusted to constant prices (all prices without brackets).*
3. *Economic model only developed during the next period.*

In the year under review, it is estimated that total funding approvals by the Bank and its co-funders created an additional 24 700 employment opportunities in the SADC (including South Africa). The Bank's disbursements, excluding other contributions, created 12 400 employment opportunities, of which 10 300 were in South Africa. This is slightly lower than the previous year.

In general, all stages of the Bank's funding in 2003/04 were more capital-intensive and less labour-intensive than in 2002/03. This is due to significant differences in the composition of the funding portfolios in the two years. The water sector, which has a high priority for government at present, is very capital-intensive. The shift of the Bank's funding towards this sector is one reason why the impact on the creation of employment opportunities was lower in 2003/04. A high proportion of the jobs created were unskilled and semi-skilled (87 per cent in the SADC and 86 per cent in South Africa only), a mark of the Bank's efforts to address unemployment.

Capital is one of the basic production factors required for a functioning economy. In order to support the economic activity activated by the Bank and its co-funders in the year under review, a capital amount of approximately R11,1 billion would have to be employed directly and indirectly in the SADC including South Africa. Indirect use refers to the capital required to produce materials and other inputs supplied to projects funded by the Bank. This constitutes around 6 per cent of South Africa's total gross fixed capital formation in 2003/04 (versus 10 per cent during 2002/03).

In addition, the implementation of projects funded by the Bank produces increased economic activity, from which the government derives additional revenue. Making broad assumptions about the spending of this revenue, it is estimated that the Bank's projects during 2003/04 could produce the following social benefits in the SADC including South Africa:

- 1 040 additional educators could be appointed
- 195 additional hospital beds could be fully serviced
- 20 new doctors could be appointed by government
- 975 low-cost houses could be constructed

Employing effective business processes

Effective business processes play an important role in any organisation. A formal business process management programme was launched during the year. It will form the basis for building capacity to plan, organise, monitor and improve enterprise-wide business processes. As the first step of the programme, a strategic framework and action plan were adopted, which will guide and integrate the renewal of business processes and the building of management capacity in this area. The strategic framework and action plan identify opportunities in three of the six major business processes for improving the alignment of the core processes with the Bank's strategic thrusts:

- Knowledge and partnership management
- Business development to create a holistic approach to the marketing of the Bank
- Organisation development and innovation

New initiatives focus primarily on enhancing systems for managing credit and knowledge as key products of the Bank, and for managing business performance and operating resources.

Environmental report

Although separate strategic objectives have not been set for environmental impact, the Bank places particular emphasis on the environmental impact of its products and services, as well as its own operational activities. Environmental performance management is undertaken in several areas.

Materials

Paper: For the in-house production of reports and publications during 2003/04, the Bank used 6,4 million sheets of A4 paper and 180 000 sheets of A3 paper. No records were kept in previous years. The Bank considers this level of consumption normal for a knowledge-based organisation. (This consumption also includes usage by the NEPAD Secretariat, which is housed on site.) Although no formal policy in this regard has been adopted yet, the Bank continued to move towards a paperless environment by encouraging the use of electronic media.

Energy and water: The service providers could not supply accurate figures on water and electricity usage during the past year. However, the Bank strives to use water and electricity optimally. The office building was constructed in an energy-efficient manner and the indigenous veld on the site is in an ecologically healthy condition. All trees planted are indigenous, so as to minimise water consumption, while the terrain has been laid out to channel storm water to a number of on-site retention ponds. In addition, an experimental solar dish has been erected in conjunction with Eskom to test the efficiency of harvesting solar energy for office consumption, among other things. The results of this will only be known at a later stage.

Biodiversity

In-house measures: The Bank's office building is situated on 26 hectares of Bankenveld grassland in Midrand. The veld surrounding the building is maintained in a condition that will attract wildlife, something that has become increasingly important as building activity has destroyed the natural habitat in the immediate vicinity. Two ponds have been constructed to attract birds to the site. These ponds are fed by run-off from the parking lot. Sections of the veld are left uncut for periods of up to three years to create a habitat for birds that nest in tall grass, while the nearly mature trees provide a habitat for a range of other birds.

External measures: The Bank has demonstrated its commitment to biodiversity in the external environment through the projects it supports. For instance, financial support was provided for the institutional restructuring of the National Botanical Institute, which is moving towards becoming the new National Biodiversity Institute. A memorandum of understanding was signed with the Cape Action for People and the Environment (C.A.P. E.) programme, which has received substantial funding from the Global Environmental Facility. C.A.P. E. aims to protect the unique Cape Floristic Region and use it to the benefit of the people living in the area. On a project level, financial support was provided to the Subtropical Thicket Ecosystem Planning (STEP) project in the Eastern Cape and the Succulent Karoo Ecosystem Planning (SKEP) project in the Northern Cape.

Emissions, effluents and waste

Emissions, effluents and waste materials are limited to those typical of any office complex. The Bank has adopted a low-maintenance, natural approach towards its gardens, lowering the need for irrigation and pesticides. As a result, a large number of birds and small mammals are found on the site. The veld grass around the buildings, most of which is cut only three times a year, is composted and used by the gardeners. Waste typing paper is recycled and sold to a local paper merchant (in the process supporting black economic empowerment). During the past year, 7 700 kg of waste paper was sold at a price of 18 cents per kilogram.

Products and services concerned with the environment

The Bank is supporting seven projects arising from the World Summit on Sustainable Development. Two of these are currently being implemented: the South African Women in Construction training workshops in sustainable development; and the Overstrand Conservation Foundation's alien plant eradication project.

Several projects have been selected for support because of their distinct focus on environmental issues. For instance, the Bank supports the Wild Coast Conservation and Capacity Building Programme, which seeks to enhance the capacity of local people to benefit from the conservation of the unique natural resources along the Cape's east coast. It also supports the transfrontier conservation areas programme, involving South Africa, Mozambique, Zimbabwe and Botswana.

The Bank has actively pursued partnerships. The business planning project for the Cape West Coast Biosphere Reserve is significant: the outcome of this pilot project will determine the Bank's support for all other biospheres in South Africa. Provisional funding has also been made available to the Griqua Ratelgat community through the Job Creation Trust. This is earmarked for the development of tourism infrastructure in the form of hiking trails and overnight accommodation.

Important memoranda of understanding were entered into with the International Council for Local Environmental Initiatives, C.A.P.E. and the Peace Parks Foundation. To concretise the memorandum with C.A.P. E., the Bank financially supported feasibility studies into the creation of the Cederberg and Gouritz megareserves, as well as investigations into concession opportunities in nature reserves managed by the Western Cape Nature Conservation Board. Following the memorandum with the Peace Parks Foundation, the Bank has already provided a grant for the construction of a gate into the Limpopo Transfrontier Conservation Area.

Compliance

The Bank is committed to complying with international best practice on environmental matters. It participates, as an observer, in the joint project of the UNEP Financial Institutions and the Global Reporting Initiative to develop environmental indicators for the banking and financial sector.

Clients are also encouraged and given financial support to follow best practice in their organisations; for example, the Plettenberg Bay Municipality received support to implement an environmental management system.

Legal compliance is taken seriously in every project the Bank invests in. No disbursements are made before the required environmental permits are issued by the relevant authorities.

Social report

Organisations that assume corporate social responsibility make decisions on the basis of ethical values, compliance with legal requirements and respect for people, communities and the environment. As a development finance institution, the Bank fully supports this principle. In defining the elements of its social responsibility, it follows the lead given by the Global Reporting Initiative in its sector-specific supplement for the financial services sector.

The overall management of social issues and the social impact of the Bank's products and services

The Bank is committed to supporting sustainable development. To this end, it is required to appraise not only the financial, institutional and technical aspects of proposed projects, but also their economic, environmental and social aspects, and to ensure that these are in balance.

The appraisal process assesses a project's social risk and anticipated social impact. In respect of social risk, three elements are appraised: the fit between the project and the social context in which it will operate; communication with stakeholders; and community or beneficiary participation. In respect of social impact, the elements appraised include the anticipated impact on quality of life, the formation of human capital, gender equity and empowerment.

The Bank's commitment to fulfilling its social responsibilities is also reflected in its customer profile, its contribution to community welfare, poverty reduction and capacity building, and its contribution to charitable causes and sponsorships, as recorded in this Directors' report.

Relations with communities and society in general

In addition to appraising the social aspects of the projects it is requested to finance, the Bank engages in other activities in the social sector, particularly in the fields of general human development, human resource development, gender equity and health.

Human development

The Bank subscribes to the view advanced by the United Nations Development Programme that the "most basic capabilities for human development are to lead long and healthy lives, to be knowledgeable, to have access to the resources needed for a decent standard of living and to be able to participate in the life of the community". Accordingly, it recognises that fostering human development requires multi-sectoral interventions to encourage economic growth, investment in people and protection of their fundamental rights. In the year under review, a paper was produced on the effects of income inequality on human development. Conceptual work was also done on the ideal rural village, that is, a village which is dynamic, sustainable and productive, and uses all the resources available in rural areas. It was concluded that the existence of such a village would require diversification of the rural economy, redistribution of land and other resources such as water, and provision of support services and amenities, such as social services and marketing outlets.

Human resource development

The Bank is active in the education and training sector. Capacity building of local government councillors and officials has become a major focus, and in this regard extensive programmes have been implemented in various provinces. The Bank provides grant finance for capacity building and training initiatives, and loan finance for infrastructure to both higher education and further education and training institutions.

The "landscaping" of the higher education sector has given rise to many challenges and opportunities. Bank specialists are giving extensive technical assistance to the national Department of Education and to individual institutions involved in mergers and incorporations. The restructuring of public further education and training colleges has resulted in an increased demand for affordable loan finance, as these institutions develop and implement new programmes requiring additional physical facilities and equipment. Moreover, private further education and training institutions are also increasingly requesting loan finance to meet the growing demand in this sector.

Gender equity

An important aspect of the Bank's work in promoting gender equity is its continuing support for South African Women in Construction. This association holds national workshops at the Bank every quarter and monthly meetings in the provinces, aimed at empowering women contractors to tender on and acquire contracts, undergo training, obtain finance and expand business networks. In addition, the DBSA Development Fund provided grant funding to the association for a series of provincial workshops on sustainable development. These workshops, which deal with environmental issues, changes in building regulations, risk, safety and health in construction, including HIV/Aids, are breaking new ground in the building industry.

The Bank also prepared a framework for assisting clients, comprising a training manual on employment equity and operational guidelines for mainstreaming gender issues. It commenced with gender training for male and female councillors, officials and ward committee representatives.

Health

The Bank developed its first sector paper on health in this financial year. The paper highlights the health issues linked to the provision of infrastructure, and focuses on HIV/Aids, cholera and malaria, largely because of the reported link between these communicable diseases and infrastructure such as health facilities, potable water and sanitation. The paper also underlines the challenges in the health sector. These include ongoing attempts to support the improvement of the country's health care system. In addition, in conjunction with the National Department of Health and its provincial departments, the Bank is managing a programme to improve HIV/Aids voluntary counselling and testing in Mpumalanga, KwaZulu-Natal and the Eastern Cape. This programme is financed by Kreditanstalt für Wiederaufbau.

Reduction of poverty and inequality

The reduction of poverty and inequality has been a central concern of the South African government since 1994. The Bank's own mission statement emphasises the need to reduce poverty. A modelling exercise was undertaken to determine the impact of the Bank's funding on poverty alleviation. The results are reflected in various parts of this Annual Report dealing with the development impacts of the Bank's operations.

Contributions to society

The Bank supported a variety of institutions during the year with donations and sponsorships worth R1,6 million. The recipients included conferences and events focused on education, health, black economic empowerment and the youth.

Social responsibility towards employees

Development of the Bank's human capital

The strategic issues that organisations face today revolve around extending their limits, applying knowledge in different ways, and building a continuous learning culture. In this sense, knowledge management needs to define the new mandate for human capital growth. A human capital strategy framework has been developed and approved by the Bank to promote the development of its human resources. The challenge of leveraging "people embodied know-how" is of particular importance, given the Bank's triple role as financier, advisor and partner, and is the basis of the knowledge management strategy.

The challenge for the Bank is to articulate coherently the current value of its human capital as a differentiator; and to determine how this can be developed and strengthened to support the Bank's objectives. Human capital is defined as the combined value of the skills and knowledge of people, together with how this is applied and leveraged to meet strategic objectives and sustain competitive advantage. Human capital management involves creating a culture, a development investment, and associated enabling systems which ensure that the combined abilities (knowledge, experience and skill) of individuals, teams and the Bank at large are applied effectively and grow over time to create value and competitive advantage. Leveraging people for competitive advantage requires developing an organisational unique human capital system - one in which the human capital delivery architecture links to, integrates with and supports the business strategy.

Training

The organisation continued to focus on training and improving the competency levels of staff. In total, 4,5 per cent of the remuneration budget was used for training, slightly lower than the budgeted target but the same as 2002/03. Each staff member was expected to prepare a personal development plan, and a number of Integrated Rewards and Recognition workshops were conducted where staff were sensitised and trained in the application of this approach.

Staff complement

Staff turnover increased from 4,7 per cent in 2002/03 to 7,4 per cent. During the year, 42 staff members resigned and 104 new staff members were appointed. There were 569 people employed by the Bank (including 60 contract workers and 20 young professionals) at the end of 2003/04. At the end of 2002/03, 511 staff members including 41 contract workers were employed.

Employee satisfaction

An organisational culture and climate survey was completed and a summary of the findings and recommendations was disseminated. In general, the attitude towards the Bank's overall climate was positive, and management is addressing the negative issues uncovered.

Staff well-being

The Bank continued to provide support services catering to the total well-being of its staff. As a free service to all staff, the Bank has subscribed to the Employee Assistance Programme, which offers a comprehensive advice and counselling service on life issues.

With regard to HIV/Aids, the Bank provides counselling and referrals, as well as awareness drives and the dissemination of information to staff. HIV/Aids prevalence testing was done through voluntary counselling and testing, and saliva testing. The Bank is in the process of approving an HIV/Aids implementation plan on the treatment of staff and their immediate family members. This process is spearheaded by the Employment Equity Unit.

There is a first-aid clinic for all minor medical problems, managed by a professional nurse. The Bank maintained its status as a safe environment, with only 11 minor on-site incidents reported during the year in terms of the Compensation for Occupational Injuries and Diseases Act of 1983 (six during 2002/03).

"Health days" are held annually, in association with ABSA Health, the Bank's health care brokers, to encourage staff to improve their health. As a further incentive for staff, holiday programmes subsidised by the Bank were run for employees' children during June and September.

Staff profile at 31 March 2004	Blacks	Coloureds	Asians	Whites	Total
Male	109	8	7	118	242
Female	146	6	9	86	247
Total: end 2003/04	255	14	16	204	489[1]
% of total: end 2003/04	52,1	2,9	3,3	41,7	100,0
Total: end 2002/03	231	12	19	208	470
% of total: end 2002/03	49,1	2,6	4,0	44,3	100,0

1. This excludes 60 staff employed on a contract basis and 20 young professionals.

Employee profile

The Bank continued to strive for a balanced staff complement within the employment equity strategic framework approved by the Board. Employment equity strategies are being implemented to accelerate the achievement of targets, according to which 75 per cent of staff should be from designated groups and 53 per cent should be black by 2004/05. At present, 58,3 per cent of staff is black, coloured and Asian (55,7 per cent during 2002/03). Detailed progress in this regard is reported annually to the Department of Labour.

Relations with suppliers to the Bank

Policy and procedures to screen the social performance of suppliers must still be developed. At present, management deals directly with feedback from suppliers.

Directors' opinion

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 2004 and the results of its operations and cash flows for the year then ended. The financial statements were approved on 15 July 2004.

The Directors have no reason to believe that the business will not be a going concern in the year ahead. They are also of the opinion that the Bank complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

Information required under Schedule 4 of the Companies Act

Share capital and dividends: The callable capital of the Bank is R4,8 billion and the paid-up capital R200 million. A nil dividend has been declared for the current financial year (2002/03: nil).

Directorate and Secretariat: The names of the members of the Board of Directors and the Secretariat appear on pages 12 to 15.

Board Committee memberships: Details appear in the corporate governance statement on page 43.

Directors' emoluments: Details appear on page 90.

