DBSA

Development Bank of Southern Africa Limited
Annual Report 2002

The DBSA's role in sustainable development

Mission and principles

The Development Bank of Southern Africa Limited contributes to development by providing finance and expertise to improve the quality of life of the people of southern Africa, mainly through the provision of infrastructure. The Bank aims to maximise its development impact, to be additional to other funding sources and to maintain sound banking principles.

The DBSA is a leading development finance institution that provides a range of products and services. The Bank:

- Mobilises resources and development partners
- Promotes development
- Understands and cares about the needs of its clients
- Has the means to make development happen
- Delivers a flexible, professional and prompt service

Contents

Mission and principles . . . . . Inside front cover
Abbreviations 2
Year at a glance 3
Corporate profile 4
Chairman's report 6
Board of Directors 10
Managing Director's report 14
Corporate performance overview 18
Management and organisational structure 20

The DBSA believes that to be sustainable, development must enhance people's well-being, protect and restore the natural environment, and promote equitable economic growth.

Operations overview 23
Financial overview 27
Knowledge management overview 34
Corporate governance 36
Risk management 40
Directors' responsibility for financial reporting 44
Report of the independent auditors 45
Directors' report 46
Financial statements 59
The DBSA's role in sustainable development 92
Projects approved in 2001/02 114
Countries of operation . . . . . Inside back cover

Abbreviations

ALCO	Asset and Liability Management Committee
AU	African Union
CERES	Coalition for Environmentally Responsible Economies
CHF	Swiss franc
DBSA	Development Bank of Southern Africa Limited
	Euro
EM&R	Environmental Management and Reporting
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information, communication and technology
NEPAD	New Partnership for Africa's Development
NEP	National Electrification Programme
R	South African rand
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SADC	Southern African Development Community
UGC	General Union of Cooperatives
UNEP FI	United Nations Environmental Programme Finance Initiative
US$	United States dollar
WSSD	World Summit for Sustainable Development

Exchange rate

The R/US$ exchange rate was 11,3825 and the R/ was 9,8674 on 28 March 2002.

Financial year

The financial year of the DBSA is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2001/02, are to the financial year ended 31 March.

Directors' report

The information in the Directors' report complies with and has been audited as required by the Public Finance Management Act, No. 1 of 1999.

The artwork featured on the cover of the Annual Report is from a woodcut by B Manyoni of the Katlehong Art Centre, which the Bank acquired in 1989. The theme of the Bank's art collection is "People and development", and it comprises works by new artists from the areas in which the Bank operates.

Year at a glance[1]

	2001/02	2000/01	% variance from 2000/01
Business results			
Number of new infrastructure projects approved for funding	**37**	56	-33,9
Lending approved (R million)	**3 151**	2 217	45,4
Total capital value of approved projects (R million)	**13 484**	13 897	-2,9
Total amount of lending agreements concluded (R million)	**2 649**	1 170	126,4
Share of lending for internal reticulation of services to households (%)	**53**	50	6,0
Cash disbursements to projects (R million)	**1 792**	1 622	10,5
Grant disbursements for policy development and capacity building (R million)	**10**	6	80,0
Development impact			
Estimated employment opportunities generated through projects co-funded by the DBSA (000)	**43**	13,2	225,8
Number of households expected to benefit from projects approved in South Africa (000)	**620**	1 085	-42,9
Estimated contribution to gross domestic product of the South African economy through projects (R billion)	**8,9**	2,1	323,8
Estimated contribution to the income of low-income households through projects co-funded by the DBSA (R billion)	**1,1**	0,3	340,0
Financial results			
Interest on development activities and investments (R million)[2]	**2 083**	2 042	2,0
Interest paid (R million)	**1 150**	1 151	-0,2
Weighted average interest rate on development loans (%)	**12,8**	11,7	9,1
Surplus from operations (R million)	**724**	566	28,0
Retained surplus for the year (R million)	**593**	632	-6,2
Return on assets (%)[3]	**3,3**	3,7	-11,5
Operating costs to income (%)	**27,7**	24,0	15,7
Total assets (R million)	**18 010**	17 755	1,4
Long-term debt to equity (%)	**87,2**	90,3	-3,4
Provision for loan loss as percentage of development loans	**7,5**	7,3	2,3

1. Percentage variance may differ due to rounding.

2. Development activities include development loans and investments.

3. Calculations are based on average total assets.

Corporate profile

Development activities

Investment support

Total number of borrowers at year end: 433

Since inception, the DBSA has approved loans and equity of R25 billion (resulting in commitments of R22,3 billion) in the following sectors:

- Internal reticulation infrastructure: 33 per cent
- Bulk and connector infrastructure: 49 per cent
- Entrepreneurial support: 12 per cent
- Social and institutional infrastructure: 6 per cent

The Bank has also approved cumulative guarantees of R261 million.

Technical assistance

Since inception, the Bank has approved grants of R91,7 million, for projects on:

- Institutional capacity building: 54 per cent
- Policy and planning: 35 per cent
- Other: 11 per cent

Knowledge management

During the year, the Bank provided policy and information support to its clients and the broader development community, including the following:

- A symposium on "Development challenges of regional integration" was held under the auspices of the *Development Southern Africa* journal.
- The Development Information Unit provided socio-economic profiles for 150 of the new local municipalities, as well as four other publications, and maintained ten development information resource bases.
- The Policy and Specialists Units provided advice and support to internal business units, government, international development agencies and others.

Agency services

The Bank currently has 18 agency projects to the value of R411 million. Clients include the international development agencies, various government departments and committees. The NEPAD secretariat was established in the Bank at the request of the Presidency.

Financial structure

Innovative funding instruments and strategies are used to finance the Bank's various projects. The Bank maintains:

- Sound financial and risk management policies and practices
- Conservative loan loss provisioning
- A prudent approach to liquidity management
- Sound asset and liability management practices

Top credit ratings

Moody's Investors Service upgraded the DBSA's foreign currency credit rating from Baa3 to Baa2 in December 2001. This rating is equivalent to that of the Republic of South Africa.

Standard and Poor's also affirmed the DBSA's A- (long-term) and A-2 (short-term) local currency credit rating, and BBB- (long-term) and A-3 (short-term) foreign currency credit rating.

The national rating by Fitch IBCA is AAA for long-term debt and A1+ for short-term debt.

Governance structures

Shareholder: Government of the Republic of South Africa
Shareholder representative: Minister of Finance
Chairman of the Board: Jayaseelan Naidoo
Managing Director and Chief Executive Officer: Mandla Gantsho
Board of 14; 13 non-executive

Board committees
Audit Committee
Remuneration Committee
Employment Equity Committee
Credit Committee
Finance Committee

Management committees
Executive Committee
Management Review Committee

Functional committees
Finance and Risk Management Committee
Asset and Liability Committee
Operations Committee
Procurement Committee
Fraud Management Committee

Human resources

Staff complement as at 31 March 2002	430
Managers	**30**
Managers as percentage of all staff	7 per cent
Women managers as percentage of all managers	33 per cent
Black managers as percentage of all managers	77 per cent
Professional staff	**257**
Professional staff as percentage of all staff	56 per cent
Women professionals as percentage of all professional staff	32 per cent
Black professionals as percentage of all professional staff	37 per cent
Support staff	**143**
Support staff as percentage of all staff	37 per cent
Women support staff as percentage of all support staff	73 per cent
Black support staff as percentage of all support staff	69 per cent

Chairman's report

Chairman:
Jayaseelan Naidoo

Economic conditions

The global economic slowdown had a direct influence on the South African economy during the year under review. The emerging economies took strain and the external value of their currencies suffered. The rand was no exception. The decline in the exchange rate of the rand brought mixed fortunes for the economy, strengthening the competitiveness of local exporters but also raising the cost of imported goods, which in turn stimulated inflation and necessitated interest rate increases. This may stifle future growth, as may the higher cost of imported capital goods, but buoyant exports and the tax relief provided in the 2002 Budget should help to stabilise the economy. On the labour front, the manufacturing sector shed over 30 000 employment opportunities during the past 12 months, although some gains occurred in the non-gold mining sector and the trade and accommodation services sectors, the latter partly due to an increase in tourism.

In the broader SADC region, the economic situation was overshadowed by political developments in Zimbabwe, the Democratic Republic of Congo, and Angola. Prospects of peace in the latter two countries should improve political stability in the region. The current challenges facing the region include adverse climatic conditions in a number of countries, food shortages, as well as the devastating social and economic impact of HIV/Aids.

Role of infrastructure in sustainable development

The provision of infrastructure stimulates economic growth, promotes equity and supports sustainable development, if it is purposefully managed and financed to deliver the services consumers want, when and where they want them, and at prices they can afford. However, the existence of substantial infrastructure backlogs, a stringent economic environment, and scarce human and financial resources call for a systematic and structured approach to infrastructure provision.

Infrastructure backlogs

NEPAD calculations estimate that the African continent needs more than R64 billion per annum to address infrastructure backlogs and to halve the population caught in core poverty by 2015. While the continent's backlogs have not been allocated to specific regional economic blocs, it can be assumed that the various blocs, such as the SADC, have proportionate shares of the backlogs. As for South Africa, it is calculated in the National Infrastructure Investment Framework that between R25 and R35 billion is needed for this purpose, over and above the annual fiscal flows. In Africa, substantial disparities still exist between levels of access in urban and rural areas. For example, in South Africa, 88 per cent of urban households have access to solid waste removal services, as against only 10 per cent of rural households.

Addressing infrastructure backlogs

Against this background, the challenge is to find ways and means of mobilising additional funding that can be focused on these needs. It is clearly not possible for governments to address all the backlogs purely from fiscal transfers. Instruments, such as the development of incentives and the promotion of opportunities to ensure returns on investments, will have to be considered, with a view to stimulating the private sector to play a more meaningful role in the provision of infrastructure. These instruments and the resultant conducive atmosphere also pose a specific challenge to the private sector to develop more ways and means not only of supporting infrastructure development through public-private partnerships, but also of actively promoting black economic empowerment and supporting the development of small, medium and microenterprises. Furthermore, careful consideration should be given to developing a risk insurance and a municipal bond market, promoting syndication among development finance institutions, creating targeted public works programmes, and attracting untapped funds, such as trade union funds.

Infrastructure investments and funding should likewise be focused on the growing secondary and tertiary sectors of the economy, especially the secondary sector where most of the infrastructure development is concentrated. This is where acceptable levels of development impact and economic growth can be achieved and a basis for sustainable development thus created. Infrastructure investment in the declining primary sector, where low economic growth offsets high development impact, should be undertaken selectively, mainly to establish proper markets.

Visions 2004 and 2010

Despite the immense challenges facing the DBSA as it endeavours to support infrastructure development and thereby facilitate sustainable development, the Bank is entering one of the most exciting phases in its existence and in the rebuilding of the continent. The Bank is being transformed progressively as it implements its "Vision 2004" strategy. During the remaining two years of "Vision 2004", the Bank aims to make a quantum leap in contributing to the delivery of basic services to the people of South Africa and in promoting economic growth in the rest of the SADC region. This will create a sound foundation for the implementation of its "Vision 2010", which is now being formulated. "Vision 2010" envisages the Bank playing an increasing role in capacity building and promoting economic development in South Africa and the rest of sub-Saharan Africa. "Vision 2010" will focus on strategies and programmes that the Bank will support to extend black economic empowerment and to develop small, medium and microenterprises.

Investment in Africa

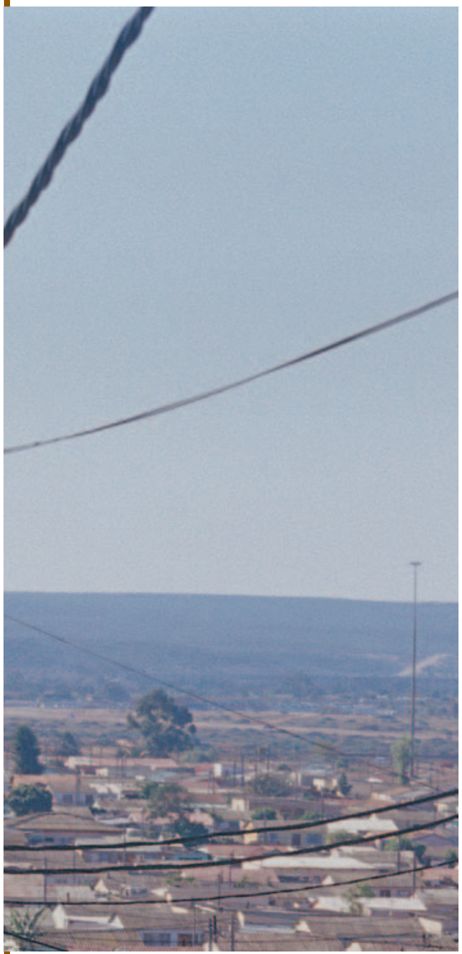
The broadening of the DBSA's focus to include the rest of sub-Saharan Africa is in the spirit of NEPAD, for which the Bank provides logistical support. The DBSA is proud to be associated with this initiative, and its commitment to NEPAD is demonstrated in its support for projects that promote regional integration, deliver critical infrastructure and

National Electrification Programme

provide capacity building for good governance. In this regard, the Bank will specifically coordinate its efforts with international development finance institutions, especially to meet the substantial challenge of unlocking regional projects that benefit two or more countries.

The DBSA aims to become a centre of excellence in Africa, which can provide knowledge and expertise to its beneficiaries, while always remaining open to learning from them. The Bank is therefore intensifying its efforts to attract intellectual talent and development leadership from various African countries. The intention is to provide a dynamic platform for debate on the African continent.

New vehicle for capacity building



The DBSA's partnership approach is evident in its initiatives to empower communities and institutions at a grass-roots level, in collaboration with non-governmental organisations, civil society and local government. The Bank also wishes to assimilate the experience and wisdom of these clients into its support programmes, thereby assisting them to establish and develop themselves. The Bank has therefore begun to develop creative new instruments to empower communities, of which the most noteworthy is the new DBSA Development Fund.

The DBSA Development Fund is a section 21 company established to maximise the impact of development finance in South Africa, mainly at municipal level, by mobilising and providing grant funding that will overcome human, institutional and financial capacity constraints on rural and urban development. Its vision is to be a leading catalyst of capacity building.

I wish to thank management and staff for their dedication and commitment to making the Bank's vision a reality. I recognise that the strategic repositioning of the Bank has placed considerable pressure on individuals and the organisation, and would like to thank in particular the Chief Executive Officer and Managing Director, Mandla Gantsho, for his tireless and visionary leadership of the Bank and its development activities.

I have been privileged to work with a particularly enthusiastic Board. I thank the outgoing Board members, who retired by rotation on 31 July 2001, for their unstinting commitment to the cause of development. I look forward to the current Board's continued active participation in providing strategic guidance and leadership to the organisation.

I also wish to thank the shareholder representative, the Minister of Finance Mr Trevor Manuel, for his continued support.

A final word of thanks is due to our stakeholders, including clients, investors and partners, who are pivotal to the fulfilment of our mandate.

I am certain that the Bank is poised for greater things in the year ahead, both in ensuring the delivery of services to poor people and in bringing the poorest of the poor into the loop of sustainable development. It is with this vision in mind that the DBSA is preparing for its support to and participation in the World Summit for Sustainable Development, taking place in Johannesburg in August 2002.

Jayaseelan Naidoo

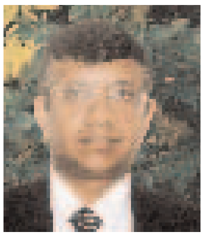
Board of Directors

Name and designation:	**Dr Iraj Abedian** (born 1955) Group Economist: Standard Bank Group
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
Committees and attendance: (no. of meetings)	Board meetings (4/4) Credit Committee (chair) (3/3) Audit Committee (2/2)

Name and designation:	**Ms Lucienne Abrahams** (born 1960) Independent Consultant, Associate: Vodacom Link Centre, School for Public and Development Management
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
Committees and attendance: (no. of meetings)	Board meetings (6/6) Employment Equity Committee (chair) (1/1) Credit Committee (2/3)

Name and designation:	**Prof. Brian de Lacy Figaji** (born 1944) 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
Committees and attendance: (no. of meetings)	Board meetings (4/6) Employment Equity Committee (1/1)

Name and designation:	**Mr Mandla Sizwe Vulindlela Gantsho** (born 1962) Chief Executive Officer and Managing Director: DBSA
Academic qualifications:	MSc (Project Management), George Washington University (2002) CA (SA) (1987) BCom Hons, University of Cape Town (1986) Certificate in the Theory of Accountancy, University of Cape Town (1985) BCom, University of Transkei (1983)
DBSA staff member as from:	1 October 1995
DBSA Director as from:	1 February 2001
Committees and attendance: (no. of meetings)	Board meetings (5/6) Credit Committee (2/3) Employment Equity Committee (1/1) Audit Committee (3/3) Finance Committee (2/2)



Name and designation:	**Dr Deenadayalen Konar** (born 1954) 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)
Committees and attendance: (no. of meetings)	Board meetings (2/4) Audit Committee (chair) (3/3) Finance Committee (2/2) Remuneration Committee

Name and designation:	**Mr Johannes Bhekumuzi Magwaza** (born 1942) Executive Director: Tongaat-Hulett Group Limited
Academic qualifications:	MA (Industrial Relations), Warwick University (1985) BA (Psychology and Social Anthropology), University of Zululand (1966)
DBSA Director as from:	1 June 1995
Committees and attendance: (no. of meetings)	Board meetings (6/6) Employment Equity Committee (1/1) Remuneration Committee

Name and designation:	**Mr Jayaseelan Naidoo** (born 1954) Director: J&J Group
DBSA Director as from:	1 May 2000 Chairman of the DBSA Board since 24 August 2000
Committees and attendance: (no. of meetings)	Board meetings (6/6) Remuneration Committee (chair) Audit Committee (2/5) Finance Committee (1/2)

Name and designation:	**Prof. Wiseman Lumkile Nkuhlu** (born 1944) Chief Economic Advisor: President's Office
Academic qualifications:	MBA, New York University (1983) CA (SA) (1976) BCom, University of Fort Hare (1970)
DBSA Director as from:	1 July 1983
Committees and attendance: (no. of meetings)	Board meetings (1/6) Audit Committee (0/2)

Name and designation:	**Ms Hixonia Nyasulu** (born 1954) Director: TH Nyasulu and Associates
Academic qualifications:	International Programme for Board Members, IMD, Lausanne, Switzerland (1997) BA Hons (Psychology), University of Zululand (1978) BA (Social Work), University of Zululand (1976)
DBSA Director as from:	1 August 1997
Committees and attendance: (no. of meetings)	Board meetings (6/6) Audit Committee (1/2)

Name and designation:	**Ms Maria da Conceicao das Neves Calha Ramos** (born 1959) Director-General: National Treasury
Academic qualifications:	MSc (Economics), University of London (1992) BCom Hons (Economics), University of the Witwatersrand (1987) BCom, University of the Witwatersrand (1986) Institute of Bankers Diploma (CAIB), Institute of Bankers (1983)
DBSA Director as from:	1 August 1997
Committees and attendance: (no. of meetings)	Board meetings (1/6)

Name and designation:	**Mr Ignatius Sehoole** (born 1960) Executive President: South African Institute of Chartered Accountants
Academic qualifications:	Diploma in General Management, Ashridge College (UK) (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
Committees and attendance: (no. of meetings)	Board meetings (3/4) Finance Committee (chair) (2/2) Audit Committee (1/3)

Name and designation:	**Mr Nkululeko Sowazi** (born 1963) Director of Companies
Academic qualifications:	MA Urban & Regional Planning, University of California (1991) BA, US International University (1989)
DBSA Director as from:	1 August 2001
Committees and attendance: (no. of meetings)	Board meetings (4/4) Audit Committee (0/2) Finance Committee (1/2) Credit Committee (1/3)

Name and designation:	**Mr Zamindlela Titus** (born 1956) Advisor to the Minister of 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
Committees and attendance: (no. of meetings)	Board meetings (4/6)

Name and designation:	**Mr Madoda Vilakazi** (born 1964) Deputy Chief Executive Officer: Mineworkers Development Agency
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
Committees and attendance: (no. of meetings)	Board meetings (4/4) Credit Committee (2/3)

Directors until 31 July 2001:
Ms Ann Bernstein (as from 1 June 1995)
Rev. Frank Chikane (as from 1 August 1997)
Mr Christo Ferro Liebenberg (as from 1 August 1997)
Dr Renosi Mokate (as from 1 August 1997)
Dr Robin Allan Plumbridge (as from 1 June 1983)

Managing Director's report

Managing Director and Chief Executive Officer: Mandla Gantsho

The theme of this Annual Report – "sustainable development" – aptly anticipates the World Summit for Sustainable Development due to be held in Johannesburg in August 2002. The report highlights a number of case studies that show how the Bank seeks actively to promote sustainable development that revolves around *people*, *prosperity* and the *planet*.

The past year saw a tremendous amount of turbulence in the global socio-political economy. The slowing down of the global economy, the September 11 attacks on the United States and the accounting-related corporate failures, among other events, were more than economic and political shocks; they proved to be blows to development, as investor and consumer confidence fell and emerging markets suffered from reduced trade and diminished foreign direct investment.

Despite these dark clouds, there is good reason for optimism and excitement. In the African context, remarkable efforts toward stability and sustainable development gained momentum. African leaders, in a historic meeting held here in South Africa, established a new, promising regional institution – in the form of the African Union (AU) – to address the challenges of peace and prosperity in Africa more forcefully.

In the same spirit, significant progress was made in mobilising global support for the New Partnership for Africa's Development (NEPAD), the flagship AU programme that seeks to promote the well-being and prosperity of Africans and their ecosystem. At the DBSA, we fully recognise that the prosperity of South Africa cannot be sustainably pursued independently of southern Africa and the wider continent. This year, the Bank proudly continued to support and house the NEPAD Secretariat.

I expect that the Bank's emerging Vision 2010 will build on our current "quantum leap" Vision 2004 and lead us deeper into the continent, to promote economic development more widely and contribute to the realisation of NEPAD's objectives.

As this year's report shows, the DBSA has responded well to the challenges that I outlined last year, relating to the final phase of local government restructuring in South Africa. I am pleased to report that our operational results have exceeded expectations, with three-year records for new commitments being achieved. We disbursed R1,8 billion on infrastructure and other projects, exceeding our target by 12,5 per cent. Some R0,6 billion of the disbursements was in the region outside South Africa.

In carrying out our responsibilities to *people*, we invested more heavily in helping to unblock capacity constraints. We disbursed R9,9 million in grant funding in the area of capacity building, including policy development, and, more substantively, launched a DBSA Development Fund with an initial capitalisation of R80 million. The capacity to plan, implement and sustain the delivery of infrastructure services remains a key challenge for our borrowers and intermediaries. This provided the rationale for the establishment of the Development Fund to help transform municipalities, mainly those in rural areas, into thriving agents of sustainable development, focusing specifically on the delivery of basic services.

Likewise, through our wider lending and investment activities, it is estimated that 43 000 employment opportunities were created, and that 620 000 households will benefit from infrastructure projects financed or co-financed by the DBSA.

With regard to *prosperity*, our lending and investment efforts, together with the attendant transfer of technology and management skills, are expected to contribute approximately R8,9 billion to gross domestic product. And in caring for our part of the *planet*, we continued to ensure, through our environmental appraisals, that all projects and programmes funded by the DBSA are environmentally sound and sustainable.

Our commitment to sustainable development is unwavering. We will seek to mobilise greater resources to help fight the war on poverty and improve the quality of life of people in South Africa, and in the region more broadly. These resources are not only financial, but also involve knowledge and networking – hence our triple role as lender, advisor and partner.

In order to align the organisation more closely with its strategic imperatives and focus areas, a number of organisational changes were implemented in 2001. Previously fragmented knowledge functions were reorganised and merged into a Knowledge cluster. In addition, two clusters were redefined and formed: namely, a Treasury cluster and a reinvigorated Private Sector Investments and SADC cluster. The purpose is to achieve

Lesotho Highlands Water Project
Katse feeder roads and reservoir crossings

greater focus; to enhance organisational effectiveness; to separate risk-taking from risk management functions; to integrate and synergise the Bank's knowledge assets within its range of products and services; and to engender a culture of learning and innovation in the organisation. The new organisational structure was fully implemented by year-end.

A number of other strategic initiatives were also undertaken, including a complete review of risk management policies; the redefinition of the remuneration and reward philosophy and system; and the establishment of a new project management and information system. In the cluster reports that follow, Executive Managers detail the progress made on these and other initiatives.

The impact of all these changes is already reflected in the satisfactory operational results for the year, and in future they should allow the Bank to enhance significantly its contribution to the sustainable development of our region.

In conclusion, I would like to acknowledge the support and guidance of the DBSA's Governor, Minister Trevor Manuel, the Chairman of the Board, Mr. Jayaseelan Naidoo, and fellow Board members, during what has been a challenging yet exciting year.
Last but not least, the commitment and support of the executive management team, management and staff have been invaluable in helping me to fulfil my mandate in taking the Bank forward.

Mandla Gantsho

Corporate performance overview

Business performance

	1998	1999	2000	2001	4-year average (1998-2001)	2002	2002 as % change of 4-year average
Total capital cost of approvals (R million)	16 703	7 715	5 607	13 897	10 981	13 484	23
Total DBSA contribution to approvals (R million)	4 338	1 903	2 040	2 217	2 625	3 151	20
% of total capital cost funded by sources other than DBSA	74,0	75,3	63,6	84,0	74,2	76,6	1
Disbursements (R million)	3 301	2 457	1 702	1 622	2 271	1 792	-21
R million disbursed/staff member	7,1	5,5	3,9	3,9	5,2	4,1	-20
R million approved/staff member	9,3	4,3	4,7	5,2	5,9	7,3	24
Total operating costs (R million)	160	169	181	232	185	255	37
Total operating costs as % of disbursements	4,8	6,9	10,7	13,7	8,1	14,3	77
Total operating costs as % of approvals	3,7	8,9	8,9	10,5	7,1	8,1	15
Average amount disbursed per working day (R million)	13,4	9,9	6,9	6,9	9,3	7,2	-22
Average amount approved per working day (R million)	17,6	7,7	8,3	9,0	10,6	12,8	20
Net contribution per employee[1] (R 000)	374	1 361	950	1 469	1 039	1 378	33
Number of clients at year end	595	620	624	635	619	433	-30
Average number of employees	473	452	436	430	448	430	-4
% of managerial positions filled by employment equity appointments at year end	77	79	76	72	76	81	7

1. Calculated as the net contribution of the average number of employees to surplus.

Financial performance

	1998	1999	2000	2001	4-year average (1998-2001)	2002	2002 as % change of 4-year average
Financial results							
Income excluding provisions and exceptional items (R million)	458	864	797	969	772	920	19
Interest on development activities (R million)[1]	590	1 100	1 333	1 465	1 122	1 505	34
Interest on investments (R million)	480	543	519	577	530	579	9
Interest paid (R million)	621	789	950	1 151	878	1 150	31
Surplus for the year (R million)	177	615	414	632	459	593	29
Return on shareholder's funds (%)[2]	3,2	9,6	5,9	8,0	6,7	6,9	3
Return on assets (%)[3]	1,8	4,5	2,6	3,7	3,2	3,3	5
Operating costs to income (%)	34,4	19,6	22,7	24,0	25,2	27,7	10
Financial position							
Total assets (R million)	12 002	15 567	15 991	17 755	15 329	18 010	17
Investment in development activities (R million)[1]	6 544	9 272	10 798	12 306	9 730	12 004	23
Government stock (R million)	3 160	3 160	3 253	3 253	3 207	3 253	1
Cash and cash equivalents (R million)	530	899	1 268	1 092	947	1 376	45
Issued share capital (R million)	200	200	200	200	200	200	0
Total capital and reserves (R million)	6 131	6 669	7 479	8 328	7 152	8 898	24
Medium- and long-term financing (R million)	5 432	6 129	7 836	7 521	6 730	7 761	15
Long-term debt to equity (%)	88,6	91,9	104,8	90,3	93,9	87,2	-7
Cash and cash equivalents to total assets (%)[3]	4,4	5,8	7,9	6,2	6,1	7,6	26
Issued capital to assets (%)	1,7	1,3	1,3	1,1	1,3	1,1	-17
Total capital and reserves to assets (%)	51,1	42,8	46,8	46,9	46,9	49,4	5
Medium- and long-term financing to investment in development activities (%)[1]	83,0	66,1	72,6	61,1	70,7	64,7	-9
Weighted average interest rate on development loans (%)	12,0	12,7	13,0	11,7	12,4	12,8	3
Provision for loan loss as percentage of development loans	6,5	6,3	7,3	7,3	6,9	7,5	9

1. Development activities include development loans and investments.
2. Calculations are based on average total shareholder's funds.
3. Calculations are based on average total assets.

Management and organisational structure

Executive managers

Name and designation:	**Mr Jacob Henry de Villiers Botha** (born 1949) Executive Manager: South Africa Operations
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

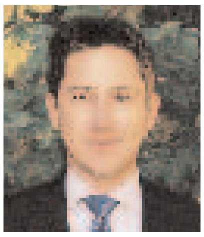
Name and designation:	**Ms Zanele Joyce Matlala** (born 1963) Executive Manager: Private Sector Investments and Southern Africa Operations
Academic qualifications:	CA (SA) (1997) BCompt Hons, University of South Africa (1996) BCom (Accountancy), University of South Africa (1993)
Executive Manager and DBSA staff member as from:	1 January 2002

Name and designation:	**Mr Lewis Maxwell Musasike** (born 1960) Executive Manager: Treasury
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

Name and designation: **Mr Nkosemntu Gladman Nika** (born 1957)
Executive Manager: Corporate Finance and Administration

Academic qualifications: CA (SA) (1987)
BCompt Hons, University of South Africa (1984)
BCom, University of Fort Hare (1980)

Executive Manager and DBSA staff member as from: 1 July 2000



Name and designation: **Mr Gregory Nigel Joseph White** (born 1960)
Executive Manager (Acting): Knowledge Management[1]

Academic qualifications: BA (Econ), University of Cape Town (1980)

DBSA staff member as from: 1 April 1988

Executive Manager (Acting) as from: 13 February 2002

Development Fund

Name and designation: **Mr Magare Luther Mashaba** (born 1952)
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

Executive Manager as from: 1 September 2001

1. Formerly Dr Makaziwe Phumla Mandela

Organisational structure

- Board of Directors
  - Mandla Gantsho, Managing Director and Chief Executive Officer
    - Luther Mashaba, Chief Operating Officer, DBSA Development Fund
    - Jabulani Mthembu (Acting)[1], Corporate Communications and Marketing
    - Tinka Wiswe, Corporate Secretariat
    - Oupa Mokuena[2], Corporate Strategy
    - Norman Weitz, Internal Audit
    - Paul Kibuuka[3], Manager: Office of the CEO
    - De Villiers Botha, South Africa Operations
      - Tladi Ditshego, Eastern Region
      - Pule Mokhobo, Legal Services
      - Pumla Mannya, Northern Region
      - Landiwe Mahlangu, Operations and Credit Administration
      - Dennis Thabaneng, Southern Region
      - Salochanna Golden, Structured Finance
      - Christina Golino, Western Region
      - Jeanette Nhlapo, Workout
    - Joyce Matlala, Private Sector Investments and Southern Africa Operations
      - Tshepo Mahloele, Private Sector Investments
      - Bane Maleke, Southern Africa Region
    - Lewis Musasike[4], Treasury
      - Asset and liability management
      - Capital markets
      - Financial investments and capital market development
      - Money markets
      - Multilateral and bilateral funding
    - Nkosemntu Nika, Corporate Finance and Administration
      - Theresa Geldenhuys, Contracts Administration
      - Soemaya Boomgaard, Financial Management
      - Graham Tate, Information Technology and Systems
      - Tom Snyman, Procurement Administration and Facilities Management
      - Ron Rees (Acting)[5], Risk Management
    - Greg White (Acting)[6], Knowledge Management
      - Stephen Mncube, Development Information
      - Makgoshi Sindane (Acting)[7], Employment Equity
      - Dumisani Majozi, Human Resources
      - Janine Thorne[8], Operations Evaluation
      - Mashupye Kgaphola, Policy
      - Grace Rapholo[9], Specialists
      - Makgoshi Sindane[10], Training

1. *As from 1 May 2002, formerly Zaid Nordien.*
2. *On study leave until 1 July 2002, formerly Grace Rapholo (acting) from 1 July 2001.*
3. *As from 13 February 2002, formerly Greg White.*
4. *Cluster being restructured.*
5. *As from 1 January 2002, formerly Ros Thomas (seconded).*
6. *As from 13 February 2002, formerly Makaziwe Mandela.*
7. *Makgoshi Sindane until 30 April 2002, acting as from 1 May 2002.*
8. *As from 1 May 2002, formerly Mary Cole (acting).*
9. *As from 1 July 2002, after Mike Marler (acting) from 23 April 2002, Mashupye Kgaphola (acting) from 1 September 2001 to 23 April 2002, and formerly Christina Golino.*
10. *As from 1 May 2002.*

Operations overview

Operations managers

Back:
Jeanette Nhlapo (Workout)
Christina Golino (Western Region)
Tladi Ditshego (Eastern Region)
Dennis Thabaneng (Southern Region)
Landiwe Mahlangu (Operations and Credit Administration)
Pule Mokhobo (Legal Services)
Tshepo Mahloele (Private Sector Investments)

Front:
Pumla Mannya (Northern Region)
De Villiers Botha (Executive Manager: South Africa Operations)
Joyce Matlala (Executive Manager: Private Sector Investments and Southern Africa Operations)
Salochanna Golden (Structured Finance)

Absent: Bane Maleke (Southern Africa Region)

Executive Manager, South Africa Operations: De Villiers Botha
Executive Manager, Private Sector Investments and Southern Africa Operations: Joyce Matlala

Business results

Lending operations

The year under review has seen an increase of 45 per cent in the financing of infrastructure projects, from R2,2 billion in 2000/01 to R3,2 billion. The approvals were in the form of loans (R2,9 billion), equity investments (R288 million), and a guarantee of R2 million. Of the total approvals, R2,6 billion or 81 per cent was for lending to institutions in South Africa (compared with 44 per cent in 2000/01) and R602 million or 22 per cent for institutions in the rest of the SADC.

The rate of conversion of credit approvals into signed agreements also increased relative to the previous year. With signed commitments of R2,6 billion, the DBSA achieved a rate of conversion of 81 per cent, as against 55 per cent in 2000/01. The Bank disbursed R1,8 billion on infrastructure development, an increase of 10,5 per cent from the R1,6 billion disbursed in the previous year.

The total value of the projects approved during the year is estimated at R13,5 billion. Of this, the DBSA is committed to financing 24 per cent, which means that the Bank's share in relation to other contributions is a ratio of 1:3,3. In 2000/01, the estimated total value of projects approved was R13,9 billion, of which the DBSA funded 16 per cent.

Loans for municipal infrastructure amounted to 52 per cent of total approvals, comprising energy (26 per cent), water (30 per cent), sanitation (17 per cent), roads and drainage (18 per cent), social infrastructure (4 per cent), and commercial infrastructure (5 per cent).

Technical assistance operations

The Bank (and the DBSA Development Fund) approved technical assistance grants of R26,4 million for building the capacity and supporting the development initiatives of its clients. This represents an increase of 214 per cent against the R8,4 million approved in the previous financial year. The bulk of these grants are allocated to capacity building (47 per cent) and planning (46 per cent), and the balance is for policy and information analysis (7 per cent).

Of the technical assistance, 93 per cent was distributed within South Africa, and the remaining 7 per cent in other SADC countries.

South Africa Operations

Loans approved for the financing of infrastructure in South Africa amounted to R2,6 billion (R971 million in 2000/01), of which R1,9 billion was for public sector infrastructure and R0,7 billion for private sector infrastructure. Of the total approved lending to public sector institutions in South Africa, R1,5 billion or 86 per cent was to local government institutions, targeted for integrated municipal infrastructure services.

The geographical spread of new approvals was fairly balanced: projects were approved in Gauteng (45 per cent), Eastern Cape (20 per cent), KwaZulu-Natal (11 per cent), and Western Cape (16 per cent), while North West, Northern Province (Limpopo), Free State and Northern Cape shared the remaining 8 per cent.

Client support

The increase in the value and share of total lending within South Africa was due in part to progress made in transforming municipalities into viable institutions for promoting local development. Over the past 24 months, the DBSA refocused its efforts on facilitating this process as part of its broader technical assistance programme.

Technical assistance grants of R24,5 million were approved for institutions in South Africa. They were distributed as follows: KwaZulu-Natal 27 per cent, Eastern Cape, North West, Mpumalanga and Western Cape 10 per cent each, Northern Province (Limpopo) 7 per cent, Free State and Gauteng 6 per cent each, national 8 per cent and Northern Cape 6 per cent.

The DBSA continues to develop its modelling tools in support of local government decision-making and planning. These include the following:

- The Combined Services Model assesses the financial viability of alternative investment programmes for residential infrastructure, and measures the impact of such alternatives on the financial position of the local municipality and its residents. The District Council Model was developed to assist the district councils, which face similar problems to those experienced by local municipalities, in assessing their options.
- The Project Prioritisation Model assists all clients in prioritising projects and objectives identified in Regional Development Plans, Land Development Objectives, Integrated Development Plans and Infrastructure Investment Programmes.
- A Regional Rural Water Supply Model is being developed to assist in selecting appropriate rural water supply schemes, in accordance with the new community water supply policy for South Africa. The Bank is also part of a national team led by the Department of Water Affairs and Forestry whose task is to transfer the existing rural water supply schemes to appropriate local municipalities.

The Workout Unit provided technical support to institutions finding it difficult to repay debt. A number of non-performing loans, which had shown severe signs of distress, have been sectioned off from the broader loan portfolio. These loans were reviewed to identify institutional and financial problems that must be resolved in order to improve revenue and, ultimately, allow the debt to be settled. The clients assessed so far are open to discussing the restructuring of debt according to a workout recovery strategy, which can build capacity and promote the repayment of debts to the DBSA and others. The Unit has made recoveries from certain clients and secured letters of commitment from others, indicating their willingness to repay following further intervention by the Bank. If the

Unit's targets are met, the current ratio of non-performing loans to gross loans (7,7 per cent) will be reduced by 2,83 per cent (based on the gross loan figure for March 2001).

The establishment of the Structured Finance Unit has enhanced the ability of the DBSA to meet the needs of its clients and therefore has added to the current range of products. This Unit develops and implements financial products and techniques to facilitate the leveraging of private sector financing for socio-economic development. One of the strategic goals of this Unit is to enable municipalities to access private domestic capital.

Partnerships

The Bank entered into formal and informal agreements with all the provinces on the nature of the support programme they require, regarding both investment and technical assistance. In many cases, this includes technical assistance to the provincial structures themselves.

The DBSA developed an integrated finance facility, and is negotiating with some district councils to provide bridging finance for the provision of housing and health services, as part of the standard urban infrastructure investments and upgrades. The Bank is also assisting provinces with the appropriate positioning, structuring and capitalisation of parastatals.