Kathu infrastructure development project, Northern Cape

Balance sheet

at 31 March 2004

	Notes	2004 R 000	2003 R 000
Assets			
Cash and cash equivalents	3	1 913 410	1 305 768
Other debtors	4	13 572	24 866
Financial market assets	5	5 723 157	5 107 117
Post-retirement medical benefits investment	6	53 142	46 795
Home ownership scheme loans	7	18 931	17 604
Development investments	8	280 537	170 769
Development loans	9	15 551 816	14 125 274
Property, plant and equipment	10	129 893	120 955
Total assets		23 684 458	20 919 148
Equity and liabilities			
Capital and reserves		11 197 045	10 231 348
Share capital	11	200 000	200 000
Permanent government funding	12	3 792 344	3 792 344
Development Fund grant funding		–	70 000
Revaluation reserve on land and buildings		87 422	77 682
Future cash flow hedge		38 870	18 017
Reserve for general loan risks		556 693	–
Revaluation of financial instruments		39 807	–
Accumulated surplus		6 481 909	6 073 305
Liabilities		12 487 413	10 687 800
Short-term financing		–	236 550
Other creditors	13	631 211	396 092
Financial market liabilities	14	11 735 793	9 970 963
Provision for post-retirement medical benefits	15	105 086	66 095
Long-term liabilities	16	15 323	18 100
Total shareholder’s equity and liabilities		23 684 458	20 919 148

Income statement

for the year ended 31 March 2004

	Notes	2004 R 000	2003 R 000
Operating income		1 445 741	1 650 676
Interest income	17	2 534 570	2 282 553
Interest paid	18	(1 100 771)	(966 962)
Net interest income		1 433 799	1 315 591
Movements in impairment	19	69 942	38 731
Debts written off	20	–	(38 491)
		1 503 741	1 315 831
Other income	21	26 019	29 588
Foreign exchange loss	22.1	(42 916)	(73 541)
Revaluation of financial instruments	22.2	(41 103)	378 798
Operating expenses		(382 327)	(286 876)
Technical assistance grants		(20 513)	(13 852)
Staff costs	23.1	(251 385)	(193 813)
General and administration expenses	23.2	(101 060)	(72 426)
Depreciation	10.1	(9 369)	(6 785)
Surplus from operations		1 063 414	1 363 800
Grant to Development Fund	24	(300 000)	(80 000)
Surplus for the year		763 414	1 283 800

Cash flow statement

for the year ended 31 March 2004

	Notes	2004 R 000	2003 R 000
Net cash inflow from operating activities		1 597 558	1 178 562
Interest received from development loans	27.1	1 859 359	1 827 732
Interest received from development investments	27.1	16 157	13 524
Interest received from investments	27.2	676 330	666 189
Interest paid	27.3	(1 050 487)	(1 089 071)
Cash generated from/(utilised by) other operations	27.4	96 199	(239 812)
Net cash outflow from development activities		(1 229 264)	(2 952 014)
Development loan disbursements	9.1	(2 729 196)	(3 660 750)
Development loan principal repayments	27.1	1 538 378	747 646
Development investments		(17 933)	(25 058)
Technical assistance grants paid		(20 513)	(13 852)
Net cash outflow from investment activities		(9 894)	(15 232)
Replacement of property, plant and equipment		(8 567)	(12 757)
Disposals of property, plant and equipment		–	296
Home ownership scheme advances to employees		(1 327)	(2 771)
Net cash inflow from financing activities		249 242	1 718 584
Short-term financing repaid		(236 550)	236 550
Decrease in long-term liabilities		(1 223)	(1 174)
Financial market liabilities repaid		(661 081)	(730 391)
Financial market liabilities raised		1 148 096	2 213 599
Movement in cash and cash equivalents		607 642	(70 100)
Cash and cash equivalents at the beginning of the year		1 305 768	1 375 868
Cash and cash equivalents at the end of the year	3	1 913 410	1 305 768

Statement of changes in equity

for the year ended 31 March 2004

	Notes	2004 R 000	2003 R 000
Share capital	11	200 000	200 000
Permanent government funding	12	3 792 344	3 792 344
Grant Fund		–	70 000
Opening balance		70 000	70 000
Transfer from Grant Fund to accumulated surplus		(70 000)	–
Revaluation reserve on land and buildings		87 422	77 682
Opening balance		77 682	77 682
Surplus on revaluation of buildings		9 740	–
Future cash flow hedge		38 870	18 017
Opening balance		18 017	18 017
Impact of adoption of AC133	2	(21 034)	–
Fair value adjustments of cash flow hedges		41 887	–
Reserve for general loan risks		556 693	–
Opening balance		–	–
Impact of adoption of AC133	2	533 527	–
Transfer from accumulated surplus		23 166	–
Revaluation of financial instruments		39 807	–
Opening balance		–	–
Impact of adoption of AC133	2	(26 056)	–
Movement in valuation of financial instruments:			
– fair value adjustment of available-for-sale financial market instruments		54 689	–
– fair value adjustment of available-for-sale development investments		11 174	–
Accumulated surplus		6 481 909	6 073 305
Opening balance		6 073 305	4 789 505
Surplus for the year		763 414	1 283 800
Impact of adoption of AC133	2	(401 644)	–
Transfer to reserve for general loan risks		(23 166)	–
Transfer from Grant Fund		70 000	–
Total capital and reserves at the end of the year		11 197 045	10 231 348

Notes to the financial statements

for the year ended 31 March 2004

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for property, plant and equipment, and financial instruments, as described in the relevant notes. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice (SA GAAP). The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous year, except where indicated otherwise.

Fair value information is not provided for insignificant financial assets, where it is impractical to obtain such information. The principal characteristics of those underlying financial instruments are, however, disclosed.

1.2 Financial instruments

1.2.1 Classification

Upon initial recognition, assets are designated as trading or managed as part of a portfolio of trading assets which were acquired principally for the purpose of generating profit from short-term fluctuations in price. Derivative assets that do not form part of an effective hedging relationship are classified as assets carried at fair value. Assets carried at fair value consist of money market instruments, capital market instruments and repurchase and reverse purchase agreements.

Originated loans and receivables are loans and receivables created by the Bank providing money to debtors other than those created with the intention of short-term profit taking. Originated loans and receivables comprise development loans and advances to customers other than purchased loans, as well as bonds purchased at original issuance and collaterised debt transactions.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to customers and certain debt investments.

Available-for-sale financial assets are financial assets that are not held for trading purposes, originated by the Bank or held to maturity. Assets to be held for an indefinite period of time, which may be sold in response to need for liquidity, are classified as available for sale. Available-for-sale instruments are money market placements and certain debt and equity investments.

Cash and cash equivalents comprise cash and money market instruments. These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Upon initial recognition, liabilities are designated as trading or managed as part of a portfolio of trading liabilities which were acquired principally for the purpose of generating profit from short-term fluctuations in price and derivative liabilities that do not form part of an effective hedging relationship are classified as liabilities carried at fair value.

Capital market bonds, euro-rand bonds, lines of credit and other financial liability hedged items that do not form part of an effective hedging relationship are classified as funding liabilities carried at cost.

1.2.2 Recognition

The Bank recognises financial assets held at fair value and available-for-sale assets on the date it commits to purchase the assets. From this date, any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity loans and originated loans and receivables are recognised on the day they are transferred to the Bank.

1.2.3 Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all assets and liabilities held at fair value and all available-for-sale assets are measured at fair value, except that any instrument thatdoes not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

1.2.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date, taking into account current market conditions and the current credit status of counterparties.

1.2.5 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of instruments held at fair value other than those classified as available for sale are recognised in the income statement.

1.2.6 Hedge accounting

If there is a hedging relationship between a derivative instrument and a related item being hedged, the hedged instrument is measured at fair value. The treatment of any resultant gains and losses is set out below.

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge
- The hedge is expected to be highly effective
- The effectiveness of the hedge can be reliably measured
- The hedge is highly effective throughout the reporting period
- For hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value (refer to accounting note 1.2.4 above).

Derivative financial instruments are always deemed to be carried at fair value unless they are designated as effective hedging instruments and comply with the hedge accounting criteria.

The Bank utilises cross-currency swaps, interest rate swaps and credit default swaps as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks as well as exposures to variability in cash flows attributable to a particular risk associated with a recognised asset or liability. The Bank applies either fair value or cash flow hedge accounting to transactions that comply with the hedge accounting criteria and are classified as hedging instruments. The hedging instruments are carried at fair value on the balance sheet and are reported as either positive or negative fair values.

Derivative instruments transacted as economic hedges but not qualifying for hedge accounting treatment are treated in the same way as instruments in the trading portfolio. These hedging instruments are reported as non-qualifying hedges.

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognised asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the income statement. These amounts are included in gains less losses from non-trading financial instruments.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities or anticipated transactions or firm commitments, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

When a hedged anticipated transaction or firm commitment results in the recognition of an asset or liability, the cumulative gain or loss on the hedging instrument recognised in equity is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss recognised in equity is transferred to the income statement at the same time that the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

1.2.7 Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held at fair value that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

1.2.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.2.9 Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances and held-to-maturity loans

The recoverable amount of originated loans and advances and purchased loans that are classified as held to maturity is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for non-recoverability. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest and penalties. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

Financial assets remeasured to fair value through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write-down of the asset was previously recognised directly in equity, the write-down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

1.3 Foreign currency

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of the transaction. At balance sheet date, monetary assets and liabilities denominated in foreign currency are reported using the closing exchange rate.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign monetary assets and liabilities, are recognised in the income statement.

1.4 Development investments

This represents equity, bills or bonds extended to unlisted institutions for financing of development programmes or projects.

Development investments are classified either as available for sale or held to maturity. Available-for-sale assets are carried at fair value and held-to-maturity assets are carried at amortised cost less impairment.

1.5 Development loans

A development loan is credit extended to institutions for the financing of development programmes or projects repayable over a specified loan period at agreed terms and conditions.

Development loans are treated as loans and receivables originated by the entity and are carried at amortised cost, using the effective interest rate method. Purchased loans that the Bank has the intent and the ability to hold to maturity are classified as held-to-maturity assets. Purchased loans that the Bank does not intend to hold to maturity are classified as available-for-sale assets.

The treatment of revenue recognition is described in note 1.8.

1.5.1 Impairment against development loans

Development loans are classified as non-performing when the payment of principal and interest has become 180 days past due or when, in the opinion of the Directors, the recovery of the whole loan or a portion thereof becomes doubtful.

Once these loans have been identified as irrecoverable, an impairment provision is raised. The impairment provision is reviewed on a biannual basis and any changes are charged to the income statement. Factors that mitigate risk, such as the presence and quality of securities, are taken into consideration.

In addition, a reserve for general loan risks is maintained based on the risk grading of the applicable borrowers, in the following categories:
3% - Low risk
5% - Medium risk
7% - High risk

1.6 Property, plant and equipment

Items of property, plant and equipment which qualify for recognition as an asset are initially measured at cost. An impairment test is performed where there are indicators of impairment. If the recoverable amount is less than the carrying amount, the asset is impaired, and the impairment loss is recognised in the income statement. The recoverable amount is the higher of the net selling price of the asset or the value in use.

Where an asset is carried at a revalued amount, revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any revaluation surplus is included in equity.

Surpluses or deficits on the disposal of property, plant and equipment are credited or charged to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6.1 Land

Land is stated at fair value. It is revalued every three years. No depreciation is provided.

1.6.2 Buildings

The building, including improvements, is stated at fair value at the date of revaluation, less accumulated depreciation and any subsequent accumulated impairment losses. The revaluation surplus will be realised at the time of sale. The buildings are depreciated over their estimated useful life.

1.6.3 Other fixed assets

All other fixed assets, currently comprising furniture and fittings, motor vehicles, computer equipment and office equipment, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight-line basis, over the expected useful life of the asset.

Where the recoverable amount of an asset has declined, the carrying value is reduced to reflect the decline and is charged to the income statement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant or equipment. All other expenditure is recognised in the income statement as an expense as incurred.

1.6.4 Rates of depreciation

The annual rates used to depreciate property, plant and equipment are as follows:

Buildings	4%
Furniture and fittings	10%
Motor vehicles	20%
Computer equipment	33,33%
Office equipment	20%

1.7 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

1.8 Revenue recognition

Interest income on development loans is recognised as income on the accrual basis, taking into account the effective yield of the asset or the applicable floating interest rate. The interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Guarantee fees and commitment fees charged on development loans are recorded as income on the accrual basis as services are rendered.

Fees received in advance on the commencement of development loans are deferred and recognised as income over the lifetime of the loan.

Interest on other investments is recorded as income on the accrual basis, using the effective interest rate method.

Dividends are recognised when the Bank's right to receive payment is established. They are incorporated in other income, which is separately disclosed in the notes to the income statement.

Income received for non-banking services rendered to third parties is recognised as income when the services are rendered.

1.9 Borrowing costs

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

1.10 Retirement benefits

1.10.1 Post-retirement medical benefits

Provision is made for post-retirement benefits in the form of health care plans for eligible employees and pensioners. This is a defined benefit plan.

The Bank has adopted the policy of accelerating the recognition of actuarial gains and losses by recognising them when they arise.

The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a “Plan Asset“ and is therefore disclosed separately on the balance sheet.

1.10.2 Provident fund

The provident fund is a defined contribution fund. The Bank contributes to the provident fund on the basis of a fixed contribution. This fund does not require an actuarial valuation.

Current contributions to the provident fund operated for the benefit of employees are charged against income as incurred.

1.11 DBSA Development Fund

The DBSA Development Fund is a section 21 company that was incorporated on 21 December 2001. This fund is not consolidated, as the definition of control is not met.

A full set of financial statements has been prepared in a separate Annual Report for the Development Fund.

1.12 Offsetting

Assets and liabilities are not offset except when offsetting is required or permitted by another South African Statement of Generally Accepted Accounting Practice.

Items of income and expenses are only offset when another South African Statement of Generally Accepted Accounting Practice requires or permits it, or the gains, losses and related expenses arising from the same or similar transactions and events are not material.

1.13 Contingent liabilities

Contingent liabilities are disclosed when a possible obligation arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Bank, or where a present obligation exists but is not recognised, because it is not probable that there will be an outflow of resources or the amount cannot be reliably estimated.

Contingent assets are disclosed where it is probable that an inflow of economic benefits will occur.

1.14 Events after balance sheet date

All adjusting events, both favourable and unfavourable, that occur between balance sheet date and the date when the financial statements are issued have been reported and adjusted in the financial statements.

Those events that are indicative of conditions that existed after balance sheet date are not adjusted for.

1.15 Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period, except for changes arising from the adoption of AC133. This statement does not provide for the restatement of comparative figures.

1.16 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, grants and loans.

These funds are not included in the balance sheet of the Bank. Refer to note 30.

2. Change in accounting policy

Accounting statement AC133, Financial instruments: recognition and measurement, is applied prospectively and does not provide for the restatement of historical figures. Instead it provides for comprehensive transitional provisions, which affect opening equity. The adjustments to opening equity are set out below.

2.1 Impact of adoption of AC133

The tables below provide disclosure of the adjustments required to equity as a result of the implementation of AC133, together with accompanying commentary.

2.2 Loan loss provision

Prior to the implementation of AC133, the loan loss provision consisted of two components, namely specific provisions for identified non-performing loans and a general provision based on the balance of the loan book, which gave rise to a total loan loss provision of R913 million in 2002/03.

AC133 prescribes that a cash flow valuation methodology be used in calculating provisions going forward. This methodology requires that all future expected cash flows, including interest income, be taken into account in the calculation, and to be discounted.

In order to mitigate the Bank's risk, should any of the performing clients become a defaulting client, a conservative approach has been adopted, which segregates its clients' portfolios into the following risk buckets for the performing loans:
3% - Low risk
5% - Medium risk
7% - High risk

As there are no impairment indicators on the performing book, there is no impairment loss recognised on the performing book. Consequently, the impairment on the performing book is not shown as part of the impairment, but instead as a reserve for general loan risks.

	1 April 2003 (Restated) R 000	31 March 2003 R 000
Loan impairment	1 035 902	912 617
Non-performing	502 375	339 468
Reserve for general loan risks	533 527	573 149
Restated gross development loans	15 253 069	15 037 891
Provision as % of book debt	6,8%	6,1%

Impact on opening reserves

	Future cash flow hedge R 000	Reserve for general loan risks R 000	Revaluation of financial instruments R 000	Accumulated surplus R 000	Total R 000
– Reversal of loan loss provision				912 617	912 617
– Raising of non-accrued income				215 178	215 178
– Raising of impairment				(572 042)	(572 042)
– Transfer to reserve for general loan risks		533 527		(533 527)	–
– Fair value adjustment of available-for-sale financial market assets			19 787		19 787
– Fair value adjustment of available-for-sale development investments			(45 843)		(45 843)
– Fair value adjustment of financial market liabilities				(474 112)	(474 112)
Fair value movements of cash flow hedge					
– Transfer of cash flow fair values to retained income	(21 034)			21 034	–
Adjustment to accumulated surplus for the year					
– Foreign exchange revaluation of available-for-sale development investments				(10 993)	(10 993)
– Fair value adjustment of held-for-trading financial market assets				40 201	40 201
	(21 034)	533 527	(26 056)	(401 644)	84 793

The impact on the current period is reflected in the statement of changes in equity.

	2004 R 000	2003 R 000
3. Cash and cash equivalents		
Fixed deposits	130 000	237 000
Call deposits	1 566 435	613 252
Cash at bank	155 256	379 999
Accrued income on deposits and securities	61 719	75 517
	1 913 410	1 305 768

The average annual interest rate on cash and cash equivalents detailed above was 10,6% (2003: 12,0%).

	2004 R 000	2003 R 000
4. Other debtors		
Staff loans	1 145	2 007
Other receivables	23 520	27 934
Less impairment	(11 093)	(5 075)
	13 572	24 866
5. Financial market assets		
Held-to-maturity	380 500	–
Originated loans and receivables	7 569	22 243
Available-for-sale	2 070 583	1 572 194
Assets carried at fair value	2 519 634	3 107 713
Hedging instruments	744 871	764 126
Financial market assets post AC133	5 723 157	5 466 276
Impact of adoption of AC133 on prior year	–	(359 159)
	5 723 157	5 107 117

Full details of the financial market assets are contained in the schedule provided under note 34.

	2004 R 000	2003 R 000
6. Post-retirement medical benefits investment		
Medipref Management Limited	53 142	46 795

This investment represents the market value of funds invested by the Bank to fund post-retirement medical benefits for eligible employees and pensioners. Medipref Management Limited invests in funds that consist of cash, interest-bearing investments, equities and international assets. Details of the post-retirement medical benefits liability are contained in note 15.

	2004 R 000	2003 R 000
7. Home ownership scheme loans	18 931	17 604

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to Bank employees at reduced interest rates. The Bank and Nedcor Bank Limited have entered into an agreement whereby Nedcor Bank Limited administers the loan scheme on behalf of the Bank.

All loans are secured by fixed property. Loans are provided to a maximum of 108% of the market value of the fixed property, to allow for transfer fees to be capitalised.

At 31 March 2004 the effective interest rate was 10,0% per year (2003: 14,8%)

	2004 R 000	2003 R 000

8. Development investments

8.1 Available-for-sale

	2004 R 000	2003 R 000
8.1.1 American International Group African Infrastructure Fund (AIG)	57 944	70 164
Cost	92 240	70 164
Less fair value adjustment	(27 176)	–
Less foreign exchange adjustment	(7 120)	–

The Bank has contributed US$11 246 026 (2003: US$8 102 544) to the AIG Infrastructure Fund, which represents 6,1482% of the total shareholding. The percentage shareholding has not changed from the previous year, due to the additional contribution by all shareholders in equal proportions.

	2004 R 000	2003 R 000
8.1.2 Commonwealth Africa Investments Limited	24 967	52 523
900 ordinary shares at cost	5	5
900 redeemable preference shares at cost, which represents 15,75% of the total preference shareholding	52 518	52 518
Less impairment:		
– Current year	(12 387)	–
– Prior year	(9 471)	–
– Foreign exchange impairment	(5 698)	–

The investment in Commonwealth Africa Investments Limited is denominated in US$.

	2004 R 000	2003 R 000
8.1.3 Continuity SA (Pty) Ltd	600	–

The Bank has made a commitment of R600 000. The Bank's shareholding in Continuity SA is 200 shares, which represents 20% of the total shareholding.

	2004 R 000	2003 R 000
8.1.4 Durban Marine Theme Park (Pty) Ltd	50 000	–

The Bank has made a commitment of R50 million.

	2004 R 000	2003 R 000
8.1.5 Ethos Technology Fund	4 250	–

The Bank has made a commitment of R25 million to the Ethos Technology Fund 1 Partnership SA.

	2004 R 000	2003 R 000
8.1.6 Franchise Fund	1	2 400
50 000 (2003: 50 000) ordinary shares at cost	50	50
1 700 000 (2003: 1 700 000) 8% redeemable cumulative preference shares at cost	1 700	1 700
650 000 (2003: 650 000) 15% redeemable debentures at cost	650	650
Less fair value adjustment	(2 399)	–

The 8% redeemable cumulative preference shares and the 15% redeemable debentures are redeemable on or before 28 April 2005.

	2004 R 000	2003 R 000
8.1.7 Millennium Consolidated Investments Equity	17 195	2 851
Cost	21 633	2 851
Less fair value adjustment	(4 438)	–
The Bank has made a commitment of R100 million to the MCI Value Partners Fund 1, which currently represents 33% of the aggregate committed capital of the Fund.		
8.1.8 New Africa Mining Fund	6 973	–
The Bank has made a commitment of R100 million to the Fund, which represents 17,74% of the total Fund.		
8.1.9 Proparco Investments	6 678	4 891
Cost	4 891	4 891
Add fair value adjustment	707	–
Add foreign exchange adjustment	1 080	–
This investment consists of 49 500 (2003: 49 500) shares and is denominated in euro.		
8.1.10 Women's Private Equity Fund	2 256	–
Cost	3 618	–
Less fair value adjustment	(1 362)	–
The Bank has made a commitment of R35 million to the Women's Private Equity Fund 1. The Bank's interest in the Fund at 31 March 2004 was 27,2%.		
8.2 Held-to-maturity		
8.2.1 Lepelle Northern Water Capital Project Bills	109 673	37 940
Cost	133 243	37 940
Less unamortised discount	(23 570)	–
Capital Project Bills of R30,7 million (2003: R37,9 million) with a nominal value of R132,2 million and maturities varying from 30 April 2000 to 31 October 2005.		
	280 537	170 769

9. Development loans

9.1 Analysis of development loans

	2004 R 000	2003 R 000
Balance at the beginning of the year	15 037 891	12 818 741
Impact of adoption of AC133	215 179	–
Adjusted balance at the beginning of the year	15 253 070	12 818 741
Movements during the year:	795 532	2 219 150
– Loans disbursed	2 729 196	3 660 750
– Contractual interest	1 829 454	1 673 072
Interest per income statement	1 776 887	1 673 072
Impairment of current year interest	52 567	–
– Development loans written off	(33 924)	(44 072)
– Revaluation of foreign loans	(331 457)	(495 222)
– Gross repayments	(3 397 737)	(2 575 378)
Gross development loans	16 048 602	15 037 891
Impairment against development loans (per note 9.9)	(496 786)	(912 617)
Net development loans	15 551 816	14 125 274

The weighted average return on the loan book was 11,0% (2003: 13,5%)

	2004 R 000	2003 R 000
9.2 Maturity analysis of development loans		
2004	–	2 470 378
2005	2 117 406	825 406
2006	1 199 094	1 138 617
2007	763 524	716 150
2008	1 310 920	1 134 669
2009–2013	5 567 745	5 035 626
2014–2018	3 704 610	3 051 026
2019 and thereafter	1 385 303	666 019
	16 048 602	15 037 891
9.3 Sectoral analysis		
Commercial infrastructure	2 234 136	2 185 389
Communication and transport infrastructure	1 007 722	646 638
Energy	3 024 461	2 090 118
Human resources development	569 047	730 469
Institutional infrastructure	15 623	44 172
Residential facilities	88 840	156 387
Roads and drainage	2 145 257	2 259 473
Sanitation	1 636 780	1 661 668
Social infrastructure	464 909	384 902
Water	4 861 827	4 878 675
	16 048 602	15 037 891
9.4 Geographical analysis		
Eastern Cape	836 095	779 283
Free State	725 450	686 189
Gauteng	3 905 593	3 337 906
KwaZulu-Natal	3 343 220	2 833 451
Limpopo	593 236	461 656
Mpumalanga	808 053	915 202
North West	508 148	543 255
Northern Cape	168 789	144 858
Western Cape	1 346 216	1 334 396
Multi-regional – South Africa	212 591	272 281
SADC (excluding South Africa)*	3 601 211	3 729 414
– Botswana	269 158	285 428
– Lesotho	587 954	656 785
– Malawi	64 002	50 509
– Mauritius	164 639	202 376
– Mozambique	975 531	1 099 320
– Namibia	502 688	447 846
– Seychelles	–	63 080
– Swaziland	172 124	154 155
– Zambia	452 579	307 206
– Multinational	412 536	462 709
	16 048 602	15 037 891
*Amount in US$ included in the above SADC loans	225 403	199 090

	2004 R 000	2003 R 000
9.5 Client classification		
Development finance institutions	156 571	258 874
Educational institutions	533 360	705 962
Local government	7 689 496	7 531 506
National and provincial government	433 850	371 165
Private sector	3 104 605	2 829 739
Public utilities	4 130 720	3 340 645
	16 048 602	15 037 891
9.6 Fixed and variable interest rate loans		
Fixed interest rate loans	9 302 412	8 611 287
Variable interest rate loans	6 746 190	6 426 604
	16 048 602	15 037 891
9.7 Non-performing loans		
9.7.1 Sectoral analysis		
Commercial infrastructure	429 837	536 564
Communication and transport infrastructure	291	206
Energy	66 400	63 665
Human resources development	1 838	4 014
Institutional infrastructure	849	901
Residential facilities	–	1
Roads and drainage	35 619	49 269
Sanitation	124 848	75 682
Social infrastructure	12 225	2 142
Water	85 160	86 554
	757 067	818 998
9.7.2 Geographical analysis		
Eastern Cape	48 645	49 399
Free State	191 699	153 898
Gauteng	44 645	58 770
KwaZulu-Natal	3 332	5 382
Limpopo	91 566	128 216
Mpumalanga	47 204	62 768
North West	192 396	282 170
Northern Cape	23 469	23 522
Western Cape	11 139	17 926
Multi-regional – South Africa	25 927	23 095
SADC (excluding South Africa)	77 045	13 852
– Malawi	64 002	6 595
– Swaziland	7 953	7 257
– Mozambique	5 090	–
	757 067	818 998
9.7.3 Client classification		
Development finance institutions	54 565	–
Educational institutions	1 269	1 209
Local government	287 942	250 710
National and provincial government	8 668	8 597
Private sector	94 472	103 753
Public utilities	310 151	454 729
	757 067	818 998

	2004 R 000	2003 R 000
9.8 Client concentration		
One client as percentage of total loan portfolio	9,8%	7,2%
Seven clients as percentage of total loan portfolio	38,4%	29,4%
9.9 Impairment against development loans		
Balance at the beginning of the year	912 617	958 911
Impact of adoption of AC133:	(340 575)	–
– Reversal of loan loss provision	(912 617)	–
– Raising of impairment	572 042	–
	572 042	958 911
Impairment of current year interest	52 567	–
Loans written off during the year	(33 924)	(5 579)
Income statement movement	(93 899)	(40 715)
– Specific impairment	(24 232)	(113 556)
– General provision	–	72 841
– Change in estimate	(69 667)	–
Balance at the end of the year	496 786	912 617

10. Property, plant and equipment

10.1 Reconciliation of property, plant and equipment

	Revalued land R 000	Revalued buildings R 000	Computer equipment R 000	Furniture and fittings R 000	Motor vehicles R 000	Office equipment R 000	Total R 000
At 31 March 2004							
Cost or revaluation							
At the beginning of the year	18 800	99 070	29 821	1 194	663	2 577	152 125
Revaluation	–	9 740	–	–	–	–	9 740
Additions	–	1 317	5 341	1 056	–	853	8 567
At the end of the year	18 800	110 127	35 162	2 250	663	3 430	170 432
Accumulated depreciation							
At the beginning of the year	–	7 713	20 926	482	248	1 801	31 170
Total depreciation for the current year	–	3 971	4 777	126	130	365	9 369
Depreciation - historical cost	–	1 627	4 777	126	130	365	7 025
Depreciation - revalued	–	2 344	–	–	–	–	2 344
At the end of the year	–	11 684	25 703	608	378	2 166	40 539
Net book value	18 800	98 443	9 459	1 642	285	1 264	129 893
Historical book value	–	39 848	9 459	1 642	285	1 264	52 498
At 31 March 2003							
Cost or revaluation							
At the beginning of the year	18 800	95 893	21 419	999	437	2 116	139 664
Additions	–	3 177	8 402	195	522	461	12 757
Disposals	–	–	–	–	(296)	–	(296)
At the end of the year	18 800	99 070	29 821	1 194	663	2 577	152 125
Accumulated depreciation							
At the beginning of the year	–	3 809	18 554	358	181	1 533	24 435
Disposals	–	–	–	–	(50)	–	(50)
Total depreciation for the current year	–	3 904	2 372	124	117	268	6 785
Depreciation – historical cost	–	1 454	2 372	124	117	268	4 335
Depreciation – revalued	–	2 450	–	–	–	–	2 450
At the end of the year	–	7 713	20 926	482	248	1 801	31 170
Net book value	18 800	91 357	8 895	712	415	776	120 955
Historical book value	–	32 762	8 895	712	415	776	43 560

10.2 Reconciliation of movements

	Carrying value at the beginning of the year	Revaluation	Additions	Depreciation for the year	Carrying value at the end of the year
Land	18 800	–	–	–	18 800
Buildings	91 357	9 740	1 317	(3 971)	98 443
Computer equipment	8 895	–	5 341	(4 777)	9 459
Furniture and fittings	712	–	1 056	(126)	1 642
Motor vehicles	415	–	–	(130)	285
Office equipment	776	–	853	(365)	1 264
Total	120 955	9 740	8 567	(9 369)	129 893

10.3 Valuation

10.3.1 Land

The land constitutes Erf 3, Headway Hill, which was donated by the South African government. It measures 26,066 ha.

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2004, using the sales comparison approach. This valuation did not change from the previous valuation, which was also performed by Davis Langdon Farrow Laing on 31 March 2001.

10.3.2 Buildings

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R1,32 million were effected during the 2004 financial year (2003: R3,2 million).

The buildings are valued every three years and were valued at R109,9 million on a replacement value basis by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2004, using the income capitalisation approach.

Included in the buildings is an investment property in Rustenburg, which is held at an amount of R240 000.

	2004 R 000	2003 R 000

11. Share capital

	2004 R 000	2003 R 000
Authorised		
500 000 ordinary shares at a par value of R10 000 each	5 000 000	5 000 000
Issued capital		
20 000 ordinary shares at a par value of R10 000 each	200 000	200 000
Callable capital		
480 000 ordinary shares at a par value of R10 000 each	4 800 000	4 800 000

The Development Bank of Southern Africa Limited Act, No. 13 of 1997, section 18, allows directors to issue shares from time to time and to call upon the shareholders in respect of any moneys to be paid to the Bank.

The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the share capital of the Bank.

12. Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994.

There are no repayment terms and this funding is interest-free.

	2004 R 000	2003 R 000
Received to date	3 792 344	3 792 344

13. Other creditors

	2004 R 000	2003 R 000
Trade creditors and sundry accruals	63 226	49 316
DBSA Development Fund	385 702	138 213
Accruals for leave pay and bonuses (see note 13.1)	28 252	43 108
Current portion of long-term liabilities (Société Générale)	926	1 032
Accrued interest	153 105	164 423
	631 211	396 092

13.1 Accruals for leave pay and bonuses

	2004 R 000	2003 R 000
Leave pay accrual	14 150	11 666
Bonus accrual	14 102	31 442
	28 252	43 108

14. Financial market liabilities

	2004 R 000	2003 R 000
Liabilities carried at fair value	718 857	290
Hedging instruments	94 767	37 461
Hedged items	3 733 057	3 855 245
Liabilities carried at cost	6 715 201	6 135 125
Non-qualifying hedged items	473 911	561 045
Financial market liabilities post AC133	11 735 793	10 589 166
Impact of adoption of AC133	-	(618 203)
	11 735 793	9 970 963

Full details of the financial market liabilities are contained in the schedule provided under note 34.

	2004 R 000	2003 R 000

15. Provision for post-retirement medical benefits

This benefit is in respect of current and retired employees of the Bank who are currently members of Discovery Health.

Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to Discovery Health after retirement.

In respect of these employees, 100% of the medical aid contribution is paid by the Bank.

The investment in Medipref as specified in note 6 has been set aside to fund this obligation.

The related obligation, which was actuarially valued, is detailed below:

	2004 R 000	2003 R 000
Present value of obligation at 31 March 2003	66 095	79 027
Interest cost	6 722	7 806
Current service cost	8 593	6 814
Benefits paid	(2 089)	(1 888)
Actuarial loss/(gain) for the year	25 765	(25 664)
Present value of obligation at 31 March 2004	105 086	66 095
Market value of Medipref at 31 March 2003	46 795	48 540
Increase/(decrease) in market value for the year	6 347	(1 745)
Market value of Medipref at 31 March 2004	53 142	46 795

The principal assumptions in determining the post-retirement medical benefit obligation are as follows:

	2004	2003
- Discount rate (before taxation)	9%	13%
- Medical aid inflation rate	8%	11%

The projected unit credit method has been used to determine the actuarial valuation.

16. Long-term liabilities

	2004 R 000	2003 R 000
16.1 Natexis Banque	8 839	9 846

The loan with Natexis Banque is repayable in 16 equal, semi-annual instalments, with the first instalment falling due on 31 March 2011. Interest payments fall due three-monthly and commenced on 31 March 2001. The applicable interest rate is 0,1% per year.

	2004 R 000	2003 R 000
16.2 Société Générale	6 484	8 254

The loan with Société Générale is repayable in 20 equal, semi-annual instalments, with the first instalment falling due on 11 September 2002. Interest payments fall due six-monthly and commenced on 11 September 2000. The applicable interest rate is 4,67% per year.

	2004 R 000	2003 R 000
	15 323	18 100

The above loans consist of €1 143 367 and €958 599, and relate to on-lending agreements with Natexis Banque and Société Générale respectively.

	2004 R 000	2003 R 000

17. Interest income

	2004 R 000	2003 R 000
Development loans (refer to note 17.1)	1 776 887	1 672 836
Development investments	94 945	13 133
Government stock	366 803	403 568
Money market	200 273	105 203
Capital market	88 966	85 039
Home ownership	2 211	2 067
Other interest received	4 485	707
	2 534 570	2 282 553

17.1 Client classification

	2004 R 000	2003 R 000
Development finance institutions	12 676	18 759
Educational institutions	60 487	60 948
Local government	950 044	933 903
National and provincial government	49 812	41 810
Private sector	313 509	215 854
Public utilities	390 359	401 562
	1 776 887	1 672 836

18. Interest paid

	2004 R 000	2003 R 000
Registered bonds	566 156	563 871
Foreign loans	305 104	355 516
Other	229 511	47 575
	1 100 771	966 962

19. Movements in impairment

	2004 R 000	2003 R 000
Other debtors (refer to note 4)	6 018	2 363
Development investments	17 939	(379)
Development loans	(93 899)	(40 715)
– Impairment and write-offs (refer to note 9.9)	(24 232)	(40 715)
– Impairment movement in the current year	(58 156)	(46 294)
– Write-offs during the current year	33 924	5 579
– Change in estimate	(69 667)	-
	(69 942)	(38 731)

20. Debts written off

	2004 R 000	2003 R 000
Development loan write-offs	–	38 491

21. Other income

	2004 R 000	2003 R 000
Non-interest income		
– Fees and sales	13 659	20 380
– Dividend income	9 167	3 158
Less recovered expenses	(543)	(756)
– Consultants	(78)	(300)
– Travel and subsistence	(465)	(456)
	22 283	22 782
Sundry income	3 736	6 806
	26 019	29 588

	2004 R 000	2003 R 000

22. Foreign exchange and valuation adjustments

22.1 Foreign exchange loss

	2004 R 000	2003 R 000
Foreign exchange gain relating to interest paid	345 742	519 338
Unrealised foreign exchange loss	(392 383)	(592 879)
Revaluation of financial market liabilities	3 725	–
	(42 916)	(73 541)

22.2 Revaluation of financial instruments

	2004 R 000	2003 R 000
Revaluation of derivatives	(5 899)	378 798
Revaluation of "held-for-trading" financial instruments	(35 204)	–
	(41 103)	378 798

23. Operating expenses

23.1 Staff costs

	2004 R 000	2003 R 000
Post-retirement medical benefits provision movement (refer to note 23.1.1)	32 644	(11 187)
Other staff costs	218 741	205 000
	251 385	193 813

Included in other staff costs are Directors' emoluments and Executive management remuneration as detailed below:

	2004 R 000	2003 R 000
Directors' emoluments	3 717	2 975
Executive management remuneration	7 315	7 036
	11 032	10 011

Full details are provided in the Schedule of Directors' emoluments, note 33.