Prospects for the coming year

During the year under review, the DBSA refocused its South African operations externally, to provide an environment conducive to infrastructure development; and internally, to encourage product innovation in accordance with the needs of its major market segments. The broad characteristics of these market segments, including their capacity and risk, determined the focus of the Bank's development support. The results are reflected in the increase in lending and technical assistance operations, which is expected to continue in the next financial year.

The creation of the DBSA Development Fund is expected to increase the level of the DBSA's assistance and transfer of knowledge to local governments, communities and non-governmental organisations, especially in those market segments facing capacity constraints and higher risks. The Development Fund is a mechanism for mobilising and providing technical assistance for a wide range of services, including human and institutional capacity building, and the preparation of Integrated Development Plans.

Private Sector Investments and Southern Africa Operations

As part of the restructuring of the Bank, the Southern Africa Business Unit and the Private Sector Investments Business Unit were combined to form a separate operations cluster. This should enhance their focus, further the strategic imperatives of the Bank, and harness synergies.

These units approved lending of R1,3 billion for public and private sector institutions. The lending was for commercial infrastructure (71 per cent), investment in the Emerging Africa Infrastructure Fund (23 per cent), and posts and telecommunications (6 per cent).

Southern Africa Business Unit

This Unit focuses on facilitating and supporting the development initiatives of the region, fostering regional integration and cooperation in the spirit of NEPAD, migrating public sector operations to the private sector, and mobilising and leveraging capital investment in the region.

Loan approvals for public sector institutions in the rest of the SADC amounted to R223,2 million this year. These loans were for infrastructure development in Malawi and Swaziland at the total project cost of R1 billion. The Bank also approved technical assistance grants of R1,4 million, mainly for capacity building in key public sector activities. The Bank's lending activities in the region resulted in the signing of agreements of R968,6 million.

The Unit's business is guided by country and regional assessments, which determine focus areas for the DBSA. The Unit has continued to deepen its risk mitigation measures through initiatives aimed at collaboration on projects, finances and guarantees with key multilaterals in the rest of the SADC region. This should benefit the Bank's clients by creating more headroom for further lending, and potentially better rates.

The Unit liaises closely with multilateral financiers to support the NEPAD programme, the Regional Economic Communities, and SADC development finance institutions. Potential NEPAD projects have been identified in various countries, including the Democratic Republic of Congo, Malawi, Mozambique, Tanzania and Zambia, as well as in the Great Lakes North-South transport corridor and the Angola corridor.

Private Sector Investments Business Unit

This Unit co-funds and mobilises capital from other sources to provide affordable and efficient infrastructure services within the rest of the SADC region. The Bank acts as a catalyst for ensuring the successful delivery of infrastructure services by the private sector. In addition to providing technical assistance, the Bank increasingly plays an advisory role to ensure that certain key initiatives of local, provincial, national and regional governments are brought to the market successfully. The Unit's flexibility is demonstrated by its ability to provide a range of financial products to enhance the financial structuring of its projects. These products include equity, quasi-equity instruments, senior debt, subordinated debt and guarantees, and they are denominated in rand and United States dollar.

During 2001/02, four new investments totalling R1,0 billion were approved, which is a major increase from last year's R539 million. Half of the approved projects were outside South Africa. These projects were a hotel development in the Seychelles, an information technology education venture, an energy investment, and a fund providing long-term debt to infrastructure projects throughout the continent. The assets were funded jointly with other international funding institutions, and an additional R1,4 billion was leveraged for funding the total estimated project cost of R2 billion. The Unit's approved portfolio grew from R2,1 billion last year to R3,7 billion by the end of 2001/02. The depreciation of the rand contributed to the appreciation of the portfolio value.

The Bank provided technical assistance grants to alleviate capacity constraints experienced by some customers. These were pivotal to the development of infrastructure for small traders in Beluluane (Maputo) through the Mozal Community Development Trust, and to the preparation of bidding documents and strategy for empowerment companies seeking involvement in the Second Fixed Line Telecommunications Operator.

Prospects for the coming year

The cluster operates in an area of growing importance to the DBSA. The Bank aims to expand its role in promoting economic growth and development in the rest of the SADC region by investing in key economic sectors, facilitating regional integration, and strengthening the region's appeal as an investment opportunity. Its private sector operations will continue to focus on investments in public-private partnerships, and in commercial activities and initiatives. In the last quarter of 2001/02, the number of projects in the pipeline increased substantially, which should help the Bank to maintain its growth momentum.

Financial overview

Finance managers

Back:
Tom Snyman (Procurement Administration and Facilities Management)
Soemaya Boomgaard (Financial Management)
Ron Rees (Risk Management - Acting)
Norman Weitz (Internal Audit, Office of the CEO)

Front:
Lewis Musasike (Executive Manager: Treasury)
Nkosemntu Nika (Executive Manager: Corporate Finance and Administration)

Absent:
Graham Tate (Information Technology and Systems)
Theresa Geldenhuys (Contracts Administration)

Executive Manager, Corporate Finance and Administration: Nkosemntu Nika
Executive Manager, Treasury: Lewis Musasike

During the year under review, as part of the general reorganisation of the Bank, the Finance complex was restructured. The Treasury function was separated and elevated to cluster status, in line with the strategy of separating risk-taking and risk management, as well as the need to focus on priority functions and to fulfil the Bank's mandate at affordable cost. Legal Services was placed in the South African Operations cluster and the Operations Evaluation Unit was moved to Knowledge Management. The Procurement Administration and Facilities Management function was brought under the umbrella of Corporate Finance.

Financial perspective

The Bank aims to build adequate reserves and strengthen the equity base to continue to provide development-oriented funding while providing assurance to the financial markets that its financial management practices are sound.

Surplus from operations

The surplus generated from operations before revaluation adjustments increased significantly from R566 million in 2001 (restated) to R724 million, which represents an increase of 28 per cent. This increase was mainly due to the following factors:

- Net interest income increased by 5 per cent, from R890 million to R934 million. During the current financial year, the Bank received a total of R2,1 billion in early repayments from five of its major clients. These repayments had a significant impact both on the profits and on the cash flows of the Bank. Lost interest as a result of these repayments caused a reduction in interest income on the existing loan book. On the other hand, funding costs were reduced correspondingly, as disbursements for the year were funded mainly from surplus cash resources.
- The loan loss provision remained unchanged from the previous year. This resulted in no charge to the income statement, compared to a charge of R105 million in the previous year.

- Other income increased from R13 million to R38 million. This increase was mainly attributable to an increase in commitment fees as well as dividend income from development investments.
- Staff costs decreased as a result of the adoption of the new Accounting Statement AC116: Accounting for Post-retirement Medical Benefits. The adoption of the Statement resulted in the reversal of a provision for post-retirement medical benefits of R22 million (restated) made in the previous year.
- The above was partially offset by an increase in technical assistance grants, and in general and administrative expenses.

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 from R632 million in March 2001 (restated) to R593 million, which represents a decrease of 6 per cent.

A charge to the income statement of R80 million was made in respect of a grant due to the DBSA Development Fund. This grant was approved by the Board of Directors in June 2001, and recorded as a subsequent event in the previous year's annual financial statements. On 4 July 2002, the Board approved an additional grant of R80 million to the Fund. This grant will be used by the Fund in the new financial year to finance its technical assistance grant commitments and expected disbursements.

Unrealised profits and losses resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans have had a significant impact on the financial results, compared to the previous year. An unrealised loss of R49 million was recorded in respect of the revaluation of derivatives for the current financial year, compared to a profit of R267 million in the previous year. In addition, an unrealised foreign exchange loss of R3 million was reported for the current period, compared with a loss of R201 million in the previous financial year. The above revaluation adjustments have resulted in a net decrease in profits of R118 million compared with the previous year.

The Bank uses derivative financial instruments to hedge against adverse movements in interest and exchange rates. Although the net result of the differences on the revaluations should approximate the cost of cover of hedging strategies undertaken over the life of the underlying loan, significant fluctuations from year to year are expected. The extent of these fluctuations cannot be quantified with reasonable certainty, as they are dependent on local and foreign market movements, as well as exchange rate movements.

The operating costs to income ratio increased marginally from 24 per cent in 2001 (restated) to 27,7 per cent for the current period. This reflects the stringent budgetary controls maintained over the period, despite various strategic initiatives undertaken during the year, which were aimed at making the DBSA a knowledge institution.

Assets

Total assets increased from R17,8 billion to R18 billion, and the return on average assets decreased marginally from 3,7 to 3,3 per cent. The increase in assets is mainly attributable to an increase in trade securities and other debtors of R268 million, combined with an increase in cash and cash equivalents of R284 million. This increase was largely driven by surplus liquidity resulting from loan prepayments.

The above increase in assets was partially offset by a net reduction in development loans of R292 million. This reduction is attributable to prepayments of R2,1 billion, which exceeded disbursements for the current year of R1,8 billion.

The weighted average annual interest rate on development loans increased from 11,7 to 12,8 per cent. This increase is attributable to the increase in interest rates during the latter half of the year, combined with the fact that the bulk of new disbursements during the year were made at floating rates.

The loan loss provision at 31 March 2002 increased to 7,5 per cent of the total book debt, compared with 7,3 per cent at 31 March 2001. This increase is directly attributable to the reduced loan book resulting from prepayments.

The total book debt of non-performing loans increased from R903 million at 31 March 2001 (6,9 per cent of the total development loan portfolio) to R916 million at 31 March 2002 (7,1 per cent of total book debt). The total instalments in arrears of non-performing loans increased from R430 million to R475 million for the same period. The total non-performing arrears and book debt increased because the outstanding debt of existing defaulters accumulated as new instalments fell due.

During the year, the Workout Unit implemented turnaround strategies to rehabilitate some defaulting clients. This Unit has also been successful in securing recoveries and commitments to future repayments from some of the Bank's defaulting clients.

Liabilities

The reduction in total liabilities is mainly attributable to the redemption of the DV06 registered bond of R1,2 billion, which was redeemed on 31 October 2001. This decrease was partially offset by an increase of R662 million in trade securities and other creditors resulting from an increase in repurchase agreements. Financing raised for the year amounted to only R279 million, as early repayments on development loans were used to finance the majority of new disbursements.

Accounting policies have remained consistent with the previous year, except for post-retirement medical benefits, which have now been disclosed in the notes to the financial statements, as required by AC116. The reclassification of the COMAFIN development investment as a non-monetary asset has resulted in a reduction in the current year's profits.

The Bank is generally satisfied with the levels of profitability and its financial flexibility to absorb possible future losses from its lending portfolio. The projected financial results for the next five years indicate that the Bank will continue to be profitable. The tax status of the Bank and the question of dividend payments are currently under negotiation with the National Treasury.

Corporate finance and administration overview

The aim of this cluster is to enable the Bank to be financially sustainable, so that it can fulfil its development mandate.

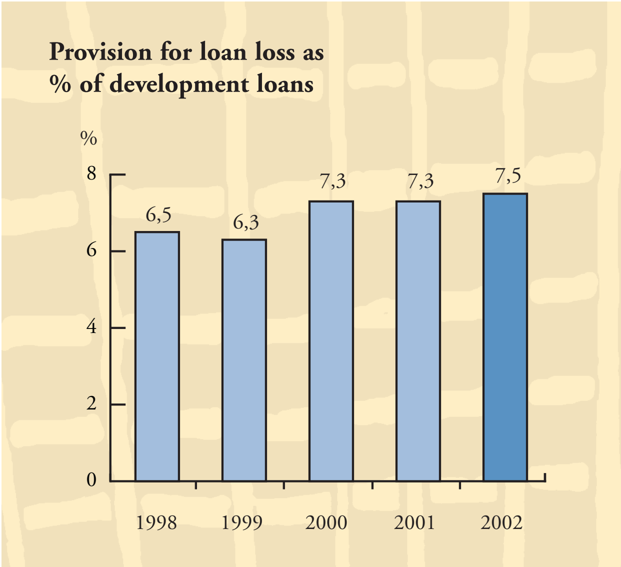
Financial management

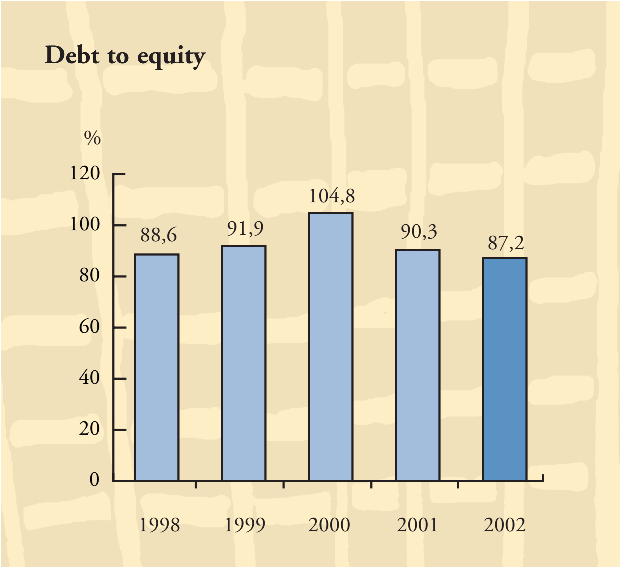
The Financial Management Unit seeks to provide relevant and reliable financial information to all users, including managers, customers and stakeholders, thereby facilitating informed decisions. The Unit focuses on providing, maintaining and implementing sound financial policy controls and systems, and on ensuring full compliance with all accounting, statutory and legal requirements.

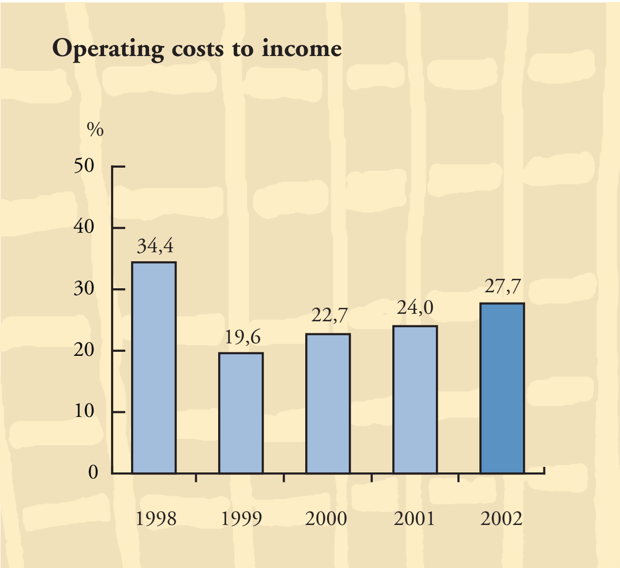
During the year under review, the Oracle accounting system was upgraded to the latest version and new modules were implemented to ensure greater integration of financial information. A dedicated tax function was also established to prepare the Bank for an impending change in tax status.

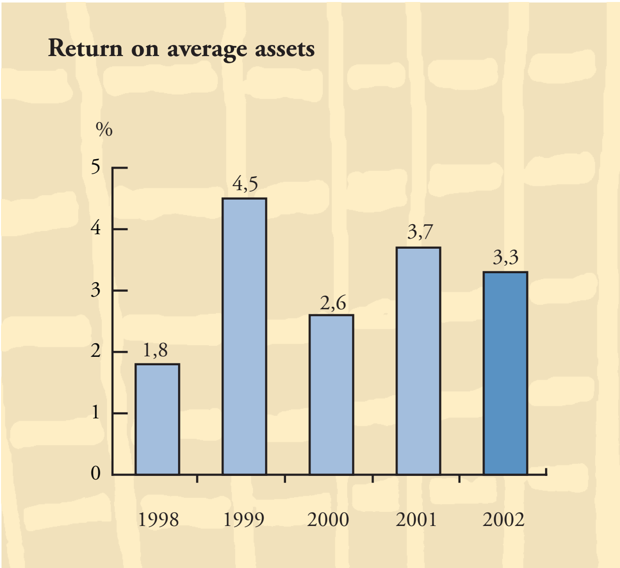
Contracts administration

The Bank strengthened the contracts administration function by forming a separate Unit, tasked with ensuring that targets for disbursements and repayments are achieved. Over the last year, the Unit also helped the newly demarcated local authorities to administer DBSA loans, including the scheduling of repayments.









Information systems

The Bank has made significant progress in integrating its various transactional business information systems. In October 2001, the long-awaited Central Operations Recording (CORE) information system for the main lending business process went live, eliminating some 12 different systems and information sources. In January 2002, the upgraded financial management system was commissioned, and in March 2002, a project to upgrade the human resources management system commenced.

These new and upgraded business information systems will be the platform for the final integration effort – the establishment of a single source of data supporting customer-focused business processes.

The Bank manages its information, communication and technology (ICT) obsolescence and operational risks through a rolling three-year refurbishment programme for its ICT infrastructure. Several projects to upgrade ICT infrastructure were completed, and this infrastructure remains current and operationally functional. The Information Technology

Business Unit continues to play a strong role in enterprise risk management, having successfully recovered business systems after hardware failures and fended off numerous email and other software-related viruses during the year.

Risk management

The risk management function resides under Corporate Finance to ensure independence and objectivity in the development of policy and methodology, the quantification of risk exposures, and reporting. A risk management framework is being implemented for the entire Bank, which will consolidate risk management oversight to include all risk categories across all business and functional areas. It is anticipated that this framework will become fully operational in the forthcoming financial year.

Procurement administration and facilities management

The DBSA's mandate requires that, where possible, internal processes should also contribute to the development of the region. During the year, the Bank's procurement policy was thoroughly reviewed to ensure that it accords with this development mandate.

All tender proposals are evaluated in terms of the Procurement Policy, which is based on the Preferential Procurement Policy Framework Act, No. 5 of 2000. All service contracts have been reviewed and are currently advertised for tender proposals. Likewise, all security systems were reviewed and upgraded where necessary.

Internal audit

The Bank's Internal Audit Unit aims to be an agent of independent, objective assurance and consulting, which adds value and improves the Bank's operations. It assists the organisation by bringing a systematic, disciplined approach to the evaluation of risk management, control and corporate governance processes.

To this end, Internal Audit reports directly to the Managing Director, and has unlimited access to the Chairpersons of both the Audit Committee and the Board.

During the year, the Unit considered the strategic impact of changes both within the Bank and in its operating environment, while continuing to provide assurance through audits and to add value through organisational support. The Unit aims to enhance its skills and resources through strong alliances that secure its support base, resulting in high-level assurance and cost effectiveness. Other significant initiatives during the year included:

- Continued reassessment of the audit policy and the Unit's risk-based approach to auditing the systems of internal control
- Contributing to compliance, corporate governance and business planning processes
- Interacting with the external auditors to optimise the joint contributions of the external and internal audit functions
- Implementing a post-audit evaluation to gauge the efficiency and effectiveness of the internal audit
- Systematically reviewing the risk profiles of the various business processes, in conjunction with the Risk Management Unit

Looking ahead, the Unit will continue to shift its focus towards internal audits and services that add value to the organisation and enable it to meet its objectives. It will focus audit attention on the functioning of the system of internal control; promote good corporate governance and clean administration through a systematic, risk-based audit approach; and concentrate on the processes that produce accurate financial statements.

Treasury overview

Business of the Treasury cluster

The Bank is a self-financing development finance institution and its Treasury exists to:

- Mobilise financial resources from the domestic and international capital markets, as well as other sources such as bilateral and multilateral development agencies
- Proactively manage the financial risks inherent in the Bank's mobilisation of funds, its lending and investment activities, and other asset and liability management practices, by implementing appropriate systems and processes to ensure long-term sustainability and the effective use of scarce resources
- Undertake prudent investment of liquid assets to preserve capital and achieve a reasonable rate of return, in accordance with the investment guidelines and the risk appetite
- Develop appropriate loan products and financial instruments that allow the Bank to respond to the needs of its clients and to accelerate the delivery of its products and services

The Treasury works closely with operational units to ensure that projects are optimally structured, and that the funding and risk management are adequately managed.

In its borrowing activities, the Bank strives to:

- Minimise the cost of borrowing so as to enhance competitiveness in lending and investment operations
- Access diversified and flexible sources of funds
- Ensure the availability and stability of funds
- Manage risk factors, such as those associated with refunding and repricing, liquidity, and credit
- Match assets and liabilities prudently
- Respond to the needs of stakeholders

In the normal course of operations, the Bank is exposed to various risks, including those associated with liquidity, credit, interest rates, legal matters, and so on. These risks are managed proactively, within the specified risk tolerance parameters approved by the Board, and with independent oversight by the Risk Management Unit.

Market conditions

The domestic market in general was characterised by strong demand from domestic investors, and net sales of South African bonds by non-residents. Market sentiment was influenced mainly by concerns about economic and political disruptions in some emerging markets, and the weakness of the rand in the latter part of the year. Concerns about rising inflation prompted the decision by the monetary authorities to raise short-term interest rates by 200 basis points during the last quarter of the financial year. In response to these developments, bond yields in South Africa fell to 18-year lows in October and early November 2001, with the R153-bond trading at 10,1 per cent in mid-November; but rose to a high of 13,6 per cent during December, owing to the weakness of the rand and concerns about inflation. As the central government's supply of bonds fell dramatically, a number of corporate bond issuers took advantage of lower interest rates and strong institutional demand to raise financing at attractive rates.

Mobilisation of funds

The DBSA has established itself as an issuer in the domestic capital markets, as demonstrated by the 60:40 ratio of domestic to international outstanding borrowings achieved by March 2002. The challenge lies in balancing the objectives of diversifying both the sources of funding and funding instruments, while improving the terms and conditions (including costs, flexibility, and access to funds). The Bank has established a

R5 billion Domestic Medium-Term Note Programme, which allows it to respond quickly and efficiently to funding opportunities in the markets. All new borrowings take place via the underwritten method. The market-making panel facilitates the pricing of the Bank's bonds to market participants. Despite the decline in interest rates, the Bank delayed the implementation of its borrowing programme because of unexpected prepayments of about R2 billion by its clients, in response to declining interest rates. This meant that fund mobilisation was limited to R279,2 million of the approved funding programme of R1,9 billion. This amount was made up mainly of drawdowns on lines of credit from bilateral sources, such as Nordic Investment Bank, the European Investment Bank, and Kreditanstalt für Wiederaufbau. In line with prudent risk management practices, all foreign currency borrowings were swapped into rand. The bilateral and multilateral institutions remain important sources of funding for the Bank.

Asset and liability management

The asset and liability management function exists to ensure that there is a healthy balance between the structure of assets and liabilities, and that the net interest margins of the Bank are protected and enhanced. At the end of the year, the weighted average lives of loans and borrowings were fairly matched at 13,24 and 12,35 years respectively, while the Bank had no significant currency mismatches. The movements in the rand exchange rate therefore had a minimal effect on the Bank's financial position. As noted, financial risks (especially interest rate risks) are actively managed through the asset and liability management process. In view of the unique difficulties the Bank faced with clients prepaying loans during the period of low interest rates, the Bank in turn prepaid some of its costly liabilities, amounting to R634 million.

Investment and liquidity management

The Bank maintains a liquid portfolio equivalent to between 15 and 30 per cent of undisbursed loan commitments. During the year, the average liquidity amounted to R1,6 billion. In addition, the Bank outsourced R200 million of its liquid resources to two external portfolio managers, to provide a benchmark of the Bank's investment performance and to transfer investment management skills to the Bank. The Bank's policy and control guidelines relating to instruments, counterparties and maturities are applied in the management of these portfolios.

Credit ratings

Recently, the Bank's long-term foreign currency credit rating was upgraded from Baa3 to Baa2 by Moody's Investors Service. The Bank maintained its investment grade ratings from Standard and Poor's of BBB- (long-term) and A-3 (short-term) for foreign currency debt, and A- (long-term) and A-2 (short-term) for local currency debt. These ratings are equivalent to those of the Republic of South Africa. The Bank also maintained its local currency rating of AAA from Fitch IBCA. Ratings of this quality enable the Bank to fund competitively in the domestic and international capital markets.

Development of products

To enhance its competitiveness in its lending and investment operations, the DBSA constantly develops new lending instruments and products. During the past year, the Bank introduced:

- A prime-linked lending instrument that links the floating leg of the product to the prime rate charged by commercial banks
- A differentiated lending product that allows for different basic costs and lending margins to be charged according to the maturity of the loan

Knowledge management overview

Knowledge managers

Back:
Stephen Mncube (Development Information)
Greg White (Executive Manager: Knowledge Management – Acting)
Mashupye Kgaphola (Policy)

Front:
Makgoshi Sindane (Training; Employment Equity – Acting)
Mary Cole (Operations Evaluation – Acting)

Absent:
Dumisani Majozi (Human Resources)
Mike Marler (Specialists – Acting)

Executive Manager (Acting): Greg White

The Knowledge Management cluster was established as part of the organisational restructuring in July 2001. It comprises a number of functions that are viewed as strategically important in enhancing the Bank's role as a knowledge-based institution. These functions are:

- Human Resources
- Training
- Employment Equity
- Policy
- Specialists
- Operations Evaluation
- Development Information

The knowledge management function cuts across all areas of the organisation, and the cluster champions the broad strategic goal of leveraging skills and knowledge as integral components of the development support provided by the Bank. The cluster has guided the formulation of a broad-based strategy that aims to establish the DBSA, in the medium term, as a recognised centre of excellence with regard to development in general, and infrastructure development in particular. The strategy focuses on building the Bank's skills base by attracting, developing and retaining core competencies; integrating knowledge products into the products and services offered by the Bank; sharing knowledge and experience by establishing strategic partnerships; and engendering a culture of learning within the organisation.

Building and maintaining the skills base

The Human Resources, Training and Employment Equity Units spearheaded a number of initiatives to enhance the Bank's skills base, under the umbrella of a strategy for building professional skills. These include:

- A professional associates programme, aimed at attracting recent graduates to undergo in-service training
- An internship programme
- A staff exchange programme
- An open bursary scheme, which will be implemented in 2003

All the other programmes mentioned above will be fully implemented in the 2002/03 financial year.

A fundamental review of the Bank's remuneration and reward philosophy and systems commenced in September 2001 and was completed in May 2002. The new systems will become operational during the second half of 2002.

Employment equity

Employment equity targets were submitted to the Department of Labour. The challenge now is to articulate and implement a strategy to accelerate employment equity.

During 2001, a diversity sensitisation and training process was implemented; more than 300 staff members attended training workshops.

An employment equity resource centre was established, which provides books, reports and audio-visual material on employment equity, gender and women's issues. The centre is available to both staff and external stakeholders.

In recognition of the potential impact of HIV/Aids on the Bank, a policy in this regard was developed and approved, and training and awareness programmes were implemented. A team of peer counsellors was established to disseminate information, and provide advice and support to staff.

Employee relations

Constructive relationships were maintained with employee representative bodies, including the DBSA branch of SACCAWU, and negotiations were concluded successfully on a range of human resource policy issues, as well as salary adjustments for 2002/03.

Specialist functions

The DBSA provides a wide range of specialist services, including policy support, technical assistance, advice and development information. The number of agency projects managed by the Bank increased to 18 in 2001. The agency programme includes technical and logistical support for the NEPAD initiative.

A ground-breaking international symposium was held on the challenges of regional integration in the rest of the SADC region, under the auspices of the *Development Southern Africa* journal. The Bank was represented on a number of national policy forums concerned with the transformation of local government.

Through the Specialists Unit, the Bank continued to promote best practice in services delivery, both within the organisation and outside it. To this end, the Combined Services Model and the District Services Model were propagated. Strategy position papers were finalised in areas such as tourism, economics, energy, and the environment.

Development information work included publications on population projections, a development information framework for rural and semi-urban areas, and development profiles, to name a few. Socio-economic profiles were prepared to assist 100 newly established municipalities in drafting Integrated Development Plans. A strong partnership has been established with the World Bank around the implementation of its second-generation database in the rest of the SADC region.

The operations evaluation function plays a key role in assessing the effectiveness and efficiency of the Bank's investments, and measuring its development impact. During the year, 58 project completion reports were reviewed and 12 project evaluations were conducted. In addition, an evaluation of the National Electrification Programme was completed on behalf of the Department of Minerals and Energy. The Operations Evaluation Unit has an important role to ensure that the many lessons gleaned through the implementation of projects are incorporated in the policies and processes of the organisation, and also that these are shared with clients and stakeholders.

Conclusion

The new Knowledge Management cluster has done much to enhance the Bank's role as a knowledge-based institution. A great deal remains to be done, but the groundwork completed in 2001/02 will allow the cluster to improve its performance in the next financial year.

Corporate governance

As a development finance institution, the DBSA must ensure that its goals are in line with the interests of its shareholder, the government of the Republic of South Africa, and of the country at large, including civil society and business. The Bank continually reviews and updates its governance processes and practices so that they conform to good corporate governance principles. In performing its role in the economy, locally and internationally, it is committed to maximising its development impact and improving the quality of life of the people it serves.

Principles of corporate governance

The Board of Directors and the management of the DBSA are committed to the following principles of corporate governance:

- Ensuring ethical leadership, integrity and good judgement in directing the business of the Bank
- Adhering to business strategies that promote efficiency, ethical business practices and commercial viability
- Maintaining reliable and transparent communication between stakeholders
- Ensuring that the Bank will continue as a going concern in the next financial year and continue to be sustainable in the long term
- Monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans to ensure that management and staff are appropriately recruited, trained, developed and rewarded
- Reviewing internal procedures and policies, and ensuring that the required control systems are in place
- Monitoring key risk areas to develop risk management policies
- Procuring transparent financial and management reporting
- Ensuring that technology is adequate to support effective and efficient operations, without compromising the environment within which it operates
- Supporting a culture of innovation throughout the institution, the country and the region
- Nurturing the moral and ethical culture of the Bank by formulating guidelines and policies that encourage the participation of management, staff and stakeholders in decision-making
- Engendering a work discipline to increase productivity
- Ensuring self-evaluation by the Board and its committees
- Providing guidance in the recruitment, remuneration and career development of senior management, as well as monitoring the succession planning of management
- Complying with the requirements of the regulatory environments in which the Bank operates

The Board has adopted a Board Charter, which is based on the Blue Ribbon Report and aligned with the King II Report on Corporate Governance. Matters such as conflicts of interest and attendance at Board meetings are dealt with in the regulations issued in terms of the Development Bank of Southern Africa (DBSA) Act, No. 13 of 1997.

King Code

The DBSA sponsored the revision of the King Report on Corporate Governance for South Africa. The Bank adheres to the principles contained in the Code of Corporate Practices and Conduct, in terms of which it is classified as an affected company. A review of the Bank's practices revealed no material areas of non-compliance with the principles of the King I Code or superseding statutory requirements. The Bank is working towards compliance with the King II Code.

Strategic planning and innovation

Dr Ian Goldin was succeeded as Managing Director by Mandla Gantsho in February 2001. The latter had served the DBSA as Executive Manager: Finance prior to a sojourn at the International Finance Corporation from 31 March 2000 to 30 June 2001. On his return to the Bank as Managing Director and Chief Executive Officer, he embarked on a review of the strategic planning processes and introduced key new ideas to the organisation. This resulted in the development of the strategic thrusts, as well as the expansion of the business guidelines to include innovation.

Business planning and performance reporting

The DBSA has implemented a marketing approach based on a stakeholder analysis, with the aim of coming to a better understanding of its key stakeholders, and supporting the organisational thrust to improve strategic alliances. The Balanced Scorecard was adopted in 2000 to measure and report on performance, and was updated in June 2001. In February 2002, the Board approved the Balanced Scorecard for the next two years. An annual budgeting process underpins the business planning cycle.

The Chairperson evaluates the performance of Directors, and the Board has accepted the annual evaluation of its own performance and that of its supporting Committees. The Remuneration Committee of the Board evaluates the performance of the Managing Director and reviews the performance of the Executive Managers.

Structural governance

Shareholder linkages: The DBSA, through its Board, is accountable to its sole shareholder, the government of the Republic of South Africa, and to Parliament in terms of the DBSA Act. The previous year's Annual Report was launched in the presence of the Minister of Finance at Mogale (Krugersdorp). The report was tabled in Parliament in terms of the Public Finance Management Act, No. 1 of 1999.

Minister of Finance: As the shareholder representative, the Minister 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.

Board of Directors: The Board is charged with the direction and control of the business of the Bank. It monitors the operational functioning of the Bank through detailed reporting.

The DBSA has a unitary Board, with a non-executive Chairperson. The Managing Director is the sole executive director, but in 2001 the Cabinet adopted the principle of appointing an additional three executive members. These appointments will become effective as soon as an amendment to the DBSA Act to increase the size of the Board has been promulgated. As with the appointment of Directors of the Board, the statutory authority to appoint the Chief Executive Officer lies with the Minister of Finance (the shareholder representative) in terms of the DBSA Act. The Board assists the Minister with the recruitment of the Chief Executive Officer.

As the summary curricula vitae on pages 10 to 13 show, the Board was reconstituted after the previous Board's three-year term expired, at which point the principle of rotation was adopted. The Minister of Finance, assisted by the Chairperson, assessed the skills of those Directors chosen to continue serving on the Board. The current Board comprises nine independent directors, three shareholder representatives, and the Managing Director. The new Directors were given an overview of the DBSA's business and of their roles and responsibilities at a "lekgotla" in August 2001. Vision 2004, the Balanced Scorecard, developments in corporate governance, and key functional areas were also discussed. The Directors have access to a website that provides all documentation required for meetings, as well as key corporate governance reference works such as the DBSA Act, strategic documentation, legal opinions on the impact of the Public Finance Management Act, and a synopsis of the King II Code.

The Board, with the consent of the shareholder, appoints the chairperson annually. Mr Jayaseelan Naidoo, who was appointed Chairperson in August 2000, was re-elected for a further year.

The Board has met six times in the year in addition to the "lekgotla" of August 2001, and visited projects funded by the Bank in February 2002.

Board Committees: The following Board Committees have been constituted to ensure that the Board operates effectively and efficiently:

- The Audit Committee has existed since the establishment of the Bank in 1983 and met five times during the year. It facilitates systematic interaction between the Board and the Bank's external and internal auditors. The focus of the Audit Committee is on internal control and risk management. The current members of the Audit Committee are Dr D. Konar (Chair), Dr I. Abedian, Mr M.S.V. Gantsho, Mr J. Naidoo, Mr I. Sehoole and Mr N. Sowazi.
- The Finance Committee was constituted in 2001 to provide strategic direction on asset and liability management activities within a defined risk appetite, thus strengthening the Bank's financial position. Mr I. Sehoole chairs the Finance Committee, and the other members of the Audit Committee also serve on the Finance Committee. This Committee met twice during the year under review.
- The Credit Committee (which replaced an Investment Committee) was constituted in 2000 to supervise and control credit-related matters. The Committee meets as required and may approve credit extensions by round robin. It met three times in the year under review. Dr I. Abedian (Chair), Ms L. Abrahams, Mr I. Sehoole and Mr M. Vilakazi serve on the Credit Committee.
- The Employment Equity Committee was established in 1995 to oversee the transformation of the internal structure and human capital. The Committee met once in the year and the current members are Ms L. Abrahams (Chair), Prof. B. de L. Figaji and Mr J.B. Magwaza.
- The Board constituted a Remuneration Committee in February 1998 to deal with the remuneration of the Board and Executive Management. The Committee further assists the Managing Director in appointing Executive Managers and monitoring their performance. The members of the Committee are the Chairpersons of the Board and the Audit Committee, and Mr J.B. Magwaza. The Committee meets as required.

The chairpersons of the Board and of the Committees are all non-executive directors. Committee chairpersons are confirmed annually.

Chief Executive Officer and Managing Director: In terms of the provisions of the DBSA Act, the Managing Director is charged with the day-to-day management of the Bank's operations. The Chief Executive Officer assisted the Board in providing strategic and policy direction to the Bank, and consulted regularly with the shareholder representative.

Internal control: The Board recognises the need to oversee internal operational and financial controls. Executive Managers attend Board and Committee meetings as required. A structured relationship has been formalised between the Internal Audit function, the Managing Director and the Audit Committee. The Internal Audit function, external auditors, the Managing Director and the chairperson of the Audit Committee meet regularly.

Corporate Secretary: In line with regulation 119 issued in terms of the DBSA Act, the Board formally appointed the Corporate Secretary in 1998. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the requirements of the 1999 amendment of the Companies Act, No. 61 of 1973.

Code of business conduct

The Bank sets standards of conduct for staff as part of the conditions of service. These include the protection and promotion of the dignity and interests of the Bank. The Code of Business Conduct was adopted following a thorough consultation process, in which every staff member could contribute to the requirements of the Code. The Code applies to all members of staff, including directors, consultants, and suppliers of services. Declarations of interest have been made at Board and operational level to ensure that directors and employees who may derive direct or indirect benefit from an activity of the Bank are excluded from influencing decision-making processes. Similarly, members of the Board who may have an interest in projects are recused from Board discussions of such projects.

Regulatory environment and statutory compliance

The Development Bank of Southern Africa Limited was established in 1983 in terms of an Establishment Agreement. It was reconstituted in 1997 as a statutory body with the promulgation of the Development Bank of Southern Africa Act, No. 13 of 1997, on 23 April 1997.

The regulations framed in terms of the DBSA Act stipulate the following:

- The principles of company law apply to the Bank as though it has been incorporated in terms of the Companies Act of 1973 (regulation 121).
- The Bank shall adhere to South African Statements of Generally Accepted Accounting Practice and shall endeavour to be in line with international corporate practices (regulation 122).

In terms of the requirements of the Public Finance Management Act, regular reporting to the National Treasury takes place, especially on risk and financial issues.

The Board has adopted a Compliance Framework, which supports the monitoring of compliance through self-regulation by functionaries and independent review by the Audit Committee of the Board.

Risk management

The DBSA recognises that risk-taking is inherent to its business as a development-oriented institution. In aligning its risk philosophy with its strategic objectives, the Bank seeks to balance the often contradictory demands of development and financial sustainability, through responsible, proactive and sound risk management.

While individual business units retain primary responsibility for managing the risk originating from their operations, 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 approved by the Board of Directors.

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

Integrated risk management framework

Following the approval of the integrated risk management framework by the Board in the previous financial year, the Unit's mandate was expanded to cover the implementation of enterprise-wide risk management. Although the Board is finally accountable for the management of the Bank's risks, it is assisted in this regard by the Audit Committee, whose mandate was expanded to include overall oversight responsibility for the Bank's enterprise-wide risk exposures.

Two further Committees of the Board were created in the year under review. The Finance Committee was established to oversee the asset and liability management function, and to consider risk management policies and any other policies that have a bearing on the Bank's assets and liabilities. It is supported by the Asset and Liability Management Committee (ALCO). The Credit Committee is responsible for reviewing and approving credit applications between R25 million and R100 million. It also reviews the Bank's credit strategy, the trends in portfolio quality, and the adequacy of the provision for credit losses.

The Bank has adopted the capital-at-risk methodology, which will ensure that all risks across risk types and business units are aggregated to a common denominator.

The Unit is currently putting into practice the generally accepted risk principles that were approved by the Board, and, in association with the Internal Audit Unit, is systematically reviewing the risk profiles of the various business processes.