23.1.1 Movement in post-retirement medical benefits provision

	2004 R 000	2003 R 000
Medipref investment	(6 347)	1 745
Present value of obligation	38 991	(12 932)
	32 644	(11 187)

Details are included in note 15.

23.2 General and administration expenses

are arrived at after taking into account:

	2004 R 000	2003 R 000
Auditors' remuneration	3 983	4 597
– audit fee	3 927	3 466
– expenses	56	97
– underprovision in prior year	–	1 034
Technical services	18 506	9 964
Communication costs	5 835	3 230
Information technology	19 604	14 437
Regional Services Council levies	3 981	4 152
Subsistence and travel	15 325	12 571
Other	33 826	23 475
	101 060	72 426

	2004 R 000	2003 R 000

24. Grant to Development Fund

	2004 R 000	2003 R 000
This grant was approved by the Board of Directors in July 2003, and has been charged to the income statement in the current year.	300 000	80 000

25. Taxation

The Bank is exempt from normal taxation in terms of the Income Tax Act, No. 58 of 1962, as amended, section 10(1)(t)(x), and consequently no provision for normal taxation has been made.

26. Retirement benefits

26.1 Defined contribution plan

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 Fund Act, No. 24 of 1956, is a defined contribution plan for employees on the permanent staff of the Bank.

The number of employees covered by the plan: 567 (2003: 507).

	2004 R 000	2003 R 000
Total amount expensed during the year (including Group Life Assurance and Income Continuity Benefits)	28 093	24 036

26.2 Medical aid

	2004 R 000	2003 R 000
Number of employees: 482 (2003: 445)		
Company contributions	14 431	12 147

27. Cash flow statement

27.1 Interest received from development activities

	2004 R 000	2003 R 000
Gross development loan repayments (refer to note 9)	3 397 737	2 575 378
Principal repayments	(1 538 378)	(747 646)
Interest received from development loans	1 859 359	1 827 732
Interest received from development investments	16 157	13 524
	1 875 516	1 841 256

27.2 Interest received from investments

	2004 R 000	2003 R 000
Accrued interest at the beginning of the year	60 249	129 854
– Accrued interest	75 518	145 514
– Accrued interest on development investments	(15 269)	(15 660)
Credited to income statement for the year	662 737	596 584
Accrued interest at the end of the year	(46 656)	(60 249)
– Accrued interest	(61 719)	(75 518)
– Accrued interest on development investments	15 063	15 269
	676 330	666 189

	2004 R 000	2003 R 000
27.3 Interest paid		
Accrued interest at the beginning of the year		
– Other creditors (refer to note 13)	164 423	296 563
Charged to income statement for the year		
– Interest expense (excluding unrealised foreign exchange gains and losses)	1 039 169	956 931
Accrued interest at the end of the year		
– Other creditors (refer to note 13)	(153 105)	(164 423)
	1 050 487	1 089 071
27.4 Cash generated from/(utilised by) other operations		
Surplus for the year	763 414	1 283 800
Adjustments for:		
– Movement in provisions	(377 854)	8 864
– Technical assistance grants paid	20 513	13 852
– Interest expensed	760 928	68 826
– Interest received from investments	(662 737)	(596 584)
– Interest received from development loans and investments	(1 871 833)	(1 685 969)
– Depreciation	9 369	6 785
– Foreign exchange revaluation	757 487	1 092 396
– Payment to Development Fund	300 000	80 000
– Decrease in financial market assets	84 075	(509 854)
– Decrease/(increase) in other debtors	50 555	(83 978)
– Increase in other creditors	262 282	82 050
	96 199	(239 812)

28. Commitments

At the date of the balance sheet, the Bank had the following commitments:

	2004 R 000	2003 R 000
28.1 Loan commitments		
Loans approved by the Board of Directors but not signed	2 741 857	2 991 982
Loans signed but not disbursed	2 351 318	2 845 297
	5 093 175	5 837 279

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable.

	2004 R 000	2003 R 000
28.2 Technical assistance grants		
Grants approved by the Board of Directors but not signed	12 980	3 321
Grants signed but not disbursed	26 465	25 695
	39 445	29 016

The above loan and grant commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

	2004 R 000	2003 R 000
28.3 Capital commitments		
Capital expenditure authorised but not contracted for	55 613	20 150
These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity.		

29. Contingent liabilities

29.1 Employee loans

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

	2004 R 000	2003 R 000
Loan balances secured	604	870

29.2 Guarantees

	2004 R 000	2003 R 000
The Bank has approved and issued guarantees on behalf of borrowers amounting to	220 000	275 000

It is the opinion of management that the borrower is unlikely to default, and therefore this guarantee was not recognised in the balance sheet as a liability.

	2004 R 000	2003 R 000
Total value of credit line (principal amount) and current exposure	200 000	250 000

The Bank guarantees the payment of any sum of principal, interest, commission, damages, expenses and any other sum to a maximum aggregate of 110% of the principal amount. These guarantees are uncollateralised.

29.3 Regional Services Council

	2004 R 000	2003 R 000
At 31 March 2004, there was a contingent liability in respect of interest payable to the Regional Services Council. This matter is under dispute. No interest has been accrued during the current financial year.	1 091	1 091

30. Funds administered on behalf of third parties

	2004 R 000	2003 R 000
Balance at the beginning of the year	251 771	411 029
Funds received	171 907	152 084
Funds disbursed	(273 519)	(311 342)
Funds at the end of the year	150 159	251 771

31. Related parties

The Bank has made a grant to the DBSA Development Fund of R300 million in the current financial year (cumulative to 2003: R160 million), as detailed in note 24.

In addition, a management contract exists whereby the Bank provides certain administrative services to the Development Fund.

32. Events after balance sheet date

32.1 Partial credit guarantee to City of Johannesburg

The Bank issued a partial credit guarantee to the City of Johannesburg's bond issue in June 2004. This R1 billion bond matures in 2016 and is protected by a 40% partial credit guarantee, which is offered on a several and not joint basis with the International Finance Corporation (IFC).

The 40% partial credit guarantee, shared equally by IFC and the Bank (R200 million each), helped the city diversify its investor base. It did so by boosting the investment grade rating of the bond by Fitch, the international credit rating agency, raising it three notches above the City's balance sheet rating of A- to AA-.

The Bank will earn a guarantee premium, payable semi-annually over the life of the guarantee.

32.2 Prepayment of debt by City of Johannesburg

Subsequent to the City of Johannesburg issuing two bonds of R1 billion each in April and June 2004, the City has decided to prepay some of its existing debt. The City repaid R620 million to the Bank in June 2004. The prepayment penalties catered for in the original loan agreements and the income earned from the guarantee premium will ensure that the prepayment will have a minimal effect on the earnings of the Bank in the future.

33. Schedule of Directors' emoluments

	Salaries/ fees R	Performance bonuses[1] R	Subsistence and travel R	Total 2004 R	Total 2003 R
Non-executive directors	1 369 500	–	48 498	1 417 998	573 000
I Abedian	187 500	–	5 942	193 442	61 417
L Abrahams	217 500	–	1 237	218 737	70 561
B Figaji	30 000	–	246	30 246	40 835
N Gasa	7 500	–	210	7 710	–
D Konar	225 000	–	1 394	226 394	70 940
JB Magwaza	210 000	–	28 349	238 349	48 988
J Naidoo (Chair)	345 000	–	5 281	350 281	168 314
H Nyasulu	22 500	–	1 310	23 810	25 183
I Sehoole	37 500	–	2 023	39 523	27 552
N Sowazi	42 000	–	761	42 761	21 193
M Vilakazi	45 000	–	1 745	46 745	38 017
Executive director					
MSV Gantsho	2 271 174	27 541	–	2 298 715	2 401 910
	3 640 674	27 541	48 498	3 716 713	2 974 910
Executive managers	6 018 294	1 296 741	–	7 315 035	7 036 424
JH de V Botha	1 366 464	309 428	–	1 675 892	2 088 058
JZ Matlala	1 004 212	220 965	–	1 225 177	1 613 958
LM Musasike	1 155 412	261 144	–	1 416 556	1 694 447
NG Nika[2]	–	–	–	–	879 765
SJ Khoza	1 034 212	280 199	–	1 314 411	760 196
AK Mohamed[3]	806 028	135 005	–	941 033	–
J Nhlapo[4]	651 966	90 000	–	741 966	–
Total	9 658 968	1 324 282	48 498	11 031 748	10 011 334

1. Performance bonuses are in respect of the year ended 31 March 2004, but will be paid during the year ending 31 March 2005.
2. Resigned 31 December 2002.
3. Appointed 1 May 2003 – performance bonus pro-rated for 11 months.
4. Acting Executive – South Africa Operations during the year ended 31 March 2004 (bonus not determined on executive scheme).

34. Financial market assets and liabilities post AC133

Classification	Currency	2004 Carrying value R 000	2004 Fair value R 000	2004 <1 year R 000	2004 1–5 years R 000	2004 >5 years R 000	Weighted average interest rate %	2003 Carrying value R 000	2003 Fair value R 000	2003 Current R 000	2003 Non-current R 000
Financial market assets		5 723 157	5 723 157	2 322 584	1 390 170	2 010 403		5 466 276	5 466 276	4 590 159	876 117
Held to maturity		380 500	380 500	–	–	380 500		–	–	–	–
Capital market instruments											
Government bonds											
€194		380 500	380 500	–	–	380 500	9,43	–	–	–	–
Originated loans and receivables		7 569	7 569	7 569	–	–		22 243	22 243	22 243	–
Money market instruments											
Funds under management		7 569	7 569	7 569	–	–		22 243	22 243	22 243	–
Available for sale		2 070 583	2 070 583	1 019 172	985 782	65 629		1 572 194	1 572 194	1 421 686	150 508
Capital market instruments		1 903 554	1 903 554	852 143	985 782	65 629		1 506 470	1 506 470	1 355 962	150 508
Government bonds		1 659 697	1 659 697	811 961	830 279	17 457	–	1 157 354	1 157 354	1 140 177	17 177
R150		–	–	–	–	–	–	1 140 177	1 140 177	1 140 177	–
R151		811 961	811 961	811 961	–	–	12,00	–	–	–	–
R152		830 279	830 279	–	830 279	–	12,00	–	–	–	–
R153		17 457	17 457	–	–	17 457	9,52	17 177	17 177	–	17 177
Corporate		243 857	243 857	40 182	155 503	48 172		349 116	349 116	215 785	133 331
AB02		57 301	57 301	–	57 301	–	10,74	55 938	55 938	–	55 938
BOE1		–	–	–	–	–	–	22 993	22 993	22 993	–
DCF01		30 195	30 195	–	30 195	–	11,01	–	–	–	–
IV01		12 277	12 277	–	–	12 277	11,56	12 066	12 066	–	12 066
IV02		36 388	36 388	–	36 388	–	11,29	–	–	–	–
LB107		–	–	–	–	–	–	84 554	84 554	84 554	–
SBK3		35 895	35 895	–	–	35 895	10,53	34 653	34 653	–	34 653
SBK4		40 182	40 182	40 182	–	–	8,80	39 398	39 398	39 398	–
T017		31 619	31 619	–	31 619	–	8,92	30 674	30 674	–	30 674
TL06		–	–	–	–	–	–	68 840	68 840	68 840	–
Money market instruments		167 029	167 029	167 029	–	–		29 995	29 995	29 995	–
Debentures		167 029	167 029	167 029	–	–	7,87	–	–	–	–
Negotiatable certificate of deposits		–	–	–	–	–	–	29 995	29 995	29 995	–
Equity		–	–	–	–	–		35 729	35 729	35 729	–

34. Financial market assets and liabilities post AC133 (continued)

Classification	Currency	2004 Carrying value R 000	2004 Fair value R 000	2004 <1 year R 000	2004 1–5 years R 000	2004 >5 years R 000	Weighted average interest rate %	2003 Carrying value R 000	2003 Fair value R 000	2003 Current R 000	2003 Non-current R 000
Assets carried at fair value		2 519 634	2 519 634	994 478	69 664	1 455 492		3 107 713	3 107 713	2 996 170	111 543
Capital market Instruments		1 452 563	1 452 563	–	41 552	1 411 011		2 340 936	2 340 936	2 340 936	–
Government bonds		1 401 000	1 401 000	–	–	1 401 000		2 280 357	2 280 357	2 280 357	–
R150		–	–	–	–	–	–	2 280 357	2 280 357	2 280 357	–
R153		766 286	766 286	–	–	766 286	9,52	–	–	–	–
R157		634 714	634 714	–	–	634 714	9,72	–	–	–	–
Corporate		51 563	51 563	–	41 552	10 011		60 579	60 579	60 579	–
AB02		20 837	20 837	–	20 837	–	10,74	20 341	20 341	20 341	–
AB04		10 011	10 011	–	–	10 011	8,02	–	–	–	–
RW01		20 715	20 715	–	20 715	–	9,39	40 238	40 238	40 238	–
Money market instruments		968 585	968 585	968 585	–	–		648 289	648 289	648 289	–
Promissory notes		29 468	29 468	29 468	–	–	7,39	38 295	38 295	38 295	–
Funds under management		236 853	236 853	236 853	–	–	–	214 669	214 669	214 669	–
Repurchase agreements		702 264	702 264	702 264	–	–	7,58	395 325	395 325	395 325	–
Derivatives											
Interest rate swaps		–	–	–	–	–		(2 005)	(2 005)	(2 005)	–
Positive non-qualifying hedges		98 486	98 486	25 893	28 112	44 481		120 493	120 493	8 950	111 543
13,5% coupon note interest rate swap		43 898	43 898	24 758	18 481	659	11,04	46 540	46 540	13 665	32 875
Agence Française de Développement 3.1 - cross-currency swap		6 610	6 610	(112)	6 722	–	11,55	13 103	13 103	(1 535)	14 638
Agence Française de Développement 3.3 - cross-currency swap		5 276	5 276	646	4 630	–	9,11	8 978	8 978	123	8 855
Kreditanstalt für Wiederaufbau 1.2 - cross-currency swap		20 939	20 939	225	(535)	21 249	4,24	25 569	25 569	(1 379)	26 948
Kreditanstalt für Wiederaufbau 1.4		16 133	16 133	317	(683)	16 499	11,07	19 366	19 366	(1 513)	20 879
Kreditanstalt für Wiederaufbau 2.1 - cross-currency swap		5 630	5 630	59	(503)	6 074	10,47	6 937	6 937	(411)	7 348
Hedging instruments		744 871	744 871	301 365	334 724	108 782		764 126	764 126	150 060	614 066
Positive cash flow hedges		78 337	78 337	2 579	33 204	42 554		66 401	66 401	(1 659)	68 060
Agence Française de Développement 1 - interest rate swap		62 193	62 193	–	23 351	38 842	–	57 601	57 601	725	56 876
Kreditanstalt für Wiederaufbau 3.2 - cross-currency swap		12 740	12 740	2 029	7 967	2 744	–	3 543	3 543	(3 308)	6 851
Chiao Tung Bank Co Ltd		3 404	3 404	550	1 886	968	–	5 257	5 257	924	4 333