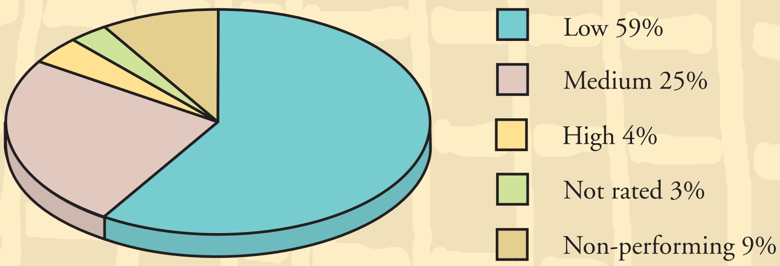
Risk exposure and management

- *Credit risk:* The Bank's lending operations constitute its primary source of credit risk. In this context, credit risk is the potential for financial loss caused by the failure of a borrower to meet its contractual obligations to the Bank. The Bank's development finance mandate renders significant credit risk an unavoidable and necessary consequence of its business operations, but in pursuing its mandate, the Bank nonetheless has to ensure its own financial sustainability, and so the management of credit risk is of prime importance. To this end, the Bank employs a comprehensive framework of policies, limits and procedures to ensure a process of risk assessment, quantification, monitoring and reporting consistent with best practice.

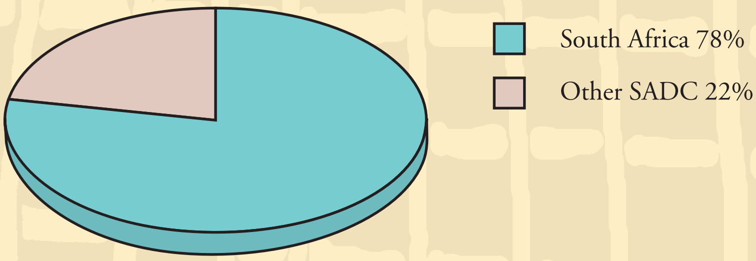
  The Board of Directors authorises larger credit decisions, while the operations executives have the delegated authority to approve smaller credits. In evaluating and monitoring credit risk, the Bank uses a well-tested internal rating model that allows for a thorough and all-embracing risk assessment of each client. All loans are classified in accordance with the Bank's risk classification system, and all clients are reassessed on a semi-annual basis.

- *Project and development risk:* This results from the failure of projects, whether financial, technical or environmental, all of which could affect the Bank's financial position and limit its development impact. These risks are dealt with during the initial assessment of the project, through a comprehensive analysis of its financial, institutional, social and environmental aspects; and, after the project has been accepted, through continuous monitoring and periodic reassessment. The initial assessment typically sets the framework for conditions precedent, covenants, collateral requirements, pricing, maturity, and the like.
- *Country risk:* The DBSA's mandate requires it to extend credit to SADC countries. The credit risk of cross-border transactions is greatly affected by economic and political conditions in these countries, and so they form the focus of the risk assessment.
  In assessing country risk, the Bank utilises an internal model that assesses the economic, political and legal factors. It also sets limits to cross-border exposure in each country and in the region.
- *Interest rate risk:* This arises from the impact of interest rate movements on the net interest income of the Bank. Interest rate risk stems from the Bank's funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities maturing at any one time.
  The Treasury cluster, under the guidance of the ALCO, is charged with managing and containing the Bank's interest rate risk as far as possible, either through the direct matching of assets and liabilities, or through the use of appropriate derivative instruments aimed at eliminating any undesired residual risk.
  Interest rate swaps are entered into solely to achieve these risk management objectives, and the Bank does not engage in trading in derivative instruments. As such, interest rate swaps are employed exclusively to ensure that the Bank's asset-liability gaps, and therefore its interest rate risks, remain within acceptable tolerances. Swaps are structured to offset the cash flow profiles of specific liabilities exactly, and for the most part constitute perfect hedges.
- *Foreign exchange (currency) risk:* This is the risk of financial loss arising from the impact of adverse exchange rate movements on foreign currency assets and liabilities. Currency risk arises from the Bank funding in foreign currency, and from foreign currency lending. The DBSA's policy is conservative and requires all currency exposures to be fully hedged. This is done either directly through currency swaps with reputable institutions, or naturally through offsetting foreign currency loan assets.
  As in the case of interest rate swaps, all currency swaps are structured to offset the currency cash flows of specific foreign currency liabilities exactly, ensuring perfect hedge effectiveness. The generally long tenor of the Bank's currency exposures makes cross-currency swaps the preferred hedging alternative, although other derivative instruments have been approved for this purpose. The Bank recognises that in hedging undesired currency or interest rate risk, it exposes itself to the credit risk of the respective derivative counterparties. As such, transactions in derivatives are limited to highly rated, reputable institutions, and the resultant credit risk is monitored within the Bank's framework for managing financial counterparty credit risk.
- *Liquidity risk:* The risk of failure to fund a cash shortfall as and when required, without incurring financial loss, is managed within the framework of a highly conservative liquidity risk policy. This requires that the Bank at all times retain sufficiently liquid assets of between 15 and 30 per cent of total undisbursed loan commitments.
  The liquidity is primarily held in highly liquid money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptances, and commercial paper from highly rated banks, corporates and parastatals. Liquidity risk management is centralised within the Treasury cluster and, as part of the Bank's asset-liability

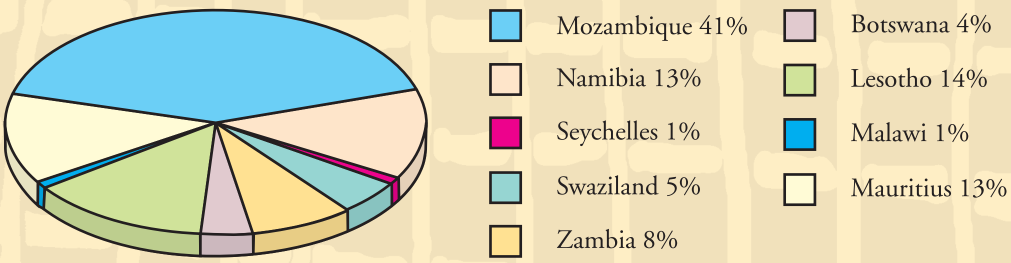
Risk profile of loan book
March 2002



Book debt, South Africa and other SADC countries
March 2002



Net exposure (including negotiations) in other SADC countries
March 2002



management, takes place under the oversight of the ALCO, which in turn reports to the Finance Committee of the Board.

- *Treasury counterparty risk:* This arises from Treasury operations, primarily through the Bank's cash and liquidity management activities, and through the use of derivative positions taken to offset undesired interest rate and currency risks. Both derivative and cash transactions are restricted to reputable, highly rated financial institutions, within a set of approved counterparty limits. In addition, all counterparties are continuously monitored, and downward adjustments in limits are effected when deemed prudent. Counterparty limits are otherwise reviewed semi-annually, subject to an exhaustive analysis of each approved counterparty. Financial counterparty risk is managed within the Treasury cluster, under the oversight of the Finance and Risk Management Committee, and the Finance and Audit Committees of the Board.
- *Operational risk:* The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events, is managed through a system of internal controls that govern all operations to ensure sufficient preventative measures and an adequate flow of information. These 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. The Bank, as part of its enterprise-wide risk management system, continually updates and refines the management of operational risk.
- *Regulatory risk:* The risk arises either from changes in the regulatory environment of the Bank's clientele, which affect their ability to meet their obligations to the Bank, or from any failure by the Bank to comply with its own regulatory requirements. The DBSA has developed an integrating framework and internal compliance function to manage these risks across the organisation. The different business units are responsible for identifying, measuring, monitoring and reporting on the various elements of these risks.

Approved risk management policies

In managing these risk exposures, the Board of Directors has approved policies on the following matters:

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

In its effort to refine and improve its risk management, the Bank reviews its risk policies and practices continually, and benchmarks these with international best practice. The Bank is satisfied with the management of its risk exposures and practices.

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 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 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 59 to 91 were approved by the Board of Directors on 4 July 2002 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Mandla Gantsho
Managing Director and Chief Executive Officer

Deenadayalen Konar
Chairman of the Audit Committee

Report of the independent auditors

We audited the annual financial statements of the Development Bank of Southern Africa Limited, set out on pages 46 to 87, for the year ended 31 March 2002. These annual financial statements are the responsibility of the Bank's directors; our responsibility is to express an opinion on these annual financial statements based on our audit.

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. The audit was planned and performed to obtain reasonable assurance that, in all material aspects, the relevant requirements of the Public Finance Management Act of 1999, as amended, 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 annual financial statements fairly present, in all material respects, the financial position of the Bank as at 31 March 2002, and the results of its operations and cash flows 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 1973, sections 284 to 303 and schedule 4.
- The information furnished in terms of subsections 55(1)(b) and 55(2)(a) of the Public Finance Management Act of 1999 is fair in all material respects.
- The transactions of the Bank, which were examined during the normal course of our audit, were made in accordance with the applicable laws and instructions, and were, in all material respects, in accordance with the mandatory functions of the Bank.

Ernst + Young

Ernst & Young
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
4 July 2002

Gobodo Inc.

Gobodo Inc.
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
4 July 2002

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 2002. The report deals with the performance of the DBSA and meets the relevant statutory information requirements.

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 2002 and the results of its operations and cash flow information for the year then ended. The financial statements were approved on 4 July 2002. 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 DBSA complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

Functions of the Bank and nature of the business

The Bank is a development finance institution wholly owned by the government of the Republic of South Africa and it supports mainly infrastructure development in the entire Southern African Development Community. The Bank supports economic development, growth, human development and institutional capacity building in southern Africa. It is one of five national development finance institutions tasked with promoting development, the others being Khula Enterprises, the Land and Agricultural Bank, the Industrial Development Corporation and the National Housing Finance Corporation. The DBSA supplements the flow of development funds by forming partnerships with the private and public sectors for projects that develop socio-economic infrastructure.

The Directors' report is compiled in terms of the Public Finance Management Act 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 284-303 of the Companies Act, No. 61 of 1973, as amended.

Objectives

The Bank's corporate strategy and business planning activities occur within a five-year business cycle. Annually, based on the Balanced Scorecard approach (now in its second cycle), objectives and targets for the organisation are set and approved by the Board. The Board approved the strategic objectives on 26 March 2001. These objectives were set from the following five perspectives of the Balanced Scorecard:

- Financial
- Customers and beneficiaries
- Stakeholders
- Internal business processes
- Learning and growth

The strategic objectives aim to maximise the development impact of the Bank's investment; to ensure its financial sustainability by mobilising funds and leveraging strategic partners; to deliver services through efficient internal processes; to achieve the optimal development of its human resources; and to deliver customer-oriented products and services in a sustainable manner. These objectives are also concerned with institutional capacity, economic development, transformation, and environmental sustainability and impact. They form the basis of the strategic framework within which the Managing Director and his executive team function, converting each objective into specific measures, targets and key activities on an operational level, and seeing that they cascade down to each corporate cluster, business unit and individual. With the implementation of the Balanced Scorecard, a detailed consultative process was followed to develop and refine targets. Reporting takes place in respect of the approved strategic objectives and targets.

Contractual agreements are entered into at the corporate, business unit and individual levels to ensure that key initiatives are implemented. Reporting on targets takes place between staff and management, between the executive managers and the Managing Director, and ultimately between the Managing Director and the Board of Directors. Budgets are prepared annually, based on the strategic direction set by the Board.

The Bank's overall performance in relation to the 2001/02 strategic objectives is detailed in this report.

Financial perspective

In terms of the Public Finance Management Act, the Bank has submitted its first three-year corporate plan, and has also developed a policy and procedure on irregular, fruitless and wasteful expenditure. The foundations of the Act are sound financial management and good corporate governance, transparency, and the drive to eliminate waste and corruption in the use of limited resources. In its endeavour to be a model corporate citizen, the Bank will adhere not only to the letter but to the spirit of the legislation. From the financial perspective, the main goal is long-term sustainability. The strategic objectives for achieving this goal are:

- To be financially sustainable
- To optimise resource allocation
- To contribute to economic growth

Achieving financial sustainability

The Bank identified five key performance indicators, in terms of which its progress during the year can be gauged.

- *International and local credit ratings:* The long-term foreign currency rating from Moody's Investors Service was upgraded from Baa3 to Baa2. In addition, the Bank also maintained its superior ratings of BBB- and A-3 (for long-term and short-term foreign currency) and A- and A-2 (for long-term and short-term local currency) from Standard and Poor's. These ratings are equivalent to those of the Republic of South Africa.
- *Net income as a percentage of total income:* Net income as a percentage of total income for the year is 63 per cent, which is above the target of 60 per cent. The improvement is attributable mainly to two factors: staff costs were lower, owing to the adoption of the new Accounting Statement AC116 on Post-retirement Medical Benefits. In addition, other income for the year increased by R25 million, owing to an increase in dividend income and fees.
- *Risk management:* The DBSA adopted the generally accepted risk management principles in February 2001. The Bank is currently in full compliance with 37 of these principles and partially in compliance with nine. It is anticipated that the Bank will be in full compliance with all 89 principles by 2004.
- *Effectiveness of funds mobilisation:* The money the Bank raised as part of its funding budget was made up mainly of drawdowns from existing lines of credit, such as Nordic Investment Bank, the European Investment Bank, and Kreditanstalt für Wiederaufbau. Lower market interest rates prompted a number of clients to make early repayments and settle their loans with the Bank, thereby accelerating cash flow and reducing the Bank's need to borrow.
- *Effectiveness of asset and liability management:* During the year, the asset and liability management mandate was formulated and approved by the Asset and Liability Management Committee (ALCO), which will direct the future asset and liability management processes in the Bank. As a result of the early repayment of loans, the Bank chose to repay various borrowings totalling R713 million.

Optimising resource allocation

- *Disbursements:* Actual disbursements reached R1,8 billion and exceeded the disbursement budget by 12,5 per cent.
- *Fixed operating expenses:* Fixed operating expenses for the year were R239 million compared to a budgeted figure of R246 million; this represents a favourable variance of 3 per cent, which is within the accepted range of 10 per cent.

Contributing to economic growth

The elements of this objective are discussed in more detail under the customer and beneficiary perspective. There are two key performance indicators:

- *Expected contribution of infrastructure to employment creation:* It is estimated that the Bank's investment in projects directly contributed to establishing and maintaining 13 700 employment opportunities in South Africa, while funded projects in total, including the contributions made by clients and co-funders, resulted in an estimated 43 000 employment opportunities. This exceeds by 187 per cent the target of 15 000 jobs for the year, and is 226 per cent higher than the estimated 13 200 jobs created during 2000/01. This positive achievement is due to a substantial increase in funding in real terms, as well as a marked shift in the funding portfolio, leading to higher levels of employment creation.
- *Expected contribution of infrastructure to economic activity:* Higher levels of investment approvals and structural changes in the investment portfolio saw the Bank contribute an estimated R8,9 billion (through its own finance and co-funding) to South Africa's gross domestic product. This is substantially higher than both the previous financial year (R2,1 billion) and the set target (R1,8 billion). Important to note is that the direct impact on the income of low-income households during the year increased from R250 million during 2000/01 to R1,1 billion, due in part to the more labour-intensive nature of the year's support activities.

Customer and beneficiary perspective

The DBSA's vision is to be the leading change agent for socio-economic development in southern Africa. The Bank set five strategic objectives in this regard:

- To add value through in-depth market knowledge
- To expand service delivery
- To meet customer expectations
- To achieve development impact
- To maintain positive customer relations

Adding value through in-depth market knowledge

Over the past few years, the DBSA has experienced lower business volumes from its primary client base, the municipalities, mainly because of the demarcation process and the resulting lack of capacity.

In order to respond appropriately to market needs, the Bank has made a concerted effort to gain in-depth market knowledge, including knowledge of the role the DBSA itself is expected to play. In the year under review, the Bank analysed current and potential markets with regard to the capacities and needs of clients, and developed tools to measure market knowledge. It also pursued the segmentation of the market it operates in, to ensure that it provides appropriate support to its clients, and carried out research on its beneficiaries. The market analysis in South Africa indicated that there is a great need for infrastructure financing, but generally a low awareness of the organisation's services. The market segmentation and biannual risk-rating exercises confirmed that a large percentage of municipalities lack capacity, with 40 per cent of the Bank's high-risk clients being local authorities. Research on the southern African market indicated that there is a high awareness of the DBSA, and correspondingly high expectations. On an operational level, the Bank conducted various sectoral, district, state and borrower reviews, to identify opportunities, weaknesses, and risks for development. Business case studies were conducted in rural areas, and provided an invaluable basis for decisions, by both the Bank and the DBSA Development Fund, to support initiatives that address capacity constraints experienced by municipalities.

Expanding service delivery

- *Technical support:* The Bank increased its focus on technical assistance and support to strengthen its clients' capacities, especially at local authority level. The DBSA Development Fund, approved during the previous year as a means of expanding this support, was brought into operation. As a result, approvals on technical assistance projects increased by 214 per cent from R8,4 million to R26,4 million, with a further R25,7 million mobilised for these projects from other sources of funding. Disbursements on committed grants increased by 80 per cent to R9,9 million.

  The bulk of this technical support was dispensed in South Africa (93 per cent). The most support went to municipalities (R17,2 million), while another R1,3 million went to institutions such as provincial governments for interventions in support of municipalities. This implies that 70,1 per cent of total grant funding was directed at the Integrated Municipal Planning Process and capacity building, as against 41,2 per cent during 2000/01. In addition, grant funding of R1,8 million was approved for clients in the rest of the SADC region. Projects related to tourism accounted for 9,3 per cent of total grant approvals, indicating support for this growth sector in the economy.
- *Investment approvals:* New approvals of investment projects reached R3,2 billion, 45,4 per cent higher than the R2,2 billion approved during 2000/01, and 33,3 per cent higher than the target. This higher than anticipated achievement was mainly as a result of a significant increase in approvals by the Private Sector Unit (R1 billion versus R539 million in 2000/01), as well as the increased focus on municipalities. Approvals in South Africa increased to R2,6 billion or 81 per cent of total approvals, as against 44 per cent during 2000/01. In the rest of the SADC region, the Bank had approvals worth R601 million, compared to R1,2 billion the previous year. This decrease was due to a more conservative approach adopted because of increased risk and sustainability factors. The cumulative net approvals in the rest of the SADC region grew by 3,5 per cent to a net total of R5,9 billion, but at 24 per cent of total cumulative approvals, this is still a significant portion of the Bank's portfolio. In total, the cumulative net approvals of investment support in South Africa and southern Africa grew by 12,1 per cent to R25 billion.

  Within South Africa, eight provinces benefited from new investment approvals. The Bank increased its support to the Northern Province (Limpopo), mainly as a result of the flood relief programmes it funded. The most support went to Gauteng with 45,3 per cent (due to a strong private sector component), the Eastern Cape with 20,1 per cent, the Western Cape with 16,0 per cent and KwaZulu-Natal with 10,9 per cent. These figures reflect the capacity constraints of those provinces without metropolitan areas. In the rest of the SADC region, the main support was for projects in Swaziland, the Seychelles and Malawi.
- *Investment commitments/concluded loan agreements:* The Bank converted approved projects with a value of R2,6 billion into signed loan agreements, an increase of 126,4 per cent over the previous year. The total cumulative net commitments increased by 10,7 per cent against a target of 10 per cent to R22,7 billion (R20,5 billion at 31 March 2001). Of these new commitments, 63 per cent (R1,6 billion) were in

respect of SADC clients, reflecting the fact that some protracted negotiations on approvals made in previous years were closed in these countries.