34. Financial market assets and liabilities post AC133 (continued)

Classification	Currency	2004 Carrying value R 000	2004 Fair value R 000	2004 <1 year R 000	2004 1–5 years R 000	2004 >5 years R 000	Weighted average interest rate %	2003 Carrying value R 000	2003 Fair value R 000	2003 Current R 000	2003 Non-current R 000
Positive fair value hedges		666 534	666 534	298 786	301 520	66 228		697 725	697 725	151 719	546 006
Agence Française de Développement 1											
- interest rate swap		35 646	35 646	–	10 849	24 797	–	50 268	50 268	–	50 268
Agence Française de Développement 2											
- cross-currency swap		24 595	24 595	9 837	14 758	–	12,13	46 008	46 008	13 145	32 863
Agence Française de Développement 3.2											
- cross-currency swap		7 331	7 331	1 465	5 866	–	11,64	13 752	13 752	2 292	11 460
DV21 Interest Rate Swap		293 126	293 126	144 733	142 653	5 740	11,47	305 381	305 381	83 178	222 203
European Investment Bank 2.1		–	–	–	–	–	–	5 901	5 901	5 901	–
European Investment Bank 2.2		29 280	29 280	19 499	9 760	21	8,71	28 167	28 167	14 986	13 181
European Investment Bank 2.3		22 286	22 286	11 282	11 004	–	10,20	21 658	21 658	6 799	14 859
European Investment Bank 3.2		19 883	19 883	11 241	8 502	140	10,54	18 495	18 495	6 909	11 586
Kreditanstalt für Wiederaufbau 1.1		3 470	3 470	–	174	3 296	11,24	7 943	7 943	–	7 943
Kreditanstalt für Wiederaufbau 1.3		10 165	10 165	–	508	9 657	7,57	15 916	15 916	–	15 916
Kreditanstalt für Wiederaufbau 1.5 and 2.2		12 137	12 137	–	48	12 089	6,88	20 907	20 907	–	20 907
Chiao Tung Bank Co Ltd		20 612	20 612	1 808	8 316	10 488	–	27 526	27 526	2 768	24 758
Private placement interest rate swap		188 003	188 003	98 921	89 082	–	11,71	135 803	135 803	15 741	120 062
Financial market liabilities		(11 735 793)	(12 282 449)	(1 723 970)	(2 476 499)	(7 535 324)		(10 589 166)	(10 589 166)	(1 086 799)	(9 502 367)
Liabilities carried at fair value		(718 857)	(718 857)	(716 299)	(7 918)	5 360		(290)	(290)	(4 210)	3 920
Money market instruments											
Repurchase agreements		(711 888)	(711 888)	(711 888)	–	–	7,58	–	–	–	–
Derivatives											
Interest rate swaps		(3 342)	(3 342)	(3 342)	–	–		–	–	–	–
Negative non-qualifying hedges		(3 627)	(3 627)	(1 069)	(7 918)	5 360		(290)	(290)	(4 210)	3 920
Kreditanstalt für Wiederaufbau 1.6		(1 212)	(1 212)	(331)	(2 372)	1 491	–	(209)	(209)	(1 269)	1 060
Kreditanstalt für Wiederaufbau 2.3		(1 163)	(1 163)	(338)	(2 494)	1 669	–	(128)	(128)	(1 314)	1 186
Kreditanstalt für Wiederaufbau 3.1											
- cross-currency swap		(1 252)	(1 252)	(400)	(3 052)	2 200	–	47	47	(1 627)	1 674
Hedging instruments		(94 767)	(94 767)	(21 748)	(104 256)	31 237		(37 461)	(37 461)	(12 898)	(24 563)
Negative cash flow hedges		(18 431)	(18 431)	(9 808)	(24 378)	15 755		(32 051)	(32 051)	(12 898)	(19 153)
Agence Française de Développement 2											
- cross-currency swap		(1 924)	(1 924)	–	(2 561)	637	–	(2 415)	(2 415)	(3 696)	1 281
Agence Française de Développement 3.2											
- cross-currency swap		(1 443)	(1 443)	(1 829)	386	–	–	(924)	(924)	(1 950)	1 026
Kreditanstalt für Wiederaufbau 1.1		(11 065)	(11 065)	(3 148)	(9 057)	1 140	–	(14 637)	(14 637)	(2 966)	(11 671)
Kreditanstalt für Wiederaufbau 1.3		(2 901)	(2 901)	(2 011)	(5 190)	4 300	–	(6 684)	(6 684)	(1 739)	(4 945)
Kreditanstalt für Wiederaufbau 1.5 and 2.2		(1 098)	(1 098)	(2 820)	(7 956)	9 678	–	(7 391)	(7 391)	(2 547)	(4 844)

34. Financial market assets and liabilities post AC133 (continued)

Classification	Currency	2004 Carrying value R 000	2004 Fair value R 000	2004 <1 year R 000	2004 1–5 years R 000	2004 >5 years R 000	Weighted average interest rate %	2003 Carrying value R 000	2003 Fair value R 000	2003 Current R 000	2003 Non-current R 000
Negative fair value hedges		(76 336)	(76 336)	(11 940)	(79 878)	15 482		(5 410)	(5 410)	–	(5 410)
Agence Française de Développement 4.1		(13 320)	(13 320)	(8 407)	(12 241)	7 328	–	–	–	–	–
Agence Française de Développement 4.2		(4 767)	(4 767)	(1 650)	(4 749)	1 632	–	–	–	–	–
DV23		(42 546)	(42 546)	3 740	(44 442)	(1 844)	–	–	–	–	–
Kreditanstalt für Wiederaufbau 3.2											
- cross-currency swap		(15 703)	(15 703)	(5 623)	(18 446)	8 366	–	(5 410)	(5 410)	–	(5 410)
Hedged items		(3 733 057)	(3 561 394)	(351 978)	(1 542 836)	(1 838 243)		(3 855 245)	(3 855 245)	(454 238)	(3 401 007)
Local - Capital market instruments		(2 694 739)	(2 694 739)	(237 171)	(1 138 303)	(1 319 265)		(2 698 815)	(2 698 815)	(146 466)	(2 552 349)
Public		(2 302 770)	(2 302 770)	(237 171)	(746 334)	(1 319 265)		(2 360 122)	(2 360 122)	(146 466)	(2 213 656)
DV21		(1 346 256)	(1 346 256)	(144 973)	(456 898)	(744 385)	15,00	(1 360 122)	(1 360 122)	(146 466)	(1 213 656)
DV23		(956 514)	(956 514)	(92 198)	(289 436)	(574 880)	10,00	(1 000 000)	(1 000 000)	–	(1 000 000)
Private placement		(391 969)	(391 969)	–	(391 969)	–	–	(338 693)	(338 693)	–	(338 693)
Foreign - Other liabilities		(1 038 318)	(866 655)	(114 807)	(404 533)	(518 978)		(1 156 430)	(1 156 430)	(307 772)	(848 658)
Agence Française de Développement 1		(117 848)	(119 297)	(9 065)	(36 261)	(72 522)	–	(131 272)	(131 272)	(10 097)	(121 175)
Agence Française de Développement 2		(73 655)	(75 777)	(29 462)	(44 193)	–	–	(114 863)	(114 863)	(45 945)	(68 918)
Agence Française de Développement 3.2	€4 759	(36 787)	(38 000)	(7 357)	(29 430)	–	–	(42 343)	(42 343)	(8 469)	(33 874)
Agence Française de Développement 4.1		(123 950)	(123 950)	(19 428)	(65 966)	(38 556)	3,50	–	–	–	–
Agence Française de Développement 4.2		(35 469)	(35 469)	(5 124)	(19 151)	(11 194)	3,50	–	–	–	–
European Investment Bank 2.1		–	–	–	–	–	–	(198 763)	(198 763)	(198 763)	–
European Investment Bank 2.2		(125 288)	(125 291)	(13 568)	(43 175)	(68 545)	13,75	(123 027)	(123 027)	(13 323)	(109 704)
European Investment Bank 2.3		(119 585)	(119 585)	(13 932)	(105 653)	–	13,75	(117 396)	(117 396)	(13 677)	(103 719)
European Investment Bank 3.2		(121 263)	(121 263)	(12 822)	(40 580)	(67 861)	13,25	(118 356)	(118 356)	(12 515)	(105 841)
Kreditanstalt für Wiederaufbau 1.1	€5 155	(39 851)	(32 201)	–	(1 993)	(37 858)	2,00	(41 699)	(41 699)	–	(41 699)
Kreditanstalt für Wiederaufbau 1.3	€6 628	(51 234)	(41 421)	–	(2 562)	(48 672)	2,00	(53 611)	(53 611)	–	(53 611)
Kreditanstalt für Wiederaufbau 1.5 and 2.2	€814	(78 120)	62 121	–	629	(78 749)	2,00	(87 020)	(87 020)	–	(87 020)
Kreditanstalt für Wiederaufbau 3.2	€9 673	(74 774)	(58 440)	–	–	(74 774)	2,00	(78 243)	(78 243)	–	(78 243)
Chiao Tung Bank Co. Ltd	€6 177	(40 494)	(38 082)	(4 049)	(16 198)	(20 247)	3,00	(49 836)	(49 836)	(4 983)	(44 854)
Liabilities carried at cost		(6 715 201)	(7 407 969)	(615 288)	(712 596)	(5 387 317)		(6 135 125)	(6 135 125)	(591 077)	(5 544 048)
Local - Capital market instruments											
Public		(3 352 940)	(3 810 693)	(500 000)	–	(2 852 940)		(3 350 311)	(3 350 311)	(499 574)	(2 850 737)
DV07		(1 847 535)	(2 297 638)	–	–	(1 847 536)	12,13	(1 845 173)	(1 845 173)	–	(1 845 173)
DV20		(500 000)	(507 650)	(500 000)	–	–	8,43	(499 574)	(499 574)	(499 574)	–
DV23		(1 005 405)	(1 005 405)	–	–	(1 005 405)	10,00	(1 005 564)	(1 005 564)	–	(1 005 564)

34. Financial market assets and liabilities post AC133 (continued)

Classification	Currency	2004 Carrying value R 000	2004 Fair value R 000	2004 <1 year R 000	2004 1–5 years R 000	2004 >5 years R 000	Weighted average interest rate %	2003 Carrying value R 000	2003 Fair value R 000	2003 Current R 000	2003 Non-current R 000
Foreign - Capital market instruments		(3 362 261)	(3 597 276)	(115 288)	(712 596)	(2 534 377)		(2 784 814)	(2 784 814)	(91 503)	(2 693 311)
Public		(1 390 171)	(1 905 718)	–	–	(1 390 171)		(1 361 659)	1 361 659)	–	(1 361 659)
Euro-rand		(438 136)	(651 541)	–	–	(438 136)	–	(409 779)	(409 779)	–	(409 779)
Euro-rand		(952 035)	(1 254 177)	–	–	(952 035)	13,50	(951 880)	(951 880)	–	(951 880)
Other liabilities		(1 972 090)	(1 691 558)	(115 288)	(712 596)	(1 144 206)		(1 423 155)	(1 423 155)	(91 503)	(1 331 652)
African Development Bank		(500 050)	(205 780)	(50 050)	(200 000)	(250 000)	8,31	(400 000)	(400 000)	(40 036)	(359 964)
African Development Bank $	$59 500	(374 927)	(383 542)	(44 109)	(176 436)	(154 382)	1,56	(220 050)	(220 050)	(25 888)	(194 162)
European Investment Bank 1.2		(49 604)	(60 814)	–	(49 604)	–	14,30	(49 544)	(49 544)	–	(49 544)
European Investment Bank 3.1		(94 286)	(121 263)	–	–	(94 286)	13,25	(93 968)	(93 968)	–	(93 968)
European Investment Bank 3.3	$15 989	((100 751)	(101 167)	–	(36 636)	(64 115)	1,23	(117 279)	(117 279)	–	(117 279)
European Investment Bank 4A	$13 343	(84 075)	(84 914)	–	(31 528)	(52 547)	1,23	(97 867)	(97 867)	–	(97 867)
European Investment Bank 4B.1	$9 260	(58 348)	(58 931)	–	(21 880)	(36 468)	1,23	(67 920)	(67 920)	–	(67 920)
European Investment Bank 4B.2	$22 421	(141 282)	(142 694)	–	(52 980)	(88 302)	1,23	(164 459)	(164 459)	–	(164 459)
European Investment Bank 5.1	$62 438	(393 442)	(352 395)	–	(59 017)	(334 425)	1,23	–	–	–	–
Nordic Investment Bank 1	$9 000	(56 712)	(57 980)	(6 301)	(25 206)	(25 205)	1,61	(69 683)	(69 683)	(7 743)	(61 940)
Nordic Investment Bank 1.2	$8 824	(55 600)	(57 177)	(7 414)	(29 657)	(18 529)	1,81	(69 035)	(69 035)	(9 205)	(59 830)
Nordic Investment Bank 1.3	$10 000	(63 013)	(64 801)	(7 414)	(29 652)	(25 947)	1,81	(73 350)	(73 350)	(8 631)	(64 719)
Non-qualifying hedged items		(473 911)	(499 462)	(18 657)	(108 893)	(346 361)		(561 045)	(561 045)	(24 376)	(536 669)
Local – Capital market instruments											
Private 13,5% Coupon note		(215 000)	(274 724)	–	–	(215 000)	13,50	(215 000)	(215 000)	–	(215 000)
Foreign – Other liabilities		(258 911)	(224 738)	(18 657)	(108 893)	(131 361)		(346 045)	(346 045)	(24 376)	(321 669)
Agence Française de Développement 3.1	€6 458	(49 925)	(51 572)	(9 985)	(39 940)	–	3,50	(66 733)	(66 733)	(13 347)	(53 386)
Agence Française de Développement 3.3	€3 075	(23 770)	(24 554)	(6 145)	(17 625)	–	3,50	(31 774)	(31 774)	(8 215)	(25 559)
Kreditanstalt für Wiederaufbau 1.2	€7 942	(61 394)	(49 603)	–	(2 496)	(58 898)	2,00	(68 388)	(68 388)	–	(68 388)
Kreditanstalt für Wiederaufbau 1.4	€6 536	(50 523)	(40 825)	(2 527)	(47 996)	–	2,00	(56 279)	(56 279)	(2 814)	(53 465)
Kreditanstalt für Wiederaufbau 1.6	€2 162	(16 715)	(13 506)	–	(836)	(15 879)	2,00	(18 619)	(18 619)	–	(18 619)
Kreditanstalt für Wiederaufbau 2.1	€2 239	(17 306)	(13 751)	–	–	(17 306)	2,00	(18 109)	(18 109)	–	(18 109)
Kreditanstalt für Wiederaufbau 2.3	€2 254	(17 423)	(13 845)	–	–	(17 423)	2,00	(19 408)	(19 408)	–	(19 408)
Kreditanstalt für Wiederaufbau 3.1	€2 827	(21 855)	(17 082)	–	–	(21 855)	2,00	(66 735)	(66 735)	–	(66 735)

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Development Bank of Southern Africa Limited

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1600157FN

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Home page

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DBSA Development Fund Annual Report 2003/04

Principles of product and service delivery

The Fund will pursue the following guiding principles in the implementation of its strategy:

- Additionality – to add value to the funding, experience and expertise provided by other development agencies
- Forming strategic alliances – to provide support in partnership with other stakeholders who have a common interest with the Fund
- Focusing on development impact – to ensure that programmes or projects supported improve the quality of life of communities
- Sustainability – to ensure that programmes or projects supported have a positive effect on institutions, the environment and the economy, and that they benefit future generations
- Empowerment – to ensure that programmes or projects supported bring communities into the mainstream economy, and that skills are transferred to recipients and beneficiaries

In Africa, the calabash is used to store food and water and to brew traditional drinks. It is an image of abundance and nurturing. Here it symbolises the Development Fund's contribution to the reconstruction of a democratic South Africa and the development of all its people.

DBSA Development Fund

Vision

To be a leading catalyst in municipal capacity building in order to maximise the impact of development finance in South Africa.

Mission

To capacitate municipalities and communities for effective service delivery and economic development in order to improve the quality of life of the people of South Africa.

Guiding values

The DBSA Development Fund embraces the following:

- Openness: Maintaining transparency
- Communication: Achieving a common understanding
- Collaboration: Acting in support of mutual goals
- Service excellence: Exceeding customer expectations

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Abbreviations

CORE	corporate operations recording system
DBSA	Development Bank of Southern Africa Limited
€	euro
Fund	DBSA Development Fund
GDP	gross domestic product
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	information, communication and technology
NEPAD	New Partnership for Africa’s Development
R	South African rand
SADC	Southern African Development Community
US$	United States dollar

Financial year

The financial year of the DBSA Development Fund is from 1 April 2003 to 31 March 2004.






Contents

Year at a glance

Financial results	31 March 2004 12 months	31 March 2003 15 months
Gross funding surplus	252 847 458	141 291 372
Funds received	300 000 000	160 000 000
Capacity building grants	(41 057 653)	(12 537 985)
Development facilitation costs	(6 094 889)	(6 170 643)
Interest received	5 218	432
Operational expenditure		
Administration costs	(4 806 113)	(2 919 789)
Funding surplus for the year	248 046 563	138 372 015
Commitments for the period	153 000 000	86 048 438
Financial ratios		
Development facilitation costs to commitments (%)	4	7
Administration costs to capacity building grants (%)	12	23

Comments on summary of results at 31 March 2004

Disbursements

The year under review was the Fund's second year of operation. The level of disbursements increased significantly compared to the previous year due to the roll out of commitments from the first year of operations.

Administration costs to capacity building grants

The percentage of expenditure to disbursements has decreased progressively. This is mainly due to the fact that the level of disbursements has increased, while the Fund has now absorbed the start-up costs and is running more efficiently.

Commitments

The level of commitments increased significantly in 2003/04 compared to the previous year, due to new development credit approvals and the packaging of capacity building programmes at district municipalities and at provincial levels.

Development facilitation costs to commitments

The percentage of facilitation costs to commitments has decreased progressively, mainly due to the rising level of commitments.

The Fund works to bridge the gap between skills shortage and effective service delivery

Chairman's report

I am pleased to report that the DBSA Development Fund has successfully completed a second year of operations, and has achieved very good overall results regarding both execution and strategic engagement. This second year of continued progress underscores the Development Bank's commitment to ensuring that the fruits of our democracy are enjoyed by ordinary South Africans, especially the poor and historically disadvantaged.

This operating year had special significance for the Fund, as we paused to mark the milestone of ten years of democracy and transformation - not only of the country, but of the broader Development Bank family. We had special reason to step back and re-examine the huge task that still lies ahead, as we strive to extend access to basic services and economic opportunities to all South Africans.

In this period, the Bank undertook a ten-year review of its development impact. It took stock of the levels of unemployment and poverty, which remain unacceptably high, and of the large numbers of South Africans, mostly in rural areas, who still lack access to the full complement of essential basic services. This review made it clear that institutional and human capacity constraints remain the principal impediments in the reconstruction and transformation process. It is imperative that the Bank and others intensify their efforts to address these complex constraints. Accordingly, the Development Fund has reaffirmed its dedicated commitment to intensify institutional and human capacity building, and thus help unlock local sustainable development.

During the year under review, the context in which the Fund operates was characterised by stability and a gradual recovery in the macroeconomic environment. Continued strong exchange rates between the rand and the currencies of major international partners, along with interest rate volatility, limited the scope for leveraging international donor support for the Fund. Although the decision-making context in government proved somewhat constrained in relation to new initiatives and projects, this did not dampen the uptake of the Development Fund's offerings, as most targets were met or exceeded.

The effort that has gone into building sound governance, management and operational systems over the past

Chairman
Mrs Hixonia Nyasulu

27 months has proved invaluable, with implementation gathering momentum strongly. Notably this year, we approved a first round of development credit projects that seek to promote local economic development and build the capacity of budding municipalities to manage credit. On a more strategic level, programme managers, executives and directors worked together smoothly in a well-structured, passionate and confident organisation, showing clear purpose, focus and accountability. With the benefit of the Development Bank's emergent Vision 2014, in which the Development Fund features prominently, the central partnership between the Fund and the Bank has gained new relevance. This promises greater coherence, enhanced synergy and a more seamless operational interrelationship in future.