- *Investment disbursements:* Disbursements of R1,8 billion were made on projects, 12,5 per cent higher than the target, which was set on the basis of a zero growth rate. The increase confirms the positive impact of the Bank's efforts to build development capacities in the region. Private sector projects in South Africa and southern Africa accounted for 23,5 per cent of disbursements. The fact that 49,4 per cent of disbursements (including R327 million on private sector projects) were in the rest of the SADC region is due to the implementation of the high volume of approved projects from the previous year. Given that the numbers of concluded agreements and approvals were higher during the year under review, disbursements are expected to accelerate in the new year.
- *Market focus of commitments:* The Bank seeks to expand its support to rural clients with low levels of income and capacity (market three clients: clients with lower resources and low capacity to deliver). As mentioned above, these clients require special technical assistance, with investment support following as capacity is built. Specific segmentation plans and measurement tools on this objective are still being developed, and therefore reporting on the Bank's attempts to increase service delivery to different market segments is not yet feasible. In reviewing the total approvals and commitments made during the year, it is true that smaller municipal and rural clients are still under-represented, leaving the Bank with a challenge for the year ahead.

Meeting customer expectations

The ultimate beneficiaries of the Bank's socio-economic development are poor communities who benefit from services rendered. The Bank is particularly concerned with providing prompt, efficient and effective service to the intermediaries – utilities, government, municipalities, and so on – responsible for delivering these services. During the year, there were initiatives to improve service delivery by being more time efficient, reducing approval times, and dealing promptly and efficiently with any customer dissatisfaction regarding support services.

Progress has been made in developing specific tools for measuring customer satisfaction and expectations. Research was done on beneficiaries to obtain an understanding of how people perceive development infrastructure, as well as service delivery by the Bank and other development finance institutions, parastatals, local authorities and utilities. The completed research report will be used in developing strategies to reach out to communities effectively.

Currently, any service complaints received are either resolved directly by the various line managers or referred to executive management. During the year, very few complaints were reported, and only one case was referred to executive management for resolution. At the operational level, most complaints dealt with the terms and conditions of funding, and the interest rates. These issues are considered to be in the normal course of business, and the negotiation process that follows an approval allows for agreement to be reached. A decision has been taken to develop a central system for resolving complaints.

During the year, the marketing team attempted to define the share of the backlog in infrastructure investment that the Bank should strive to satisfy, and recommended a 5 per cent share. The backlog on which this market share will be based is yet to be defined clearly. A report by the National Infrastructure Investment Framework (NIIF) suggested that South Africa requires, on average, additional annual investments of R19,5 billion (over and above what is provided by the national and provincial fiscus). The Bank's actual contribution to infrastructure investments in South Africa during the year was R0,9 billion, representing 4,7 per cent of the backlog calculated by the Framework.

Achieving development impact

The "project cycle" approach adopted by the Bank not only stresses institutional, financial, technical and environmental sustainability, but also aims specifically to maximise the economic and socio-economic impact of projects. A vigorous appraisal process takes place, in which the client is helped to design a project package that maximises development impact in a sustainable manner. The Bank continued to place particular emphasis on the impact of its operations on the environment. An environmental appraisal process, employing a set of approved guidelines, is followed on all project approvals, and no disbursements are allowed unless all environmental issues have been dealt with.

The Bank actively engages its clients and the regulating authorities, such as national departments, on technical advice and policy regarding development. A few examples: the Bank's lead economist was appointed to the Economic Advisory Council of the Free State premier; the Bank advised the Gauteng Tourism Authority on the development of a strategy; and, in partnership with the Department of Transport and the Council for Scientific and Industrial Research, the Bank advised on policy regarding development in rural nodes. The World Bank's Water and Sanitation Programme also received support.

It is estimated that 16,4 per cent of staff time or approximately 4 200 professional staff days in the operations cluster (valued at R15,6 million versus R11,4 million in 2000/01) were spent interacting with clients on planning, programming and policy issues, and providing development assistance. A further estimated 3 700 days were spent on assignments dealing with policy, best practice and development knowledge. The positive impact of these investments on the economy and employment creation has already been discussed under the financial perspective.

Maintaining positive customer relations

The main delivery agents for socio-economic infrastructure are municipalities, national and provincial governments, and utilities or parastatals. The Bank aims to remain the preferred source of development finance for these agents, and therefore sets objectives and targets with regard to retaining them as clients. Indications are that the client base was retained to a large extent. Although a number of big clients – mainly utilities, who represented 17 per cent of the total book debt at the start of the financial year – repaid their outstanding debt ahead of schedule, the Bank minimised the negative impact of this by approving substantial new loans, as mentioned earlier. The bulk of new approvals during the year were repeat business.

Exact measurement against targets proved difficult, as the client base was restructured during the municipal demarcation process. Good progress has been made in consolidating the client base and amalgamating the business in the Bank, and proper measurement of this important growth area will be possible next year.

In the interests of maintaining strong, positive relationships with clients, the operational units in the Bank have direct, personalised contact with them. The nature and frequency of the contact are determined by the client's specific requirements. The Bank sustained a high level of frequent contact with its clients during the year.

Stakeholder perspective

The Bank sets a very high value on meeting the expectations of its stakeholders. In order to obtain a better understanding of these stakeholders, a workshop was conducted during the year in which potential and current stakeholders were identified and characterised. For 2001/02, the strategic objectives for this perspective were:

- To meet stakeholder expectations
- To strengthen stakeholder relations
- To achieve stakeholder compliance

Meeting stakeholder expectations

As sole shareholder, the government of the Republic of South Africa has mandated the Bank to deliver development support in the region, as set out in the DBSA Act. The Bank constantly seeks to align its support programmes with national goals and objectives by interacting regularly with the government, for instance at Board meetings. Interaction with the Minister of Finance has been of particular importance in this regard, and in determining future directions of operations.

As a survey on awareness of the Bank in the rest of the SADC region showed, regional stakeholders have high expectations of the DBSA's potential role. During the past year, in addition to financing projects in the rest of the SADC region, the Bank also provided technical support to the interim Development Finance Resource Centre, established at the SADC Finance and Investment Ministerial Meeting. During this process, there were opportunities to interact with other participating development finance institutions, and the Bank was asked to provide support for capacity building in Tanzania, Malawi, Zimbabwe and Namibia. At the request of the Economic Commission for Africa, the Bank supported the transformation of the SADC structure, by developing proposals for self-financing mechanisms and by being involved in investigating the viability of a SADC Development Fund.

NEPAD, embraced by the Organisation of African Unity in July 2001, aims to put the continent on the path of sustainable growth and economic development, and to guide international and local investment. The Bank has committed itself to aligning its support with the NEPAD initiatives, and is providing logistical and staff support to the NEPAD secretariat and performing a number of functions for NEPAD on an agency basis.

Agency functions are also performed in support of the following stakeholders, among others: the African Connection Project (administering the project in conjunction with the International Bank for Reconstruction and Development); the Regional Spatial Development Initiatives undertaken by the Department of Trade and Industry; the Job Creation Trust (identifying, appraising and monitoring projects and programmes); the Danish-supported Environmental Capacity Building Unit in the Department of Environmental Affairs and Tourism (financial management services); the national electricity regulator's Electrification Fund; the Electricity Distribution Industry Restructuring Project in the Department of Minerals and Energy; and the SADC's Health Coordinating Unit.

All South Africans, especially poor communities and groups with an interest in development, are considered stakeholders of the Bank, and this is reflected in support to society at large. In 2000/01, the Bank provided specific assistance to those provinces hardest hit by floods, and in 2001/02 this was followed up with a loan of R150 million to the South African government for rehabilitation of infrastructure. Various sponsorships valued at R250 000 in total were provided to a wide range of initiatives concerned with community needs, such as charity funds and the Institute for Local Government.
The Bank also started to focus more attention on national issues such as HIV/Aids and cholera.

A survey on stakeholder satisfaction was conducted in the rest of the SADC region. The Directors are pleased to report that during the year under review, the Bank received no complaints from its stakeholders.

Strengthening stakeholder relations

Relationships with stakeholders are crucial in ensuring that the Bank provides appropriate support, and so it sought to interact regularly with a range of stakeholders during the year, as summarised below. It also strengthened its corporate communication and marketing function, leading to a substantial increase in activities in this respect. An important new initiative was to involve not only stakeholders but also the beneficiaries they represent; for example, the 2000/01 Annual Report was launched at a community centre in Gauteng.

- *National government:* Meetings were held with the President, and with a number of Cabinet ministers, as part of the programme to update the political heads of infrastructure departments on the Bank's activities. There were interactions with departments such as Provincial and Local Government, Education, Water Affairs and Forestry, Environmental Affairs and Tourism, the National Treasury, Public Works, Communications, Minerals and Energy, and Transport.
- *Local and provincial governments:* The Managing Director and Chairman made presentations to provincial legislatures, and to metropolitan and municipal councils in KwaZulu-Natal, the Northern Cape and Mpumalanga, and signed a memorandum of understanding with the Northern Cape. There was direct contact with municipalities; for example, a symposium on city integration was hosted, in partnership with the Tshwane Metropolitan Council and the University of Pretoria, to assist the Council with their Integrated Development Plans.
- *Media:* The Bank increased its expenditure on media advertising, and also strengthened its relations with the press, as indicated by the meeting between the Managing Director and the Pretoria Press Club. As a result, the Bank received considerably more extensive and more visible editorial media coverage than in any other year in the past. Mainly business and specialised media were used to reach the desired public, and coverage ranged from corporate to project publicity.
- *International relations:* From May to July 2001, a survey was undertaken of the Bank's various internal and external clients, specifically in respect of financial sources. The results will be used to develop a system for keeping track of client interactions; to develop new financial instruments; to explore product enhancement opportunities and the information needs of foreign funders; and to improve responsiveness to clients.

The period was characterised by more intense relations with international funding and donor organisations, not only on funding arrangements but on other areas of partnering, such as staff exchanges, expertise, joint workshops, and equity stakes in strategic funds, especially in the rest of the SADC region. These issues specifically were explored during a tour to international institutions in January 2002. Specific progress was made on concessional funding for development with the signature of two agreements with Nordic Investment Bank and the Nordic Development Fund (17 million), and Kreditanstalt für Wiederaufbau (DM28,5 million in funding plus a grant of DM1,5 million). The Bank is continuously exploring cost-effective sources of international funding.

The Bank was involved with the French Prime Minister's visit to Mamelodi Clinic, a project co-funded by the DBSA and the Agence Française de Développement. Similarly, the Bank played a major role in visits by the German Minister of Economic Development to projects on the East Rand that were co-funded by the DBSA and Kreditanstalt für Wiederaufbau. There were high-level interactions with international policy-makers and authorities, such as the Merseyside Port Authority in England, with regard to the DBSA's involvement in port developments. The aim was not only to strengthen relations with stakeholders, but also to obtain information and cooperation in support of development in southern Africa. Stakeholders and investors were exposed to projects in Mozambique during a field visit (May 2001), followed up with a roadshow to funders in Europe (January 2002).

Achieving stakeholder compliance
The Bank's Employment Equity Plan, an internal document that guides its practice, was prepared in line with section 20 of the Employment Equity Act, No. 55 of 1998. Employment equity reports, as required in terms of section 21, were submitted in 2000 and 2001. The DBSA has also constantly sought to comply with the Public Finance Management Act. The Bank decided to develop a framework to measure compliance, but the approach towards this is currently being reconsidered in the light of best practice, and in the interim the framework approved by the Audit Committee during 2000 is being utilised. The management of risk is measured by compliance with a set of 89 risk management principles approved by the Board in February 2001. Currently, the Bank is complying with 37 of these principles, while it aims to comply with another 40 in the short term and the remaining 12 in the long term.

Internal business process perspective

Five strategic objectives were set for the internal business process perspective, aimed at encouraging a culture of creativity and innovation, and at bringing about continuous improvement in key areas of business performance. The objectives were:

- To deliver an effective and efficient service to customers
- To monitor and evaluate activities relevant to the achievement of objectives
- To implement systems that enable service delivery
- To integrate competitive advantage into all aspects of the Bank's business
- To develop and implement effective strategic alliance programmes

In the absence of a comprehensive system to measure performance in respect of internal business processes, most targets for the year related to the development of measurement systems and tools. A review of the indicators was done subsequently to reduce the number of measures, and the development of measurement systems has been put on hold pending the outcome of this review. Encouraging progress was made during the year in achieving the following objectives.

Delivering an effective and efficient service to customers
For the Bank to deliver an effective and efficient service, the internal business processes must enable business units to meet customer expectations, to process the products and deliver the services within agreed schedules, and to minimise costs.

- *Quality assurance standards:* These standards are being developed and incorporated as an integral part of the procedures governing the Bank's operations. Six quality improvement teams have been appointed to carry out quarterly reviews of the internal operating procedures and to measure the compliance with the standards.
- *Cycle time:* Cycle time is a measurement of the ability to respond in a rapid and timely way to customers' requests. Business units schedule the delivery of products and services for individual projects, and measure performance against the agreed times. A procedure has been introduced that makes it compulsory to present delivery schedules for all new programmes and projects. The fact that the average turnaround time from application to approval has been reduced from 7,6 months in 2000/01 to 6,3 months in 2001/02 is an indication of the positive results of stringent management in this area.

Monitoring and evaluating activities relevant to the achievement of objectives
The Bank has a comprehensive monitoring and evaluation system in place, involving monthly reports to executive management, quarterly Balanced Scorecard performance reports, biannual portfolio review reports (risk ratings), interim reports, and ongoing project monitoring, completion, surveillance, and periodic evaluation reports. These

systems were applied during the year under review and provided management information on a regular basis. The Bank undertook a nine-month review of the achievements against targets of the Balanced Scorecard. Performance assessments of the Bank as a whole and of all units and staff were completed during March 2002.

Implementing systems that enable service delivery

The deployment of effective systems is a key element of the Bank's strategy to improve the quality and efficiency of service delivery. During the second half of the 2001/02 financial year, an integrated information technology system (the Central Operations Recording system) was deployed in the Bank to replace a number of separate systems. The system provides business units with the means to register all types of operations, such as programmes, projects and assignments. It also allows them to maintain relevant financial and administrative data on operations, including data on the related products and services; the clients, institutions and individuals involved; and the project teams, budgets and time-sheet accounts. Staff were trained on various elements of the new system; in total, 88 staff members received training on the whole system, 145 on the time-sheet module, and 4 on the clients and consultants module. This training will continue in the new year.

Integrating competitive advantage into all aspects of the Bank's business

The requirements for the integration of competitive advantage into a wide range of performance areas, such as knowledge management, market research, business development, credit-risk monitoring and innovation, have been investigated during the year. Some of the achievements in this regard include:

- The objectives associated with being a knowledge institution were communicated to staff on various occasions, and the strategy for implementing these objectives is nearly complete.
- The second phase of the market segmentation study was started, and the results of this research are being used to update the marketing strategy.
- The early-review procedure was introduced as a mechanism for clearing new lending operations in terms of mandate and obtaining guidance from executive management on strategic and policy issues, before projects are accepted.
- Monthly review meetings have been introduced to identify credit risks and to report back on progress made with problem loans. These loans are managed, up to the point of rehabilitation, by the specialised Workout Unit of the Bank.

Developing and implementing effective strategic alliance programmes

The Bank requires strong partnerships with government, private sector and development agencies to achieve its objectives. There are currently 17 partnership arrangements, including a new memorandum of understanding signed with the provincial government of the Northern Cape during the year. Important working arrangements have also been formed with delivery agents, for example, with the private sector and the Durban Metropolitan Council on the development of the Durban Point Marine Theme Park, which should issue in a formal agreement in the new year.

In this year, the Bank sought to accelerate the delivery of infrastructure by mobilising investment and forming alliances with co-funding partners. As a result of these efforts, a further R10,3 billion of investments was mobilised, in addition to loans directly approved by the Bank, producing a total investment value of R13,5 billion in respect of the year's projects. In terms of the DBSA to other contributors, this represents a co-funding ratio of 1:3,2 (against a target of 1:3). This is lower than the previous year's ratio of 1:5, owing to the lower co-funding ratio achieved in respect of private sector investments (1:5 in 2001/02 as against 1:8 in 2000/01).

Learning and growth perspective

As a knowledge-based organisation, the Bank regards its personnel as its main asset, and part of the strategic capabilities that enable it to fulfil its role in development. To foster this asset, four strategic objectives were approved for the year:

- To improve competency levels
- To achieve organisational objectives through performance management
- To create a climate in the organisation that supports its vision
- To develop strategic capabilities that give rise to competitive advantage

Improving competency levels

The Bank continued to strengthen the competency levels of its staff, spending 3 per cent of total remuneration costs on training (3,9 per cent in 2000/01), against a target of 5 per cent. The actual rand value of training expenditure decreased, resulting in a lower ratio of training expenditure to remuneration costs. However, total training increased, in that 2 186 days (2 131 in 2000/01) were used for training, during which time 320 employees (74 per cent of the workforce) were trained. The key focus areas for improving competencies included project finance law, project finance marketing, advanced project finance, and sector-specific training in power, oil, gas, telecommunications and infrastructure. The Accelerated Competency System has been assimilated into the Integrated Rewards and Recognition Framework to manage competencies.

Achieving organisational objectives through performance management

The corporate Balanced Scorecard, cascaded to unit levels, formed the basis for the compilation of performance contracts with individual staff members to promote the achievement of strategic objectives. The same top-down process was followed in reviewing corporate, unit and individual performance. For the first time, the final performance rating of individuals included unit and corporate performance. The efficiency of operational outputs within the Bank is measured by way of actual delivery of development finance per staff member. A target of R4,0 million per staff member was exceeded by 5 per cent, as actual delivery of development finance per staff member through disbursements on projects reached R4,2 million.

Creating a climate in the organisation that supports its vision

A qualitative climate audit was conducted to solicit the opinion of staff on changes that were being implemented and to draw on the collective experience of all staff to improve the management of change in the Bank. In general, the climate audit indicated a positive response to a number of key issues, such as the Development Fund and the Managing Director's transparent leadership style, and elicited constructive suggestions from staff on improving the management of change.

The Bank continued to provide support services that attend to the total well-being of its staff. As a free service to all staff, the Bank has subscribed to an Employee Assistance Programme, which offers a comprehensive advice and counselling service on life issues. An HIV/Aids programme is being finalised, although support is already provided in terms of counselling, referrals, awareness and information dissemination to staff. A team of ten peer-group Aids counsellors has been trained in the Bank. A first-aid clinic for all minor medical problems is operational, staffed by a professional nurse, while arrangements have been made with nearby medical practitioners to attend to more serious health problems. "Health" days are held annually, in association with the Bank's medical aid service provider, to encourage staff to improve their health. The Bank maintained its status as a safe environment, with only two minor on-site incidents reported during the year. A clean air policy was also introduced during the year.

Employment equity issues: Employment equity is viewed as an important element in ensuring a supportive working environment. The Bank continued with the implementation of the employment equity plan. A series of diversity management workshops was conducted, aimed at fostering the ability of all staff to operate in a diversified environment. At least 372 staff members attended these workshops.

In respect of overall staff composition, the achievement of numerical targets has not been satisfactory. This highlights the fact that external recruitment, promotions, terminations and training development alone will not ensure that targets are achieved, and that other strategies are required. In this regard, progress has been made in developing the Young Professionals Programme, internship, mentorship, and the staff exchange programme.

Developing strategic capabilities that give rise to competitive advantage

Focus areas included rewards and recognition, risk management, planning, and resource mobilisation.