The Development Fund is not only young but relatively small in the business of grant-making for capacity building. We therefore try to be smart and selective in our outreach, aiming to capitalise on the wealth of experience and internal capacities of the Bank in order to focus and

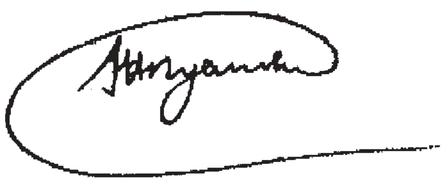
The Fund is committed to intensifying institutional and human capacity building

leverage capacity building investments. Smart partnerships involving synergies and multi-stakeholder approaches are an important feature of our strategic and operational engagement. We will continue to join forces with other role players and collectively strive to realise the vision of developmental local government and sustainable development.

We have faced many constraints and learnt important lessons in the past two years. The challenges have demonstrated that capacity building is complex and long-term in nature, and that coordination and integration are critical for sustainable capacity building initiatives. One response by the Fund has been to package capacity building programmes at district municipality level and consolidate them at provincial level. In this way, the unnecessary duplication of capacity building programmes, as well as grant funding from government and other institutions, has largely been eliminated.

The strengthened mandate given to the government in the 2004 election, together with its sharper focus and positive orientation bodes well for more dynamic development and implementation of capacity building projects. As part of the effort to deal with development failure proactively, the Development Fund will continue to enhance institutional capacities to identify, implement and manage development initiatives at various levels, especially those of the municipality and community. It will also continue to offer a mix of products and services in order to extend development credit further.

The strong results achieved by the Development Fund during the reporting period would not have been possible without the tireless efforts of its staff and management, as well as ongoing support from the Development Bank. I would also like to thank my fellow Board members for their unfailing guidance. Their commitment and experience have been indispensable in the process of establishing and operationalising the Fund.



Hixonia Nyasulu

Board of Directors

Name and designation: **Dr Iraj Abedian** (48)
CEO and Chief Economist: Pan-African Advisory Services

Academic qualifications:
PhD (Economics), Simon Fraser University, Canada (1993)
MA (Economics), University of Cape Town (1982)
BA Hons, University of Cape Town (1980)
BEcon, University of Tehran, Iran (1977)

DBSA Development Fund Director as from: 20 November 2001

Name and designation: **Mr Nick Christodoulou** (55)
Chief Executive: Business Development, Sanlam

Academic qualifications:
MBA, University of Pretoria (1976)
BSc Engineering (Industrial), University of Pretoria (1973)

DBSA Development Fund Director as from: 22 August 2002

Name and designation: **Mr Mandla Sizwe Vulindlela Gantsho** (42)
Chief Executive Officer and Managing Director: DBSA

Academic qualifications:
MSc (Project Management), George Washington University (2002)
CA (SA) (1987)
BCom Hons (Financial Management), University of Cape Town (1986)
CTA, University of Cape Town (1985)
BCom (Accountancy), University of Transkei (1983)

DBSA staff member as from: 1 October 1995

DBSA Development Fund Director as from: 20 November 2001

Name and designation: **Ms Nomboniso Gasa** (36)
Independent gender policy researcher and analyst

Academic qualifications:
Certificate in Women's Studies, University of the Western Cape (1996)
BA (Political Science), University of the Western Cape (1990)
Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1988)

DBSA Development Fund Director as from: 24 February 2004

Name and designation:	Mr Jayaseelan Naidoo (49) Director: J&J Group
DBSA Development Fund Director as from:	20 November 2001

Name and designation:	Mrs Hixonia Nyasulu (49) Director: TH Nyasulu and Associates
Academic qualifications:	International Programme for Board Members, IMD, Lausanne, Switzerland (1997) Executive Leadership Programme, Cambridge, Massachusetts (1995) BA Hons (Psychology), University of Zululand (1978) BA (Social Work), University of Zululand (1976)
DBSA Development Fund Director as from:	20 November 2001
Chairman of the DBSA Development Fund Board as from:	25 April 2002

Name and designation:	Ms Debra Marsden (39) General Manager: Corporate Affairs, Old Mutual
Academic qualifications:	BBus Sc Hons (Economics), University of Cape Town (1998) ATCL, Trinity College of Music and Drama, London (1985)
DBSA Development Fund Director as from:	22 August 2002

Name and designation:	Mr Madoda Vilakazi (40) Corporate Services Manager: Qualifications Authority, Mining Qualifications
Academic qualifications:	MBA, University of the Witwatersrand (2000) Management Advancement Programme, University of the Witwatersrand (1997) Industrial Relations Diploma, Damelin Institute (1994) Certificate in Arbitration, Mediation and Conflict Resolution, IMMSA (1993)
DBSA Development Fund Director as from:	20 November 2001

Chief Operating Officer during the year under review

Name and designation:	Mr Magare Luther Mashaba (52) Chief Operating Officer: Development Fund
Academic qualifications:	MSc (Ag. Econ), Michigan State University (1993) BSc Hons (Ag. Econ), University of Pretoria (1986) BSc (Ag. Econ), University of Fort Hare (1981)
DBSA staff member as from:	14 January 1985
Chief Operating Officer:	1 September 2001 to 31 May 2004

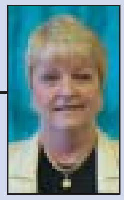
Chief Operating Officer

Name and designation:	Ms Jeanette Nhlapo (33) Chief Operating Officer: DBSA Development Fund
Academic qualifications:	BA Hons (Social Sciences), University of South Africa (1996)
DBSA staff member as from:	18 December 2000
Executive Manager (Acting):	1 March 2003 to 31 May 2004
Chief Operating Officer as from:	1 June 2004

Organisational structure

Chief Executive Officer
Mandla Gantsho

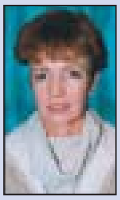
Chief Operating Officer
Jeanette Nhlapo[1]

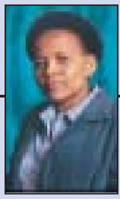


Personal Assistant
Val Smith[2]

Senior Advisor: Strategy and Partnership
Admassu Tadesse[6]

Programme Managers: Eastern Cape
Mathanda Mathenjwa and
Linda Cilliers[5]





Programme Manager: Gauteng
Huni Phala[3]

Programme Manager: Limpopo
Wasnaar Hlabangwane[4]

Programme Manager: Free State
Mamarinyana Thulare

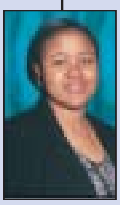
Programme Manager: Western Cape and Northern Cape
Cor van Rooyen

Programme Manager: North West
Tsakani Khosa

Programme Manager: KwaZulu-Natal
Reuben Matlala

Programme Manager: Mpumalanga
Leo Sibanda

Secretary
Audrey Nkonyane



Secretary
Nhlanhla Mahlangu

Changes after 31 March 2004:
1. As from 1 June 2004; Luther Mashaba until 31 May 2004.
2. As from 1 June 2004; Thokozile Makhopane until 31 May 2004.
3. As from 1 April 2004; previously Wasnaar Hlabangwane.
4. As from 1 April 2004; previously Huni Phala.
5. As from 1 June 2004.
6. Until 31 March 2004.

Chief Executive Officer's report

As we reflect on ten years of democracy in South Africa, we have every reason to celebrate the significant strides the country has made towards meeting its developmental challenges. We have seen development partners from both the public and private sectors and civil society coming together as never before. However, while most of the prioritised challenges have been addressed, there have also been hurdles, which have contributed to the slowing down of poverty alleviation, economic growth and development in certain areas.

This Annual Report focuses on the progress made by the DBSA Development Fund during its second year of operation. Specifically, it is concerned with the Fund's support for municipalities to help them realise their developmental role through capacity building initiatives. Under the Department of Provincial and Local Government, the newly demarcated municipalities are in the midst of the consolidation phase, which started in 2002 and is expected to end in 2005. During this phase, they must develop and implement new systems of local government.

The fruits of the local government transformation process are evident in most areas: municipalities have generally grown from a state of disarray into more effective and integrated institutions. Although this journey has been successful in many ways, there were the inevitable obstacles along the way. One of the most pressing challenges that remains for municipalities is to bridge the gap between the skills shortage and effective service delivery. Poor governance, financial and other institutional issues also continue to hamper service delivery, especially in poorly resourced municipalities.

I am pleased to announce that the Development Fund has surpassed its targeted commitments in the year under review. Through its grant funding to enhance institutional capacity, the Fund increased its support to municipalities in the areas of training, systems development and planning initiatives. This outstanding performance is attributable to revised policies and strategies, which have sharpened the Fund's operations and improved its delivery of services to clients.

Chief Executive Officer
Mr Mandla Gantsho

The Fund has adopted and rigorously promoted an integrated programme approach towards overcoming capacity constraints at local, district and provincial level. This flowed from the realisation that packaging and consolidating projects leads to economies of scale, and better planning and coordination. In line with this approach, the Board of the Development Fund approved five provincial programmes during 2003/04, in the Free State, Gauteng, Limpopo, Mpumalanga and North West.

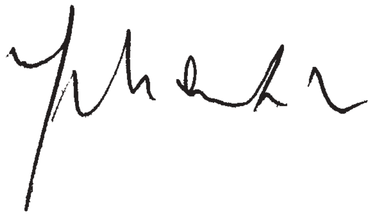
In the past year, the Board also approved guidelines to operationalise the development credit facility. The product is a soft loan facility for income-generating infrastructure projects, targeting high-risk municipalities that depend heavily on government grants for survival. The Board approved three pilot projects in this regard.

The Board of the Development Bank approved a further grant of R300 million towards the capitalisation of the Fund. Building on the momentum of its first year of operation, the Fund exceeded its target by doubling its commitments and increasing its outreach to municipalities. The Fund's commitments to capacity building, including development credit projects, amounted to R153 million. This surpassed the targeted commitment of R84,2 million by more than 82 per cent.

It would not have been possible for the Fund to address all the capacity challenges facing municipalities on its own. Rather, it has worked closely with other development partners, actively pursuing partnership and collaboration with various spheres of government, the private sector and civil society.

While we accept that the impact of capacity building is long-term in nature, we are satisfied with the short- to medium-term assessments of projects and programmes supported by the Fund. Our clients have learnt a great deal about municipal processes, and have acquired the additional skills they need to perform duties mandated by legislation. The challenge now is to intensify the programme approach, so that more constraints can be dealt with in an integrated way.

In conclusion, I would like to thank the Chairman of the Board, Mrs Hixonia Nyasulu, and all the Board members for their guidance and support. This excellent performance is a tribute to the commitment and resourcefulness of the Development Fund team, and the tireless support of the Bank's staff.



Mandla Gantsho

The Fund's commitments to capacity building, includes information sharing

Chief Operating Officer's report

In its second year of existence, the DBSA Development Fund made significant progress in achieving its central goal – "Building capacity for sustainable development".

The restructuring and transformation of local government progressed steadily in the past year. Indeed, all the integrated development plans of municipalities have been completed and reviewed. However, South Africa still faces massive infrastructure backlogs, inefficient municipal service delivery, and other capacity constraints.

The lack of capacity to implement the integrated development plans, which are the main strategic management tools available to municipalities, has highlighted the need for capacity building, especially in the historically marginalised and poorly resourced areas. Some of the constraints are financial, but are perceived to be mainly symptomatic. The most pressing constraints are fundamental to the institutional functioning of municipalities. The main areas that require intervention are organisational systems and institutional capacity regarding service delivery, financial management, local economic development, planning, programming and project management.

In terms of its founding mandate, the core business of the Development Fund is to maximise the impact of development finance by mobilising and providing grant funding to address human, institutional and financial constraints. This is done through a mix of products and services, including:

- *Funds:* Capacity building funding through grants, development credits and other financial instruments
- *Expertise:* Consulting and advisory services for institutional and human capacity building to ensure that basic services are delivered to disadvantaged communities
- *Development facilitation:* Ongoing technical support and sharing of knowledge to ensure that clients gain the necessary experience to manage the functions and processes of service delivery

The aim is to empower councils to perform the functions of local governance and give communities better access to resources, thus improving service delivery and promoting local economic development.

Chief Operating Officer
Mr Luther Mashaba

The development credit facility established during the past year deserves special mention. This makes loan funding accessible to poor municipalities that would not qualify for loans from commercial funding institutions and development finance institutions, including the Bank. The development credit facility is thus intended to fill the gaps that cannot be addressed by existing funding mechanisms. In terms of the policy put into effect by the Development Fund's Board in September 2003, deserving municipalities and community organisations can apply for loans in order to fund:

- Income-generating infrastructure projects, such as electricity, water and sanitation
- Economic infrastructure projects, such as tourism and agricultural infrastructure
- Acquisition of assets that will enhance the efficiency or effectiveness of the client, such as office and computer equipment or billing systems

The Fund played a proactive role in supporting the construction of office buildings through the development credit facility

The interest rates and terms of the loans are determined on the merits of each case, but are usually between 1 and 5 per cent over a period of 1 to 5 years. The redemption period will be related to the lifetime of the asset to be created. Three such loans were approved as pilot projects during the year under review.

The Fund has rapidly increased its involvement in poorly resourced municipalities, especially in rural areas. Among other contributions to rural development during 2003/04, it provided support for the national government's Integrated Sustainable Rural Development Strategy, reaching six out of the eight nodes set as the target for the year. The Fund also played a proactive role by facilitating and supporting project management in cases where implementation capacity was lacking. Some municipalities even lack the capacity to draft proper applications for funding in order to address their real needs. In these instances, assistance takes the form of diagnostic institutional and financial appraisals, which then suggest the remedial action to be taken. Appraisal guidelines have been developed for this purpose, and will be revised to accommodate changing circumstances.

The Fund supported an additional 132 municipalities in this financial year, nearly doubling the total number of municipalities from 134 in the previous year. Total commitments increased from R86 million in the previous year to R153 million.

The Board increased the funding leverage requirements for programmes or projects to allow for a greater degree of commitment by recipients. Market 3 was increased from 80:20 to 60:40; Market 2 from 60:40 to 50:50; and Market 1 from 50:50 to 40:60.

I would like to thank the Board of Directors of the Development Fund and its Chairman for their dedicated work during our second year of operation. My colleagues and I are also grateful to all the employees of the Development Bank for their unwavering support.

Luther Mashaba

Strategic partnerships

Institutional capacity constraints in South Africa are extensive and represent a major threat to the consolidation of governance and transformation. The constraints are such that no single organisation acting alone can hope to fill the massive gaps. Accordingly, the Development Fund places strong emphasis on smart partnerships to leverage and synergise the efforts of a range of actors, including its own.

During the year under review, the Development Fund continued to build existing and explore new partnerships with a range of public and private organisations. At the level of principal stakeholders, relationships were fostered with the Department of Provincial and Local Government, as well as local government associations. In this connection, an agreement was concluded with the Department of Provincial and Local Government, involving a R7 million capacity building programme. A cooperation agreement was also signed with Ithala Development Finance Corporation Limited regarding capacity building initiatives for economic development in KwaZulu-Natal.

As far as funding is concerned, new macro funding agreements were successfully negotiated with Kreditanstalt für Wiederaufbau and Standard Bank Limited, and will be implemented in the new financial year. New relationships were explored with other international donors such as Japan International Cooperation Agency (JICA). Efforts were also made to resuscitate and sustain an earlier macro funding partnership with Agence Française de Développement. Other strategic and operational partnerships were formed with Siemens (Pty) Ltd, the South African Communications Forum, the South African Local Government Association and the Department of Provincial and Local Government, in respect of graduate internships to support technical capacity at municipalities.

Development Bank, DBSA Development Fund and Ithala representatives signed a Memorandum of Understanding (MOU) designed to enhance capacity to fast-track development initiatives

Corporate governance

Governance principles

The DBSA Development Fund's commitment to the principles of good corporate governance, as espoused in the King II Report, mirrors and is aligned with the stated commitment of the Development Bank of Southern Africa. This commitment is evidenced in the Fund's corporate governance structure, which, with the exception of the Board of Directors, it shares with the Development Bank.

The Board of Directors of the Development Fund subscribe to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have been adhered to in discharging their duties.

Strategic objectives and performance management

The Board sets the Development Fund's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of the objectives, in line with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies through a comprehensive system of reporting to mandated Board Committees.

Business planning and performance reporting

The Board of Directors approved a three-year Corporate Balanced Scorecard in February 2003, which was used as a basis for compiling business plans. Between October 2003 and January 2004, business plans and activity-based budgets were prepared in succession.

Corporate performance assessment against predetermined objectives and targets in the Balanced Scorecard was conducted by executive management and approved by the Board. The Remuneration Committee of the Bank's Board evaluates the performance of the Managing Director and reviews the performance of the Development Fund's executive management.

Code of Business Ethics

The Development Bank's Code of Business Conduct was revised during the financial year and, amongst other amendments, adapted to apply to the Fund. The code was renamed the Code of Business Ethics.

Internal control

The Board recognises the need to oversee internal operational and financial controls. The Chief Operating Officer attends Board meetings of the Development Fund and the Development Bank, and Board Committee meetings of the Bank. The Bank's Internal Audit Unit serves the Fund as well. Regular meetings are held between the Chief Executive Officer and the Chief Operating Officer of the Fund, the Chairman of the Audit and Finance Committee, the Internal Audit Unit of the Bank, and the external auditors.