- *Staff resources:* The Bank, as a knowledge-based institution, requires sufficient resources to enable it to execute its responsibilities. The Bank has a total staff complement of 430 (excluding contractors, interns and consultants), comprising 30 managers, 257 professional staff and 143 support staff, compared with 430 in 2000/01.
  The number of new staff recruited increased from 23 in 2000/01 to 36 in 2001/02.
  The number of resignations increased from 29 in 2000/01 to 36 in 2001/02.
  The staff profile is reflected in the following table:

	Africans	Asians	Whites	Coloureds
Total	194	17	207	12
Males	91	7	123	6
Females	103	10	84	6

- *Competitive advantage:* A project has been initiated to obtain information on the competitive advantage of the Bank in its role as development financier. The study forms part of ongoing work to align strategies, and the process complements the Strategy Review, the Marketing Strategy Development process, and the Rewards and Remuneration Intervention, amongst others. The initiative, which included inputs from management and staff, has identified potential sources of competitive advantage and ways in which the Bank could leverage these in future.
- *The Integrated Rewards and Recognition Framework:* As part of the performance management system discussed above, this will provide a platform for a reward system, career pathing and competency development, and will form the basis for managing performance and rewards. This initiative is far advanced and will be implemented during 2002/03.

- *Risk management:* An enterprise-wide risk management framework has been developed, after workshops were held with various units to identify risks in their areas of operation. This will allow for the implementation of the capital-at-risk methodology, which aggregates all risk types across all business units to a common denominator, making risk assessment more comprehensive than before. Other elements of the framework, such as training, risk awareness, and policy and procedure development, are already being implemented.

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.
Capital expenditure: R3 997 209.
Investments: Details of the Bank's significant investments are set out in notes 5 and 8 of the annual financial statements.
Events after balance sheet date: The Board of Directors approved the transfer of an amount of R80 million from the current year's surplus to the DBSA Development Fund.
Audit Committee information: The names of the Audit Committee members are reflected in the corporate governance statement on page 38.
Directorate and Secretariat: The names of the members of the Board of Directors appear on pages 10 to 13. The address of the Bank's Secretariat is on the back cover. Board committee memberships are reflected on pages 10 to 13.

Financial statements

Balance sheet 60

Income statement 61

Cash flow statement 62

Statement of changes in equity 63

Notes to the financial statements 64

Schedule A.1: Registered bonds 88

Schedule A.2: Unregistered bonds 88

Schedule B: Hedging instruments 89

Schedule C: Other loans 90

DBSA Development Fund abridged financial results 91

Balance sheet

at 31 March

	Notes	2002 R 000	2001 R 000
Assets			
Cash and cash equivalents	2	**1 375 868**	1 092 146
Trade securities	3	**1 186 176**	924 250
Other debtors	4	**12 856**	6 386
Other investments	5	**3 253 000**	3 253 000
Medipref investment	6	**48 540**	44 013
Home ownership scheme loans	7	**14 833**	11 724
Development investments	8	**143 965**	154 729
Development loans	9	**11 859 830**	12 151 385
Property, plant and equipment	11	**115 229**	117 623
Total assets		**18 010 297**	17 755 256
Equity and liabilities			
Total equity		**8 897 881**	8 328 417
Share capital	12	**200 000**	200 000
Government funding	13	**3 792 344**	3 792 344
Grant Fund	14	**-**	80 000
Revaluation reserve on land and buildings		**77 682**	77 442
Future cash flow hedge		**532 080**	555 492
Accumulated surplus		**4 295 775**	3 623 139
Total liabilities		**9 112 416**	9 426 839
Trade securities	16	**825 796**	315 165
Other creditors	17	**501 936**	350 733
Short-term financing	18	**-**	1 225 771
Long-term liabilities	19	**23 106**	14 111
Medium- and long-term financing	20	**7 761 393**	7 520 952
Donor contribution fund	21	**185**	107
Total shareholder's equity and liabilities		**18 010 297**	17 755 256

for the year ended 31 March

	Notes	2002 R 000	2001 R 000
Operating income		**979 407**	798 133
Interest income	22	**2 083 230**	2 041 801
Interest paid	23	**(1 149 564)**	(1 151 332)
Net interest income		**933 666**	890 469
Movement in specific and general provisions	24	**8 027**	(105 190)
		941 693	785 279
Other income	25	**37 714**	12 854
Operating expenses		**(255 024)**	(232 377)
Technical assistance grants		**(9 703)**	(5 534)
Staff costs	26.1	**(148 970)**	(160 772)
General and administration	26.3	**(90 114)**	(63 481)
Depreciation	11.1	**(6 237)**	(2 590)
Surplus from operations		**724 383**	565 756
Grant to Development Fund	27	**(80 000)**	-
Surplus before revaluation adjustments		**644 383**	565 756
Foreign exchange gain/(loss)	23.1	**(2 528)**	(200 703)
(Loss)/profit on fair value adjustment to derivatives	23	**(49 219)**	266 634
Surplus for the year		**592 636**	631 687

Cash flow statement

for the year ended 31 March

	Notes	**2002 R 000**	2001 R 000
Net cash inflow from operating activities		**1 422 916**	231 458
Interest received from development loans	31.1	**1 483 510**	1 282 634
Interest received from development investments	31.1	**11 085**	8 819
Interest received on investments	31.2	**516 519**	594 500
Interest paid	31.3	**(1 111 410)**	(1 136 058)
Cash generated by other operations	31.4	**523 212**	(518 437)
Net cash inflow from development activities		**586 751**	(1 332 956)
Development loan disbursements	9	**(1 781 447)**	(1 622 177)
Development loan principal repayments	31.1	**2 402 548**	331 835
Development investments		**(24 466)**	(36 612)
Donor contribution funds disbursed	21	**(181)**	(468)
Technical assistance grants paid		**(9 703)**	(5 534)
Net cash outflow from investment activities		**(6 799)**	(10 422)
Replacement of property, plant and equipment		**(3 999)**	(2 746)
Disposals of property, plant and equipment		**309**	-
Home ownership scheme advances to employees		**(3 109)**	(7 676)
Net cash outflow from financing activities		**(1 719 146)**	935 712
Donor contribution funds received	21	**259**	73
Short-term financing repaid		**(1 225 771)**	1 225 771
Decrease in long-term liabilities		**(2 378)**	14 111
Medium- and long-term financing repaid		**(724 998)**	(850 354)
Medium- and long-term financing raised		**233 742**	546 111
Movement in cash and cash equivalents		**283 722**	(176 208)
Cash and cash equivalents at the beginning of the year		**1 092 146**	1 268 354
Cash and cash equivalents at the end of the year	2	**1 375 868**	1 092 146

Statement of changes in equity

for the year ended 31 March

	Notes	Share capital R 000	Government funding R 000	Grant Fund R 000	Revaluation reserve on land and buildings R 000	Future cash flow hedge R 000	Accumulated surplus R 000	Total R 000
Balance at 1 April 2000		200 000	3 792 344	-	-	415 547	3 071 452	7 479 343
Surplus for the year							631 687	631 687
- reported previously							578 860	
- change in accounting policy	35						52 827	
Financial instruments fair value movements recognised in equity						139 945		139 945
Transfer to Grant Fund	14			80 000			(80 000)	-
Transfer to revaluation reserve					77 442			77 442
Balance at 31 March 2001		200 000	3 792 344	80 000	77 442	555 492	3 623 139	8 328 417
Balance at 1 April 2001		200 000	3 792 344	80 000	77 442	555 492	3 623 139	8 328 417
- reported previously							3 570 312	
- change in accounting policy	35						52 827	
Financial instruments fair value movements recognised in equity						(23 412)		(23 412)
Surplus for the year							592 636	592 636
Transfer to accumulated surplus	27			(80 000)			80 000	-
Transfer to revaluation reserve					240			240
Balance at 31 March 2002		200 000	3 792 344	-	77 682	532 080	4 295 775	8 897 881

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. 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.

Due to the nature of unlisted equities, no fair value information for development investments can be provided. However, a Directors' valuation is given.

1.2 Financial instruments

All financial instruments are initially measured at cost, which is the fair value of the consideration given or received for them. Transaction costs are included in the initial measurement of all financial assets and financial liabilities.

The application of the initial measurement and recognition policies, in relation to specific financial assets and financial liabilities, as well as details of their subsequent measurement are included in the accounting policies that follow.

All financial instruments are initially recognised when the Bank becomes party to the contractual provisions of the instrument. Financial liabilities are derecognised when the Bank loses control of the contractual rights. Financial liabilities are derecognised when they are extinguished.

Impairments of financial assets are recognised in separate provision accounts.

Accounting policies for development investments and development loans are shown separately under notes 1.3, 1.4 and 1.5.

1.2.1 Bonds issued not for trading

Capital market bonds and euro-rand bonds issued are initially measured at the issue price net of the unexpensed portion of discounts, premiums, other bond or financing costs as at the balance sheet date.

The discount or premium and other bond costs incurred on the issue of registered bonds are amortised over the life of the bond, based on the yield to maturity. Amortised discounts, premiums and other bond or financing costs are recorded as an element of interest expenditure.

1.2.2 Derivative financial instruments

The Bank is party to a variety of forward exchange contracts and swaps in its risk management activities.

The Bank does not currently fully comply with AC133, but the present policy is designed so that compliance is possible when the Accounting Statement ultimately becomes effective. As a result of this partial compliance, the underlying hedged liability related to the financial instrument is not fair valued with respect to interest rates.

Derivatives are classified as hedge instruments according to the intention of management. In particular, derivatives are accounted for as hedges when the instrument is entered into with the intention to hedge risk on a particular transaction; the hedge instrument is effective in hedging against volatility in foreign currency markets or interest rates; and cash flows resulting from the hedge correspond to the cash flows resulting from the underlying transaction.

Cash flow hedge accounting is only applied for hedges of interest in foreign liabilities, where the principal terms of the hedged instruments match the terms on the hedged items as listed in schedules A, B and C.

Fair value hedge accounting is only applied for hedges of currency movements on foreign liabilities, where the principal terms of the hedged instruments match the terms on the hedged items as listed in schedules A, B and C.

Hedge accounting is not applied for hedges of local debt and interest, and therefore revaluations on these derivatives are reflected separately in the income statement.

Gains and losses relating to designated cash flow hedges, hedging against currency or interest rate risks associated with future anticipated cash flows, are recognised as a component of equity, and are recognised in the income statement, when the related transaction takes place.

Gains and losses relating to designated fair value hedges, hedging against currency risk directly associated with foreign currency denominated liabilities, are recognised in the income statement.

Forward exchange contracts, cross-currency swaps and interest rate swaps are stated at the fair value by using discounted cash flow techniques based on anticipated future interest rates, which are based on interest rates quoted in the financial markets on the reporting date.

All derivatives are fair valued. Fair value calculations are based on the assumption that the Bank is a going concern without any intention or need to liquidate or materially curtail the scale of its operations.

Fair value adjustments on non-hedging derivatives are recognised in the income statement when they occur.

1.2.3 Cash and cash equivalents

The Bank's liquid assets comprise cash and money market instruments with a maturity of less than three months.

These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are subsequently measured at amortised cost using interest rates currently due on the instrument.

1.2.4 Trade securities and other debtors

Trade securities are carried at market value. Other debtors are stated at cost less provision for doubtful debts. If the fair value of the asset is less than the carrying amount, the asset is impaired. Refer to note 1.2.6 for resale agreements.

1.2.5 Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations, except for derivatives, which are stated at fair value.

Loans that are payable within twelve months are classified as short-term.

1.2.6 Repurchase and resale agreements

Where the Bank sells investments from its portfolio and agrees to repurchase these at future dates with the risk of ownership remaining with the Bank, the consideration received is treated as a loan secured by the underlying instrument and included under trade securities.

Conversely, excluded from investments are market instruments purchased under an agreement to resell at future dates with the risk of ownership remaining with the counterparty. The consideration paid is treated as an advance secured by the underlying instrument and included under current assets.

1.3 Development investments

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

Investments are stated at cost, subject to an impairment test. Where the Directors are of the opinion that an impairment of an investment has occurred, the investment is written down and the related diminution charged to the income statement.

1.4 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 stated at carrying value, which comprises the principal amount outstanding and unpaid interest. The treatment of revenue recognition is described in note 1.10.

1.5 Provision 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, they are provided for. Interest is suspended on non-performing development loans.

Development loans are stated net of specific and general provisions. Specific provisions are made against identified doubtful loans. Factors that mitigate risk, such as the presence and quality of securities, are taken into consideration.

In addition, general provisions are maintained to cover potential losses that may be present in the portfolio of development loans, although not specifically identified.

The provisions, both specific and general, made during the year are charged to the income statement.

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 annually. If the fair value of the asset is less than the carrying amount, the asset is impaired, and recognised in the income statement.

Any revaluation surplus is included in equity.

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 head-office building was constructed on land donated by the South African government.

The building, including improvements, is stated at fair value at the date of revaluation, less any subsequent accumulated impairment losses.

Buildings are revalued every three years. 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 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.

1.7 Donor contribution fund

Grants received from donors are carried in the balance sheet. As costs relating to these grants are incurred, amounts are transferred to non-interest income and the costs are therefore netted off against this income. The treatment of revenue recognition is described in note 1.10.

1.8 Other 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.

1.9 Foreign currencies

Transactions in foreign currencies are recorded at the closing rates ruling at the date of the transaction. Monetary assets and liabilities are translated at closing rates at year-end. Foreign exchange gains or losses are recognised in the income statement. The Bank has no foreign subsidiaries.

1.10 Revenue recognition

Interest on development loans is recorded as income on the accrual basis. The Bank does not recognise income on development loans that have been classified as non-performing. Refer to note 1.5.

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.

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

Donor contribution funds utilised are recorded as non-interest income. The expenditure incurred relating to these funds is netted off against this income. Refer to note 1.7.

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

1.11 Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Discounts and premiums relating to borrowings are deferred and amortised over the term of the relevant borrowing.

1.12 Retirement benefits

1.12.1 Post-retirement medical benefits

Provision is made for post-retirement medical benefits in the form of health care plans for eligible employees and pensioners. Previously, the vehicle used to fund the post-retirement medical benefits was set off against the obligation. With the implementation of AC116, Employee Benefits, this vehicle does not meet the definition of a "Plan Asset". Therefore this asset and the related liability are now disclosed separately. The Bank has adopted the policy of accelerating the recognition of actuarial gains and losses by recognising them when they arise. Refer to notes 6 and 30. Prior year figures have been restated to comply with the new South African Accounting Statement.

1.12.2 Provident fund

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

Employees and the Bank contribute to the provident fund on the basis of a fixed contribution. This fund does not require an actuarial valuation.

1.13 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. Since the Fund has only been in existence for three months, annual financial statements were not produced. The abridged financial results for the period 21 December 2001 to 31 March 2002 are provided as supplementary information to the Bank's financial statements. A full set of financials for the fifteen month period will be prepared at 31 March 2003. Refer to page 91.

1.14 Offsetting

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

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

1.15 Contingent assets and liabilities

Contingent assets and 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.

1.16 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.

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

1.17 Comparative figures

Where an accounting policy has changed and the results thereof are material to the appreciation of the financial position of the Bank, the comparative figures have been restated. Where necessary, comparative figures have been reclassified.

1.18 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.

	2002 R 000	2001 R 000
2. Cash and cash equivalents		
Fixed deposits	**457 473**	200 000
Call deposits	**658 766**	847 700
Cash at bank	**129 775**	(23 310)
Accrued income on deposits and securities	**129 854**	67 756
	1 375 868	1 092 146

The average annual interest rate on cash and cash equivalents detailed above was 10,40% (2001: 10,52%).

Due to the monetary nature of these assets, carrying value approximates fair value.

	2002 R 000	2001 R 000
3. Trade securities		
Resale agreements	**841 384**	410 060
Trade securities (government and parastatal traded stock)	**344 792**	514 190
	1 186 176	924 250

The weighted average interest rate on resale agreements was 9,3% (2001: 10,1%).

The weighted average interest rate on trade securities was 10,4% (2001: 10,5%).

	2002 R 000	2001 R 000
4. Other debtors		
Staff loans	**1 815**	1 264
Other receivables	**13 753**	7 379
Provision for doubtful debts (refer to note 15)	**(2 712)**	(2 257)
	12 856	6 386

	2002 R 000	2001 R 000

5. Other investments

Government stock (R150)	**3 253 000**	3 253 000
Market value	**3 230 964**	3 326 168

The maturity date of the R150 stock is 28 February 2005 and the coupon rate is 12%.

6. Medipref investment

6. Medipref investment	**48 540**	44 013

This investment represents the market value of funds provided by the Bank to fund post-retirement medical benefits for eligible employees and pensioners.

This asset was previously set off against the obligation. However, with the implementation of AC116, Employee Benefits, this asset has been disclosed separately due to the fact that it does not meet the definition of a "Plan Asset". A "Plan Asset" is an asset held by a long-term employee benefit fund. Refer to note 30.

Prior year figures have been restated to comply with the South African Accounting Statement.

7. Home ownership scheme loans

7. Home ownership scheme loans	**14 833**	11 724

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 DBSA.

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.

The effective interest rate at 31 March 2002 was 11,25% per year (2001: 12,5%).

8. Development investments

Unlisted investments:		
Lepelle Northern Water	**45 591**	45 715
Franchise Fund	**2 850**	3 800
Commonwealth Africa Investments Limited	**52 523**	72 225
AIG African Infrastructure Fund	**38 110**	28 098
Proparco Investments	**4 891**	4 891
Directors' valuation of unlisted investments	**143 965**	154 729

Based on the Directors' valuation, there is no indication that the fair value of these investments is below cost.

	2002 R 000	2001 R 000
Unlisted investments comprise the following:		
8.1 Lepelle Northern Water	**45 591**	45 715
Capital project bills of R45,6 million (2001: R53,7 million) with a nominal value of R197,0 million and maturities varying from 30 April 2000 to 31 October 2005	**45 591**	53 653
Accrued income	-	2 324
Less: Provision for write-down of development investments (refer to note 15)	-	(10 262)

The provision raised in previous years has now been written back. This is due to repayments made by Lepelle, which have resulted in the investment being fully secured.

8.2 Franchise Fund	**2 850**	3 800
50 000 (2001: 50 000) ordinary shares at cost	**50**	50
1 700 000 (2001: 1 700 000) 8% redeemable cumulative preference shares at cost	**1 700**	1 700
1 100 000 (2001: 2 050 000) 15% redeemable debentures at cost	**1 100**	2 050

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

8.3 Commonwealth Africa Investments Limited	**52 523**	72 225
900 (2001: 900) ordinary shares at cost	**5**	5
900 (2001: 900) redeemable preference shares at cost	**52 518**	72 220

The development investment in Commonwealth Africa Investments Limited is denominated in US$.
Refer to reclassification note 36.

8.4 AIG African Infrastructure Fund	**38 110**	28 098

The Bank has contributed US$4 993 565 (2001: US$4 002 426) 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 fact that all shareholders have contributed in equal proportions.

8.5 Proparco Investments	**4 891**	4 891
This investment consists of 49 500 shares (2001: 49 500) and is denominated in Euros.		
	143 965	154 729

9. Development loans

9.1 Analysis of development loans

	2002 R 000	2001 R 000
Balance at the beginning of the year	**13 110 296**	11 550 741
Movements during the year:	**(291 555)**	1 559 555
Loans disbursed	**1 781 447**	1 622 177
Interest accrued	**1 494 116**	1 456 837
Development loans written off	**(43)**	(1 066)
Revaluation of US$ based loans	**318 983**	96 076
Gross repayments	**(3 886 058)**	(1 614 469)
Gross development loans	**12 818 741**	13 110 296
Provision against development loans (per note 10)	**(958 911)**	(958 911)
Net development loans	**11 859 830**	12 151 385

The weighted average return on the loan book was 12,8% (2001: 11,7%).