Regulatory environment and statutory compliance

During the year under review, the Bank established a compliance function headed up by a Group Compliance Officer, reporting to the Corporate Secretary. The function's purpose is to ensure that the Bank continuously manages its regulatory risk, that is, risk arising from non-compliance with applicable laws and regulations. Compliance is a proactive function, focused on raising awareness about relevant regulatory issues throughout the Bank. The Group Compliance Officer has direct access to the Chief Executive Officer, and to the Chairpersons of the Audit and Finance Committee and the Board. The Group Compliance Officer is required to present a quarterly compliance report to the Finance and Risk Management and the Audit and Finance Committees, and to receive guidance from the former Committee on, amongst others, areas of alignment with strategy and best practice. The roles and functions of the Group Compliance Officer encompass the Fund.

Compliance with the King Code

The Fund is in the process of assessing its level of compliance with King II and the Protocol on Corporate Governance in the Public Sector. By supporting principles of good corporate governance, the Fund demonstrates its commitment to the highest standards of integrity and ethical conduct in dealing with all its stakeholders.

Governance structures

Shareholder linkages

The Fund, through its Board, is accountable to the Development Bank, to the Bank's shareholder, being the government of the Republic of South Africa, and to

Parliament in terms of the Development Bank of Southern Africa Act. As required by section 55 of the Public Finance Management Act, the Fund's financial statements are published in the Bank's Annual Report.

Minister of Finance

The Minister, as the shareholder representative, determines the mandate of the Bank and holds the Board accountable for managing and controlling the operations of the Bank in line with the stated mandate. The Minister tables in Parliament the Annual Reports for the Development Bank of Southern Africa and the DBSA Development Fund.

Board of Directors

According to the articles of association, the Development Bank of Southern Africa has the right to nominate and appoint all Directors of the Fund and to remove or substitute them from time to time. The Fund's Board of Directors consists of eight members. Seven of the members, including the Chairperson, are non-executive Directors. The Chief Executive Officer is the sole executive Director. The Board is chaired by Mrs Hixonia Nyasulu.

The role of the Board is to determine the direction and strategy of the company, to monitor the achievement of business objectives, and to ensure that the company meets its responsibilities to its member. The Board is further responsible for ensuring that the control environment adequately protects the company assets against major risks. In addition to monitoring the performance of the executive management, the Board also contributes to reviewing the company's goals and strategic objectives.

The Board reports to the shareholders through annual and interim reports, and through regular meetings between the Chairperson of the Board, the Chief Executive Officer and the Minister of Finance. The Board approves grant funding, development facilitation costs and development credits.

Board Committees

Section 77 of the Public Finance Management Act recommends that two or more institutions establish a single Audit Committee if the relevant treasury considers it to be more cost-effective. Accordingly, the Board directs and controls the operations of the Fund through the Board Committees of the Development Bank, each of which has a distinct mandate. The relevant committees are the Audit and Finance Committee, which deals with finance and risk management and control; the Knowledge Management Committee, which is responsible for knowledge management and employment practices, including employment equity; and the Remuneration Committee, which oversees the implementation of remuneration policy.

Chief Executive Officer and Managing Director

In terms of the provisions of the Development Bank of Southern Africa Act, the Managing Director is charged with the day-to-day management of the Bank's operations. The Managing Director assists the Board in providing strategic and policy direction to the Fund, and consults regularly with the shareholder representative. The Managing Director also holds the position of Chief Executive Officer of the Development Fund.

Corporate Secretary

All Directors have access to the advice and service of the Bank's Corporate Secretary. In terms of the Development Bank of Southern Africa Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

Board composition and record of attendance

Three Board meetings were held during the reporting period.

Name	Number of meetings attended
Mrs H Nyasulu (Chair)	3
Dr I Abedian	2
Mr N Christodoulou	2
Mr MSV Gantsho	3
Ms D Marsden	2
Mr J Naidoo	2
Mr M Vilakazi	1
Ms N Gasa[1]	0

1. Appointed 24 February 2004

Risk management

The Development Fund was constituted to provide grant funding and development credits for capacity building purposes. During the period under review, the Fund began offering clients development credits. This product exposes the Fund to limited credit risk. It is also exposed to operational risks, as discussed below. In managing these risk exposures, the Fund uses the systems, procedures and internal controls of the Development Bank. It is considered that the Fund's risk exposures are managed appropriately within tolerable limits.

Credit risk

This is the risk of financial loss arising from the failure of a borrower to meet its contractual obligations.

Mitigation measures
The Fund mitigates its credit risk exposures by thoroughly appraising clients to whom development credits are to be offered; by monitoring clients; and, where necessary, by funding capacity building to improve clients' financial strength. Where municipalities do not have the revenue stream to repay the development credit, the equitable share is targeted for the repayment of the loan.

Risk of no development impact

This is the risk that projects supported by the Fund do not achieve their objectives.

Mitigation measures
The Fund conducts extensive and thorough appraisals to ensure that the projects it finances are appropriately structured to achieve their objectives. The Fund also monitors the implementation of projects closely to ensure that the set objectives are met.

Financial loss through fraud

This is the risk that the Fund may suffer financial loss through the activities of organised crime or opportunistic fraudsters.

Mitigation measures
The Fund uses active fraud prevention processes and internal controls of the Development Bank to guard against losses of this type.

Financial counterparty risk

This is the risk that the Fund may suffer financial loss because counterparties to liquidity and investment transactions have defaulted.

Mitigation measures
The Fund uses the services of the Treasury Unit in the Development Bank to manage its capital. The mitigation measures applied by the Bank to control this risk are applied equally in respect of the Fund.

Loss of key staff

This is the risk that the Fund may be unable to retain staff in key positions or activities.

Mitigation measures
The Fund implements an Integrated Rewards and Recognition system to counteract permanent loss of staff. Career and succession planning, job rotation and job cover are also used. The Fund contracts Development Bank staff to perform certain functions.

People risk - HIV/Aids

This is the risk that the Fund may be adversely affected by the HIV/Aids epidemic and related illnesses, leading to the loss of staff, productivity and corporate memory.

Mitigation measures
Employees of the Fund and employees of the Bank contracted to the Fund are covered by a medical aid scheme, which has an HIV/Aids benefit. Arrangements have been made for staff to undergo voluntary testing and counselling. Workshops have also been held to train staff on peer counselling related to the epidemic.

Data risk

This is the risk that the Fund may suffer loss due to the destruction, theft or loss of material data.

Mitigation measures
The Fund uses the information technology of the Development Bank, which incorporates password protection systems, user profiles and firewalls for Internet access.

Reputation risk

This is the risk that damage to the Fund's image will harm its credibility in its target market.

Mitigation measures
The Fund adheres to the principles of good corporate governance. The governance structures are designed to ensure quality control, and active measures are taken to prevent fraud.

Regulatory risk

This is the risk that the Fund may not comply fully with legislative requirements, possibly resulting in litigation.

Mitigation measures
The Fund manages this risk through its governance structures, and has access to the Development Bank's Group Compliance Officer to ensure that the relevant Acts are complied with.

Business continuity

This is the risk that the Fund may stop operating, or fail to resume operation within a reasonable period, following a disastrous event, such as the destruction of the premises.

Mitigation measures
The Fund is housed within the Development Bank and makes use of the Bank's information technology. The premises and their contents are insured with a reputable institution, critical electronic data are backed up daily and kept off-site, and important documents are kept in fireproof safes.

Training on performance management system

Annual financial statements

Directors' responsibility for financial reporting

The Directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the DBSA Development Fund ("the Fund") and its transactions, as well as the financial position of the Fund.

In preparing the financial statements:

- The Companies Act, No. 61 of 1973, as amended, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- South African Statements of Generally Accepted Accounting Practice have been adopted

To enable the Directors to meet their financial reporting responsibilities:

- Management has designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain the accountability of the Fund's assets
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis
- The Audit and Finance Committee of the Development Bank of Southern Africa Limited and the internal and external auditors review the financial and internal control systems, the accounting policies, and reporting and disclosure issues

Based on the information received from management and from the internal and external auditors, nothing has come to the attention of the Directors to indicate that a material breakdown in the systems of internal control during the period under review has occurred. The Directors have a reasonable expectation that the Fund has adequate resources to operate in the foreseeable future and have adopted the going-concern basis in preparing the financial statements.

The financial statements that appear on pages 24 to 38 were approved by the Board of Directors on 30 June 2004 and signed on its behalf by:

Hixonia Nyasulu
Chairman of the Board

Mandla Gantsho
Chief Executive and Managing Director

Deenadayalen Konar
Chairman of the Audit and Finance Committee,
Development Bank of Southern Africa

Report of the independent auditors

We have audited the annual financial statements of the DBSA Development Fund set out on pages 24 to 38 for the year ended 31 March 2004. These financial statements are the responsibility of the Directors of the DBSA Development Fund. Our responsibility is to express an opinion on these financial statements based on our audit. We have also audited the performance information included in the annual financial statements set out on pages 24 to 38. This performance information is the responsibility of the Directors of the DBSA Development Fund. Our responsibility is to express an opinion on whether the performance information furnished in terms of subsection 55(2)(a) of the Public Finance Management Act of 1999, read in conjunction with subsection 60(1)(b) of the same Act, is fair in all material respects.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and that our duties in terms of subsections 60 and 61 of the Public Finance Management Act of 1999 have been complied with. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall presentation of the financial statements

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

Opinion

In our opinion:

- The financial statements fairly present, in all material respects, the financial position of the DBSA Development Fund at 31 March 2004, and the results of its operations and cash flow for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, in the manner required by the Companies Act of 1973 and the Public Finance Management Act of 1999.
- The performance information provided in terms of subsection 55(2)(a) of the Public Finance Management Act of 1999 fairly presents, in all material respects, the DBSA Development Fund's performance for the year ended 31 March 2004 against predetermined objectives.
- The transactions of the DBSA Development Fund that came to our attention during the audit were, in all material respects, in accordance with the mandatory functions of the Fund, as determined by law or otherwise.

Gobodo Inc.

Gobodo Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg
30 June 2004

Directors' report

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the DBSA Development Fund for the year ended 31 March 2004. The report deals with the performance of the Development Fund and meets the relevant statutory information requirements. In the opinion of the Directors, the financial statements fairly present the financial position of the Fund as at 31 March 2004 and the results of its operations and cash flow information for the year then ended. The Directors have no reason to believe that the business will not be a going concern in the year ahead. They are also of the opinion that the Development Fund complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

The functions of the Fund and nature of the business

The DBSA Development Fund was registered on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance by mobilising and providing grant funding to address human, institutional and financial constraints on rural and urban development, thereby promoting efficient and effective service delivery and local economic development.

The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and in compliance with sections 284 to 303 of the Companies Act, No. 61 of 1973, and deals with performance in relation to approved objectives for the 2003/04 financial year.

The Development Fund provides the following products and services:

- Grant funding for capacity building
- Development credit facility
- Development facilitation
- Partnership development

Grant funding for capacity building

The grant funding supports capacity building programmes and projects aimed at strengthening institutional capacity and human resource development for all types of clients. It is available for the following functions:

Institutional capacity building

The Fund seeks to develop and sustain clients' institutional capacity by supporting:

- Planning and programming, including integrated development plans, sector plans, feasibility studies, business plans and strategy development
- Systems development and upgrading, including IT systems (management information systems, financial systems, performance management and revenue collection systems), development of policies and procedures, and development of administration systems such as indigent registers and debtors' rolls to ensure access to free basic services

Skills development and transfer

The Fund assists municipalities, communities, government departments and other institutions to develop required skills by:

- Facilitating the training of councillors, officials, community development workers and other public agencies in key functions where they have capacity gaps
- Providing funding for the development and adaptation of training materials and manuals

Local economic development

The Fund provides financial support to government and community initiatives aimed at identifying and prioritising opportunities for income generation, job creation and overall economic empowerment. This includes:

- Feasibility studies, business plans, research projects and local economic development strategies
- Facilitation of training and skills transfer to communities involved in local economic development initiatives

Development credit facility

The new loan funding facility will serve projects that are not suited to the Development Fund's grant funding and that cannot access public sector grant funding. The development credit facility is thus positioned to bridge the gap between projects that are funded by the public sector and projects that could potentially be funded by development finance institutions. The facility is additional to existing funding mechanisms, and fills the gaps those mechanisms cannot address.

The facility is intended to promote local economic development by facilitating access to finance for clients who have significant development requirements, but cannot access other funding.

Projects eligible for development credits include:

- Income-generating infrastructure projects, such as electricity, water and sanitation
- Economic infrastructure projects, such as tourism and agricultural infrastructure
- Acquisition of assets that will enhance the efficiency or effectiveness of the client, such as office and computer equipment or billing systems

Development facilitation

In addition to providing financial assistance, the Development Fund assists municipalities by:

- Reaching out to communities and helping them to identify, conceptualise and prioritise programmes and projects
- Providing technical support and sharing development knowledge that capacitates clients to manage the functions and processes of service delivery and local economic development

Partnership development

The institutional and human resource constraints in South Africa are vast and complex. The Development Fund recognises the importance of coordinating and pooling resources from various development agencies to maximise development impact through collective action. It therefore engages other development agencies and government bodies to forge output-oriented partnerships for different purposes.

Objectives

The corporate strategy and business planning activities of the Development Fund occur within a three-year business cycle. The objectives and targets of the Fund are set and approved by the Board using the Balanced Scorecard methodology. In this way, the Board provides strategic direction to the operational management of the Fund. The Board approved the 2003/04 objectives on 24 February 2003. The year under review was the second in which the Balanced Scorecard served to identify performance indicators and formed the basis of subsequent reporting.

The strategic objectives were set from the following four perspectives of the Balanced Scorecard:

- Financial sustainability
- Sustainable development impact
- Effective business processes
- Learning and growth

A coordinated effort was made to achieve the strategic objectives. The Chief Operating Officer of the Fund concluded a performance contract with the Chief Executive Officer, using the Balanced Scorecard as a basis, and personal performance plans were also agreed with programme managers and the rest of the staff. The Chief Operating Officer reported on progress at the quarterly Board meetings.

The Directors subscribe to the principles and practices of good corporate governance, and this report reflects the Fund's achievements in that regard. The Directors have started to broaden the content and improve the standard of reporting based on the "triple bottom line" of social, economic and environmental development achievements.

The following table summarises the high-level strategic objectives and performance against the Balanced Scorecard targets for the year ended 31 March 2004. The table is followed by a more detailed commentary on progress and achievements in relation to the "triple bottom line".

The Fund provides financial support to community initiatives aimed at job creation and economic empowerment

High-level performance in 2003/04

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Financial sustainability		
1. Strategic objective: Maintain sound financial health		
Operational expenditure within 10% of budget	Operational expenditure: R10,9 million (72% of budget utilised) (2002/03: Operational expenditure: R8,9 million; 62% of budget)	Well within budget
2. Strategic objective: Mobilise funding for the Development Fund from international and local funding institutions		
Funding agreements of up to R6,75 million concluded with other funders by March 2004	An agreement is in the process of being finalised with KfW (2002/03: Line of credit approved by Agence Française de Développement)	Process not completed
R80 million in funding raised from DBSA by March 2004	R300 million raised from DBSA (375% of target achieved) (2002/03: Not a target)	Target exceeded
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Provide capacity building support to clients		
2 000 councillors, officials and communities trained by March 2004	Training programmes for 13 502 officials, councillors and communities approved (2002/03: Not a target)	Target exceeded
Improve service delivery by 10% in selected municipalities by March 2004	Fund impacted on numerous municipalities; evaluation system currently being developed (2002/03: Not a target)	System under development, level of achievement not measurable
54 operational systems approved by March 2004	Programmes for 86 systems approved (159% of target achieved) (2002/03: Not a target)	Target exceeded
10% improvement in efficiency in selected municipalities by March 2004	Fund impacted on numerous municipalities; evaluation system currently being developed (2002/03: Not a target)	System under development, level of achievement not measurable
10% improvement in revenue base in selected municipalities by March 2004	Fund impacted on numerous municipalities; evaluation system currently being developed (2002/03: Not a target)	System under development, level of achievement not measurable
90 programme-linked plans approved by March 2004	132 programmes approved; linkage to be determined when programmes are implemented (147% of target achieved) (2002/03: Not a target)	Target exceeded
2. Strategic objective: Accelerate implementation in existing nodes, additional nodes and poorly resourced municipalities		
8 additional Integrated Sustainable Rural Development nodes as identified by government supported by March 2004	Additional Integrated Sustainable Rural Development nodes supported: 6 (75% of target achieved) (2002/03: Integrated Sustainable Rural Development nodes supported: 5)	Target not met

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
100 additional municipalities supported by March 2004	Municipalities supported: 132 (132% of target achieved) (2002/03: Municipalities supported: 134)	Target exceeded
R69,2 million total commitments	Total commitments: R153 million (221% of target achieved) (21 December 2001 – 31 March 2003: R86,0 million)	Target exceeded
R30 million disbursements	Total disbursements: R41 million (123% of target achieved) (21 December 2001 – 31 March 2003: R19 million)	Target exceeded
3. Strategic objective: Promote black economic empowerment in the appointment of service providers		
A minimum of 20% of the contract value to be allocated to emerging service providers by March 2004	50% of the value of contracts awarded to empowerment companies (167% of target achieved) (2002/03: Not a target)	Target exceeded
4. Strategic objective: Operationalise development credit facility to improve service delivery		
Approved guidelines by end of July 2003	Development credit guidelines approved in November 2003 (2002/03: Development credit guidelines drafted, approval pending)	Target achieved later in year than anticipated
4 projects approved by March 2004	3 development credit projects approved (75% of target achieved) (2002/03: Not a target)	Target partially achieved
Disbursements on 2 projects by March 2004	No disbursements made on these projects by year-end (2002/03: Not a target)	Target not met
5. Strategic objective: Develop and implement a marketing strategy for the Fund		
Marketing strategy developed by June 2003 for implementation during 2003/04 financial year	Marketing strategy developed and implemented: brochures developed and roadshows undertaken (2002/03: Not a target)	Progress on track, target achieved
6. Strategic objective: Leverage additional resources at programme/project level		
Market 3 = 80:20 Market 2 = 60:40 Market 1 = 50:50	Funding for market segments in terms of Balanced Scorecard targets applied (2002/03: Leverage ratio of Fund to client (%): 72:28)	Target not measured as market definitions not yet finalised; Fund did operate within intentions of the target
7. Strategic objective: Establish and utilise partnerships with other development agencies		
3 partnerships by March 2004	3 partnerships confirmed by signed memoranda of understanding (2002/03: 12 organisations contacted)	Target fully achieved

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
Balanced Scorecard perspective: Effective business processes		
1. Strategic objective: Maintain an efficient and effective Development Fund operational system		
100% operational appraisal guidelines	Appraisal guidelines 100% operational (2002/03: Not a target)	Target fully achieved
100% operational CORE system by March 2004	CORE system currently being reviewed to accommodate Fund's requirements (2002/03: Significant incorporation in CORE by September 2002)	Progress made on system review
Management information system initiated and in place by March 2004	CORE system to be reviewed to accommodate Fund's requirements (2002/03: Not a target)	Target not met as system being reviewed
Annual Report launched by July 2003	Annual Report launched in September 2003 (2002/03: Not a target)	Target achieved, launch date delayed
Launch of the DBSA Development Report by end of 2003	Contributed to drafting of report on capacity building; Report launched in 2003 (2002/03: Not a target)	Target achieved
Appraisal reports approved within 6 weeks from date of receipt of application	Application tracking system introduced to monitor applications and appraisal reports (2002/03: Not a target)	Performance against target not measured, but system to do so now in place
2. Strategic objective: Monitor and assess the effectiveness of the Fund's system and programmes		
Tracking system framework complete by September 2003	Tracking system framework developed and approved in November 2003 (2002/03: Not a target)	Target achieved later in the year than anticipated
Borrower appraisal framework completed by August 2003	Borrower appraisal framework completed (2002/03: Not a target)	Target achieved
5 case studies of programmes/projects by March 2003	5 case studies evaluated (2002/03: Not a target)	Target fully achieved
Completion reports within 1 month after full grant disbursements	No completion reports submitted; projects not fully disbursed (2002/03: Not a target)	Target not met
Balanced Scorecard perspective: Learning and growth		
1. Strategic objective: Improve competency levels of staff		
All staff development plans implemented by March 2004	All staff development plans implemented (2002/03: Staff development plans completed by June 2002)	Target achieved, but later in year than anticipated due to changes in the performance management system

High-level performance in 2003/04 (continued)

Targets	2003/04 results	Comments
Percentage of remuneration budget used for training: 4,5%	R141 371 spent on training (19,63% on budget, 435% of target achieved) (2002/03: 13,3% of remuneration budget spent)	Target exceeded
2. Strategic objective: Achieve organisational objectives through performance management		
100% compliance by March 2004	100% compliance and alignment of individual performance plans to Balanced Scorecard (2002/03: Not a target)	Target fully achieved
100% achievement of targets by March 2004	90% achievement of targets (90% of target achieved) (2002/03: Not a target)	Performance within acceptable variance norms
Biannual Balanced Scorecard performance review reports submitted to Board	2002/03 report submitted to July 2003 Board; 2003/04 report submitted to November 2003 Board (2002/03: 3 review reports presented to Board)	Target achieved
3. Strategic objective: Create a conducive organisational climate to support the Fund's vision		
At least 1 important idea by March 2004	Graduate ICT internship programme initiated; several graduates already placed in municipalities (2002/03: Not a target)	Target exceeded

Comments on performance

The Directors are pleased that the Development Fund managed to achieve most of the strategic objectives set for the 2003/04 financial year. Despite the demands placed on staff and management to set up the necessary systems and resources, the Fund made rapid and impressive progress with the actual approval of technical support projects and programmes. A significant contribution was made and solid foundations were laid for providing support to clients. In the sections below, the main activities of the Fund during the year are discussed in relation to the three pillars of sustainable development: economic, social and environmental development.

Economic report

The Development Fund was established specifically to maximise the provision of development assistance and finance to disadvantaged communities, after the Development Bank had become aware that dedicated support of this kind was required under its mandate. Initially, the Bank provided two grants of R80 million each for the Fund to establish and operationalise itself. It subsequently approved an additional grant of R300 million, based on needs analysis and a business plan. The Bank is committed to making further grants if necessary to capitalise the Fund for continued operations. It has also undertaken to provide management support for the Fund's financial and accounting systems.

Maintaining sound financial health

In the year under review, the Fund managed its operational expenditure well, using only 73 per cent of the approved budget. A saving of 27 per cent of the budget was achieved through improved internal efficiency. Specifically, instead of using external consultants, more use was made of internal staff and specialists in the Knowledge Management Cluster of the Bank to supplement limited capacity within the Fund. The need to use consultants in future cannot be discounted and will be provided for again in forthcoming budgets. The development credit facility has been introduced by using both internal and external resources.

Broadening the scope of products

The Development Fund recognised that some municipalities cannot be made sufficiently sustainable to take up loan finance in the short to medium term, and therefore cannot attend to other priorities. The need for a credit facility was thus identified. The facility will fill this gap in the market by providing capital loans at low interest rates. The Board approved the development credit guidelines in November 2003. Three development credit projects were approved in February 2004. No disbursements had been made on these projects by year-end.

Mobilising funding from international and local funding institutions

The Fund continued to build networks and relationships with strategic partners, so as to mobilise further resources for building capacity in development, while enhancing its own long-term sustainability. In line with the funding mobilisation strategy, the Fund targeted potential partners and pursued interaction with them. A funding agreement is in the process of being concluded with Kreditanstalt für Wiederaufbau. An amount of R300 million, which far exceeded the target of R80 million, was raised from the Development Bank, based on a needs analysis and a business plan.

Developing and implementing a marketing strategy

A marketing strategy has been developed for the Fund and is being implemented. Brochures have been developed and roadshows were undertaken.

Leveraging funding

The Fund tried to ensure that other sources of finance, including contributions by clients and third parties, were leveraged on its projects. Given that clients in rural areas often find it difficult to make significant contributions of their own, the initial target set was for the Fund to provide 80 per cent of funding and the client or a third party the remaining 20 per cent. Funding for market segments was applied according to the Balanced Scorecard.

Establishing and utilising partnerships

In the drive to make its interventions sustainable in the long term and to leverage funding and expertise, the Fund regards the development of strategic partnerships as a very important activity. The Fund achieved its target of finalising three memoranda of understanding during 2003/04. These involved Ithala Development Finance Corporation Limited; the Department of Planning and Local Government of the Western Cape provincial government; and the Mpumalanga Department of Local Government.

Maintaining efficient and effective systems

A number of interventions to expand or improve the Development Fund's operating systems were successfully implemented during 2003/04.

The appraisal guidelines have been updated based on guidance given by the Board during meetings. The CORE system is being reviewed to accommodate the Fund's requirements. The Fund contributed to the drafting of the DBSA Development Report, *Financing Africa's Development: Enhancing the role of private finance,* which was launched in November 2003. An application tracking system was introduced to monitor applications and appraisal reports.

The management agreement between the Fund and the Development Bank, covering the services to be rendered by the Bank's operational and support units, has been successfully implemented. In terms of this agreement, the Fund uses project teams appointed from the Bank's Business Units to process new applications and requests. The agreement covers services rendered in appraising projects under consideration by the Fund; compiling and presenting appraisal reports; monitoring the implementation of approved projects; and performing financial, legal and contract administration functions.

The administration of projects was incorporated into the CORE system, the Development Bank's main corporate recording system.

Monitoring and assessing the effectiveness of the Fund's systems and programmes

Guidelines for monitoring and evaluating projects were developed during 2002/03. In terms of these guidelines, completion reports must be prepared for all projects within two months of the grant being fully disbursed, as it is critically important to obtain insight into the results achieved by the different kinds of interventions. The log frame matrix has been employed on all projects to ensure proper monitoring.

A tracking system framework has been developed. The existing institutional borrower appraisal framework needs to be revised to include development credit projects. Five case studies have been evaluated.

Environmental report

Although separate objectives have not been set for environmental impact, and environmental reporting has not previously featured in the Directors' report, the Fund places particular emphasis on the impact of its operations on the environment. This is particularly relevant to infrastructure projects funded through the development credit facility. Projects being considered for development credits are subject to an environmental appraisal to ensure that they are environmentally sound and sustainable.

The Fund's appraisal framework has a module that examines the environmental impact of all the projects supported by the Fund. The Fund also provides support for feasibility studies, environmental management plans and environmental impact assessments.

Social report

Impact of activities on the social environment

The Development Fund aims to maximise the impact of development finance in South Africa by acting as a catalyst of capacity building efforts. The Fund works to add value to development programmes and promote their sustainability. The focus is on tackling the constraints in rural and urban areas to improve the efficiency and effectiveness of service delivery and local economic development. Capacity building initiatives are supported at the level of the community, the municipality, and the provincial and national government. Local authorities are the main target, as they are primarily responsible for implementing development programmes.

Providing capacity building support

One of the Fund's strategic objectives is to provide capacity building support to the rural nodes identified in the Integrated Sustainable Rural Development Strategy. These are areas that have been identified and prioritised nationally as requiring support to overcome poverty and the lack of services. The Directors are pleased to report that 11 nodes were supported in 2003/04. This comprised five nodes that had been supported previously and six of the eight additional nodes identified by government.

The Fund set a target of supporting 100 additional municipalities in 2003/04, but exceeded this target by providing support to another 132 municipalities. An amount of R153 million has been committed to poorly resourced municipalities, exceeding the target of R84,2 million. A total of 132 programme-linked plans were approved, exceeding the target of 90.

Management and staffing structure

In the interest of empowering staff and ensuring efficient decision-making, the Development Fund has established a flat organisational structure. The Chief Executive Officer is also the Chief Executive Officer of the Development Bank, and represents the Fund on the Development Fund Board. The Chief Operating Officer, assisted by programme managers, is responsible for the day-to-day management. Contracting arrangements have been made with the Development Bank for appraising and managing specific projects and programmes in each province.

Human resources and employment equity

As a knowledge-based institution, the Fund regards its personnel as its main asset. In terms of the management agreement with the Development Bank, full-time employees of the Fund have access to the Bank's Employee Assistance Programme, which caters for the general well-being of staff and also offers support on specific problems like HIV/Aids.

While the Fund still needs to develop its own employment equity framework, it has managed to achieve a staff complement within the framework originally developed and managed by the Development Bank. The Fund is proud of the profile for full-time staff given in the table, which shows that 92,3 per cent are from previously disadvantaged communities and 53,8 per cent are female.

Training

The Fund continued to pay particular attention to improving the competency levels related to its strategies. All staff formulated personal development plans, in which their specific training needs were identified. Several staff members attended training in project management, Microsoft project, report writing and facilitation skills. In total, 5,5 per cent of the remuneration budget was targeted for training. The Fund used 2,7 per cent of its remuneration budget for this purpose.

Performance management

The achievement of organisational objectives was measured and managed on an individual basis. Each staff member prepared a personal performance contract derived from the Balanced Scorecard. Staff were assessed and rewarded for their contributions on the basis of the Integrated Rewards and Recognition system introduced by the Development Bank. All staff performance plans were approved and reviewed during the year, and at year-end. The Fund reported 100 per cent compliance and alignment of individual performance plans with the Balanced Scorecard. During the year, the Chief Operating Officer submitted two review reports on performance to the Board: the 2002/03 report was submitted to the July 2003 Board, and the 2003/04 report to the November 2003 Board.

Innovation

One of the Fund's important objectives, viewed from the "Learning and growth" perspective of the Balanced Scorecard, is to develop new products and ideas. This is of particular relevance to programmes aimed at meeting the capacity needs and challenges of municipalities. The graduate Information Communication Technology (ICT) internship programme was implemented, and several graduates were placed in municipalities.

	Black	Coloured	Asian	White	Total
Male	5	0	0	1	6
Female	7	0	0	0	7
Total	12	0	0	1	13[1]
Percentage	92,3	0	0	7,7	100

1. Total staff complement excludes one contract worker.

Balance sheet

as at 31 March 2004

	Notes	2004 R	2003 R
Assets			
Current assets			
Funds receivable	2	385 705 415	138 213 192
Cash and cash equivalents	3	2 377 809	439 502
		388 083 224	138 652 694
Funds and liabilities			
Funds			
Funding surplus		386 418 578	138 372 015
Current liability			
Accounts payable	4	1 664 646	280 679
		388 083 224	138 652 694

Income statement

for the year ended 31 March 2004

	Notes	2004 R	2003 R
Gross funding surplus		252 847 458	141 291 372
Funds received	1.4	300 000 000	160 000 000
Capacity building grants and development facilitation costs	5	(47 152 542)	(18 708 628)
Interest received		5 218	432
Expenditure		4 806 113	2 919 789
Audit fees		111 367	–-
Bank charges		4 956	3 019
Communication costs		19 522	–
Consulting fees		265 007	26 243
Data processing costs		–	2 166
Directors' emoluments	6	1 427 685	1 677 015
Entertainment and catering		20 128	10 434
Management fees	7	1 866 054	562 269
Postage		–	8 395
Printing		2 890	–
Public relations activities		102 228	55 085
Publications and journals		240 233	2 000
Recruitment and advertising		2 628	–
Rental	8	9 246	2 280
Regional Services Council levies		1 325	–
Staff costs		732 844	570 883
Net funding surplus		248 046 563	138 372 015

Cash flow statement

for the year ended 31 March 2004

	Note	2004 R	2003 R
Cash inflow from funding activities	9	1 933 089	439 070
Cash receipts		52 507 777	21 786 808
Cash payments		(50 574 688)	(21 347 738)
Interest received		5 218	432
Movement in cash and cash equivalents		1 938 307	439 502
Cash and cash equivalents at beginning of the year		439 502	–
Cash and cash equivalents at the end of the year		2 377 809	439 502

Statement of changes in funds

for the year ended 31 March 2004

	Funding surplus R
Funding surplus for the period ended 31 March 2003	138 372 015
Surplus for the year ended 31 March 2004	248 046 563
Balance at 31 March 2004	386 418 578

Notes to the financial statements

for the year ended 31 March 2004

	2004 R	2003 R

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on the historical cost basis. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice. The following are the principal accounting policies used by the DBSA Development Fund.

1.2 Cash and cash equivalents

The DBSA Development Fund's liquid assets consist of cash.

1.3 Funds receivable

Funds receivable are stated at cost.

1.4 Funds received

Funds received from the Development Bank of Southern Africa Limited are recorded as income when the grant has been approved by the Board of Directors of the Bank. Costs relating to these grants are charged to the income statement.

1.5 Funds disbursed

Funds disbursed consist of amounts disbursed to beneficiaries, including costs incurred by the DBSA Development Fund. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

1.6 Development facilitation costs

Costs incurred in respect of projects under investigation and projects that have been approved but not implemented are charged to development facilitation costs.

2. Funds receivable

	2004 R	2003 R
Interest receivable	3 729	–
Development Bank of Southern Africa Limited	385 701 686	138 213 192
	385 705 415	138 213 192

3. Cash and cash equivalents

	2004 R	2003 R
Current account	2 377 809	439 502

	2004 R	2003 R

4. Accounts payable

	2004 R	2003 R
DBSA management fee	1 137 105	–
Leave pay accruals	130 805	–
Accrued expenses	396 736	–
Directors' fees payable	–	280 679
	1 664 646	280 679

5. Capacity building grants and development facilitation costs

	2004 R	2003 R
Capital building grants	41 057 653	12 537 985
Development facilitation costs	6 094 889	6 170 643
	47 152 542	18 708 628

6. Directors' emoluments

	Salaries/ fees R	Performance bonuses R	Attendance fees R	Total 2004 R	Total 2003 R
Non-executive directors					
I Abedian	–	–	9 000	9 000	21 157
N Christodoulou	–	–	12 000	12 000	14 370
D Marsden	–	–	9 000	9 000	21 870
J Naidoo	–	–	16 790	16 790	14 225
H Nyasulu	240 000	–	33 718	273 718	74 660
M Vilakazi	–	–	16 743	16 743	15 370
	240 000	–	97 251	337 251	161 652
Executive director					
MSV Gantsho	–	–	–	–	–
Chief Operating Officer					
ML Mashaba	914 075	176 359	–	1 090 434	1 515 363
	1 154 075	176 359	97 251	1 427 685	1 677 015

7. Management fees

	2004 R	2003 R
Management fees charged by the Development Bank of Southern Africa Limited for administration services rendered	1 866 054	562 269

8. Rental

	2004 R	2003 R
Copiers	2 588	2 280
Information technology equipment	6 658	–
	9 246	2 280

	2004 R	2003 R
9. Reconciliation of net funding surplus to inflow from funding activities		
Net funding surplus	248 046 563	138 372 015
Interest received	(5 218)	(432)
Surplus before working capital changes	248 041 345	138 371 583
Movement in funds receivable	(247 492 223)	(138 213 192)
Movement in accounts payable	1 383 967	280 679
	1 933 089	439 070
10. Funding commitments		
Total commitments	153 000 000	86 048 438
Total commitments paid to date	(41 057 653)	(12 537 985)
Total outstanding contractual commitments	111 942 347	73 510 453

11. South African taxation

The DBSA Development Fund is exempt from Income Tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.

12. Related party

	2004 R	2003 R
Development Bank of Southern Africa Limited		
Grant funding received	300 000 000	160 000 000
Management fees paid	1 866 054	562 269

13. Retirement benefits and post-retirement medical benefits

These liabilities are fully disclosed in the financial statements of the Development Bank of Southern Africa Limited, as all employees are currently employed by the Bank and contracted to the DBSA Development Fund.

DBSA Development Fund

Registration number

2001/030153/08

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