	2002 R 000	2001 R 000
Carrying value of development loans where interest was reversed	**603 832**	492 282

9.2 Maturity analysis of development loans

	2002 R 000	2001 R 000
2002	**-**	1 183 256
2003	**1 469 361**	486 937
2004	**609 565**	555 632
2005	**687 356**	580 413
2006	**846 430**	571 329
2007-2011	**3 808 736**	3 150 114
2012-2016	**3 320 007**	3 717 608
2017 and thereafter	**2 077 286**	2 865 007
	12 818 741	13 110 296

	2002 R 000	2001 R 000
9.3 Sectoral analysis		
Commercial infrastructure	**1 477 219**	1 199 894
Social infrastructure	**366 299**	481 811
Water	**3 971 414**	3 861 461
Sanitation	**1 795 346**	1 743 247
Communication and transport infrastructure	**329 521**	103 981
Energy	**1 983 380**	3 195 250
Human resources development	**473 923**	453 121
Roads and drainage	**2 193 639**	1 835 319
Institutional infrastructure	**30 480**	29 560
Residential facilities	**197 520**	206 652
	12 818 741	13 110 296
9.4 Geographical analysis		
Eastern Cape	**812 117**	1 168 758
Free State	**689 293**	746 371
Gauteng	**2 611 160**	2 443 252
KwaZulu-Natal	**2 104 128**	1 948 138
Mpumalanga	**945 365**	1 267 858
North West	**520 639**	872 587
Northern Cape	**154 142**	151 288
Northern Province (Limpopo)	**392 225**	568 511
Western Cape	**1 140 761**	1 194 285
SADC (excluding South Africa)*	**3 448 911**	2 749 248
	12 818 741	13 110 296
*Amount in US$ included in the above SADC loans	**114 948**	85 880
9.5 Client classification		
Local government	**6 731 833**	6 211 665
Educational institutions	**441 921**	426 714
Private sector	**2 587 567**	1 841 070
Public utilities	**2 691 776**	4 352 998
Development finance institutions	**82 015**	87 535
National and provincial government	**283 629**	190 314
	12 818 741	13 110 296

	2002 R 000	2001 R 000
9.6 Fixed and variable interest rates		
Fixed interest rate loans	**8 438 046**	11 178 544
Variable interest rate loans	**4 380 695**	1 931 752
	12 818 741	13 110 296

Variable rate loans are assumed to be at fair value as interest rates are influenced by market rates.

9.7 Client concentration		
One client as percentage of total development loans	**7,7%**	10,3%
Seven clients as percentage of total development loans	**28,9%**	40,3%

No segment report has been prepared. Refer to note 22.1.

10. Provision against development loans		
Balance at the beginning of the year	**958 911**	845 582
Amounts written off during the year	**-**	(1 066)
Income statement charge	**-**	114 395
Specific provision	**-**	60 401
General provision	**-**	53 994
Balance at the end of the year (refer to note 15)	**958 911**	958 911
Comprising:		
Specific provision	**458 604**	479 052
General provision	**500 307**	479 859
	958 911	958 911

A general provision is maintained against development loans not specifically identified as doubtful.

11. Property, plant and equipment

11.1 Reconciliation of property, plant and equipment

Cost or revaluation	R 000 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
At the beginning of the year	18 800	95 000	18 920	718	524	2 012	135 974
Additions	-	893	2 499	281	222	104	3 999
Disposals	-	-	-	-	(309)	-	(309)
At the end of the year	18 800	95 893	21 419	999	437	2 116	139 664
Accumulated depreciation							
At the beginning of the year	-	-	16 442	314	247	1 348	18 351
Disposals	-	-	-	-	(153)	-	(153)
Depreciation for the current year	-	3 809	2 112	44	87	185	6 237
At the end of the year	-	3 809	18 554	358	181	1 533	24 435
Net book value (31 March 2002)	18 800	92 084	2 865	641	256	583	115 229
Net book value (31 March 2001)	18 800	95 000	2 478	404	277	664	117 623
Historical book value (31 March 2002)	-	33 202	2 865	641	256	583	37 547

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

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

11.2 Valuation

Land and buildings are valued every three years.

11.2.1 Land

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent valuator (a quantity surveyor), on 31 March 2001, using the sales comparison approach.

The land on which the buildings are constructed is Erf 3, Headway Hill, and measures 26,066 ha.

11.2.2 Buildings

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,89 million were effected during the 2002 financial year (2001: R0,05 million).

The buildings were last valued at R95 million on a replacement value basis by Davis Langdon Farrow Laing, an independent valuator (a quantity surveyor), on 31 March 2001, using the income capitalisation approach.

	2002 R 000	2001 R 000
12. Share capital		
Authorised		
500 000 (2001: 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 (2001: 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 shareholder 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.

13. Government funding	**3 792 344**	3 792 344

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.

14. Grant Fund

This amount has been transferred to the DBSA Development Fund. Refer to note 27.	-	80 000

15. General and specific provision

Provision against development loans (note 10)	**958 911**	958 911
Provision for development investments (note 8.1)	-	10 262
Provision for doubtful debts (note 4)	**2 712**	2 257
	961 623	971 430

	2002 R 000	2001 R 000
16. Trade securities		
Repurchase agreements	**825 796**	315 165
17. Other creditors		
Trade creditors and accruals	**103 264**	31 574
Other provisions (see below)	**102 109**	80 731
Accrued interest	**296 563**	238 428
	501 936	350 733
Other provisions		
Provision for post-retirement medical benefits (refer to note 30)	**79 027**	66 198
Leave pay provision	**7 591**	6 923
Bonus provision	**15 491**	7 610
	102 109	80 731
Reconciliation of movement in payroll provision		
Balance at the beginning of the year	**14 533**	6 248
Increase in provision	**17 754**	9 911
Written off against provisions	**(9 205)**	(1 626)
Balance at the end of the year	**23 082**	14 533
18. Short-term financing		
The DV06 registered bond was redeemed on 31 October 2001	**-**	1 225 771
19. Long-term liabilities		
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.	**11 282**	7 111
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.	**11 824**	7 000
	23 106	14 111

The above loans consist of Euro 1,143 million and Euro 1,198 million, and relate to on-lending agreements with Natexis Banque and Société Générale respectively.

20. Medium- and long-term financing

	2002 R 000	2001 R 000
20.1 Summary		
Registered bonds (refer to schedule A.1)	**4 633 806**	4 750 116
Balance in issue	**11 895 321**	12 058 637
Unamortised issue discounts on registered bonds	**(7 261 515)**	(7 308 521)
Unregistered bonds (refer to schedule A.2)	**516 721**	473 897
Balance in issue	**715 000**	715 000
Unamortised issue discounts on registered bonds	**(198 279)**	(241 103)
Other loans (refer to schedule C)	**3 190 373**	2 820 289
Balance in issue	**3 210 286**	2 842 623
Unamortised issue discounts	**(19 913)**	(22 334)
Hedges - Derivative instruments (refer to note 20.3)	**(579 507)**	(523 350)
Assets	**(52 947)**	(532 173)
Liabilities	**632 454**	8 823
Total medium- and long-term borrowings	**7 761 393**	7 520 952
20.2 Sources and denominations		
Foreign funding	**4 063 391**	3 761 556
Rand denomination	**2 166 326**	2 229 717
Foreign denomination	**1 897 065**	1 531 839
Domestic funding		
Rand denomination	**3 698 002**	3 759 396
	7 761 393	7 520 952

	2002 R 000	2001 R 000

20.3 Derivative instruments

The range of derivative instruments used consists of forward exchange contracts, cross-currency swaps and local interest rate swaps.

	2002 R 000	2001 R 000
Fair value hedges	**(412 876)**	(229 607)
0 - 1 year	**(32 808)**	(11 811)
1 - 5 years	**(140 527)**	(61 572)
Thereafter	**(239 541)**	(156 224)
Cash flow hedges relating to cross-currency hedging	**31 650**	8 823
0 - 1 year	**18 234**	34 707
1 - 5 years	**34 713**	62 706
Thereafter	**(21 297)**	(88 590)
Derivatives*	**(198 281)**	(302 566)
0 - 1 year	**(45 235)**	(43 611)
1 - 5 years	**(149 888)**	(38 511)
Thereafter	**(3 158)**	(220 444)
	(579 507)	(523 350)
Maturity		
0 - 1 year	**(59 809)**	(20 715)
1 - 5 years	**(255 702)**	(37 377)
Thereafter	**(263 996)**	(465 258)
	(579 507)	(523 350)

*Represents interest rate derivatives relating to fixed interest rate loans that are rand denominated. Hedge accounting was not applied as the underlying loan is not adjusted with movements in the market interest rate.

Refer to the risk management section of the Annual Report on pages 40 to 43 for the Bank's risk management policies.

	2002 R 000	2001 R 000
21. Donor contribution fund		
Balance at the beginning of the year	**107**	502
Grants received	**259**	73
Interest received on surplus funds	**2**	3
Grants disbursed: Transferred to income statement (note 25)	**(183)**	(471)
Balance at the end of the year	**185**	107

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

Included in the above is an amount of R43 000 which is a government grant received from the Department of Constitutional Affairs.

	2002 R 000	2001 R 000
22. Interest income		
Development loans (refer to note 22.1)	**1 494 116**	1 456 758
Development investments	**10 497**	8 074
Government stock	**390 360**	390 360
Money market	**114 214**	138 592
Capital market	**71 695**	44 334
Housing scheme	**1 587**	1 092
Other interest received	**761**	2 591
	2 083 230	2 041 801
22.1 Interest income analysis		
Geographical analysis		
Eastern Cape	**119 005**	129 449
Free State	**91 548**	84 306
Gauteng	**305 977**	300 379
KwaZulu-Natal	**227 742**	227 559
Mpumalanga	**120 098**	124 887
North West	**71 050**	95 773
Northern Cape	**18 603**	17 318
Northern Province (Limpopo)	**27 442**	55 066
Western Cape	**178 599**	148 601
SADC (excluding South Africa)	**334 052**	273 420
	1 494 116	1 456 758

	2002 R 000	2001 R 000
Sectoral analysis		
Commercial infrastructure	**73 042**	104 039
Social infrastructure	**64 702**	76 674
Water	**502 644**	463 429
Sanitation	**224 486**	210 459
Communication and transport infrastructure	**14 008**	5 649
Energy	**310 562**	354 571
Human resources development	**50 955**	44 536
Roads and drainage	**234 201**	182 886
Institutional infrastructure	**4 272**	3 434
Residential facilities	**15 244**	11 081
	1 494 116	1 456 758
Client classification		
Local government	**836 766**	751 915
Educational institutions	**46 683**	44 583
Private sector	**250 898**	163 483
Public utilities	**319 743**	472 886
Development finance institutions	**9 900**	9 073
National and provincial government	**30 126**	14 818
	1 494 116	1 456 758

A segment report has not been prepared because the services provided by the Bank (that is, the development loans advanced) are all subject to the same risks and returns, in respect of both business segment and geographical segment.

23. Interest paid

	2002 R 000	2001 R 000
Cost of funding	**(1 619 842)**	(1 210 199)
adjusted for the following items disclosed separately		
Foreign exchange gains/(losses)(refer to note 23.1)	**421 059**	325 501
Exchange loss on revaluation of borrowings	**715 877**	208 581
Revaluation of currency derivatives	**(300 904)**	33 657
Realised foreign exchange gain	**(10 937)**	(2 305)
Realised foreign exchange loss	**17 023**	85 568
Loss/(profit) on fair value adjustments to derivatives	**49 219**	(266 634)
	(1 149 564)	(1 151 332)

	2002 R 000	2001 R 000
23.1 Foreign exchange gain/(loss)		
Foreign exchange gain/(loss) relating to interest paid	**(421 059)**	(325 501)
Unrealised foreign exchange gain	**878 034**	127 276
Unrealised foreign exchange loss	**(459 503)**	(2 478)
	(2 528)	(200 703)
24. Movement in specific and general provisions		
Other debtors (refer to note 4)	**455**	136
Lepelle Northern Water movement	**1 737**	-
Development investments (refer to note 8.1)	**(10 262)**	(9 667)
Development loans (refer to note 10)	**-**	114 395
Write-offs during the year (refer to note 9)	**43**	326
	(8 027)	105 190
25. Other income		
Non-interest income:		
Fees and sales	**18 541**	14 257
Dividend income	**8 193**	-
Grants transferred from the balance sheet (per note 21)	**183**	471
Less recovered expenses:	**(410)**	(3 630)
Consultants	**(168)**	(3 605)
Travel and subsistence	**(242)**	(25)
	26 507	11 098
Sundry income	**11 207**	1 756
	37 714	12 854
26. Operating expenses		
26.1 Staff costs		
Post-retirement medical costs	**8 302**	26 685
Payment	**-**	4 500
Provision (refer to note 26.2)	**8 302**	22 185
Other staff costs	**140 668**	134 087
	148 970	160 772
26.2 Movement in provision		
Reversal of provision	**(22 185)**	-
Medipref investment (refer to note 30)	**(48 540)**	(44 013)
Present value of obligation (refer to note 30)	**79 027**	66 198
	8 302	22 185

	2002 R 000	2001 R 000
26.3 General and administration expenses		
are arrived at after taking into account:		
Auditors' remuneration	**3 406**	3 405
audit fee - current year		
- audit	**3 043**	2 718
- disbursements	**147**	40
under-provision - previous year	**118**	481
other services - current year	**98**	166
Directors' emoluments	**1 620**	2 599
Executive management remuneration	**10 954**	12 334
Managerial, technical, administrative or secretarial services	**9 026**	6 566
Communication costs	**3 066**	2 181
Information technology	**10 566**	7 313
Regional Service Council levies	**3 530**	2 860
Subsistence and travel	**12 850**	9 513
Other	**35 096**	16 710
	90 114	63 481

Directors are the only related parties identified (refer above for details).

27. Grant to Development Fund	**80 000**	-

This grant was approved by the Board of Directors, and recorded as a non-adjusted subsequent event in the previous year's annual financial statements.

The amount of R80 million has been transferred from the Grant Fund and accounted for as an expense in the current year.

28. 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.

	2002 R 000	2001 R 000

29. Retirement benefits

29.1 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: 438 (2001: 443).

	2002 R 000	2001 R 000
Total amount expensed during the current year (including Group Life Assurance and Income Continuity Benefits)	**20 363**	18 412

29.2 Medical aid

Number of employees: 407 (2001: 400).

	2002 R 000	2001 R 000
Company contributions	**9 591**	8 188

30. Post-retirement medical benefits

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

Pensioners include retired employees and the widow(er)s of employees of the Bank. 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 contributions are paid by the Bank. In the past, the present value of the post-retirement medical benefit obligation and the related investment were set off. However, with the implementation of AC116, Employee Benefits, the investment has been disclosed in the balance sheet because it does not meet the definition of a "Plan Asset". The related obligation, which was actuarially valued at 31 March 2002 and 31 March 2001, has also been disclosed in the balance sheet.

Prior year figures have therefore been restated. Refer to note 35.

	2002 R 000	2001 R 000
Present value of obligation at 31 March 2001	**66 198**	
Interest cost	**7 954**	
Current service cost	**3 270**	
Membership change	**(3 297)**	
Benefits paid	**(1 018)**	
Actuarial loss for the year	**5 920**	
Present value of obligation at 31 March 2002	**79 027**	
Market value of Medipref at 31 March 2001	**44 013**	
Increase in market value for the year	**4 527**	
Market value of Medipref at 31 March 2002	**48 540**	

No comparative figures have been provided as this information is not available. The principal assumptions in determining the post-retirement medical benefit obligation are as follows:

Discount rate	12,5%	
Medical aid inflation rate	10,5%	

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

31. Cash flow statement

31.1 Interest received from development activities

	2002 R 000	2001 R 000
Gross development loan repayments (refer to note 9)	**3 886 058**	1 614 469
Principal repayments	**(2 402 548)**	(331 835)
Interest repayments from development loans	**1 483 510**	1 282 634
Interest received from development investments	**11 085**	8 819
	1 494 595	1 291 453

31.2 Interest received from investments

	2002 R 000	2001 R 000
Accrued interest at the beginning of the year	**67 756**	85 287
Accrued interest	**84 004**	102 280
Accrued interest on development investments	**(16 248)**	(16 993)
Credited to income for the year	**578 617**	576 969
Accrued interest at the end of the year	**(129 854)**	(67 756)
Accrued interest	**(145 514)**	(84 004)
Accrued interest on development investments	**15 660**	16 248
	516 519	594 500

	2002 R 000	2001 R 000
31.3 Interest paid		
Accrued interest at the beginning of the year		
Other creditors (refer to note 17)	**238 428**	139 892
Charged to income for the year		
Interest expense (excluding unrealised foreign exchange gains and losses)	**1 169 545**	1 234 594
Accrued interest at the end of the year		
Other creditors (refer to note 17)	**(296 563)**	(238 428)
	1 111 410	1 136 058
31.4 Cash generated by other operations		
Surplus for the year	**592 636**	631 687
Adjustments for:		
Provisions	**8 824**	70 764
Technical assistance grants paid	**9 703**	5 534
Interest expense	**1 619 842**	1 210 198
Interest received on investments	**(578 617)**	(576 968)
Interest received on development loans and investments	**(1 504 614)**	(1 464 832)
Depreciation	**6 237**	2 590
Foreign exchange revaluation	**(99 476)**	25 621
Payment to Development Fund	**80 000**	-
Increase in trade securities	**(199 829)**	(828 783)
Increase in other debtors	**(6 925)**	504 948
Decrease in trade securities	**510 632**	(184 334)
Decrease in other creditors	**84 799**	85 138
	523 212	(518 437)

	2002 R 000	2001 R 000

32. Commitments

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

32.1 Loan commitments

	2002 R 000	2001 R 000
Loans approved by the Board of Directors but not signed	**2 581 432**	2 136 378
Loans signed but not disbursed	**3 690 910**	2 606 372
	6 272 342	4 742 750

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.

These commitments are to be financed from funds generated from operations, and funds raised from local financial markets and foreign sources.

32.2 Technical assistance grants

	2002 R 000	2001 R 000
Grants approved by the Board of Directors but not signed	**1 885**	2 997
Grants signed but not disbursed	**15 118**	5 390
	17 003	8 387

33. Contingent liabilities

33.1 Employee loans

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

	2002 R 000	2001 R 000
Loan balances secured	**623**	1 177

33.2 Guarantees

	2002 R 000	2001 R 000
The Bank has approved and issued guarantees on behalf of borrowers amounting to	**275 500**	275 000

It is the opinion of management that the possibility of default by borrowers is not likely, and therefore these guarantees were not recognised in the balance sheet as a liability.

Included in the guarantees is an amount of R275 million, for one borrower, detailed as follows:

	2002 R 000	2001 R 000
Total value of credit line (principal amount) and current exposure	**250 000**	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.

	2002 R 000	2001 R 000

34. Funds administered on behalf of third parties

Balance at the beginning of the year	**606 039**	466 007
Funds received	**166 442**	565 614
Funds disbursed	**(361 452)**	(425 582)
Funds at the end of the year	**411 029**	606 039

35. Change in accounting policy

Post-retirement medical benefit obligation

The vehicle used to finance the Bank's post-retirement medical benefit does not meet the definition of a "Plan Asset". This has resulted in both the investment and the present value of the obligation being disclosed in the balance sheet. Refer to notes 6 and 30.

Prior year adjustment

Comparative figures have been restated in respect of the above change in accounting policy.

Adjustment to accumulated surplus

- opening balance of accumulated surplus	**52 827**	-
- reported income for the year	**(8 302)**	52 827
	44 525	52 827

As the Bank is currently exempt from income tax (see note 28), the above adjustment has no tax impact for the current and previous reporting periods.

36. Reclassification

Carrying value of development investment

The Commonwealth Africa Investments Limited investment has been reclassified as a non-monetary asset. This investment is now being reported using the exchange rate at the date of transaction and not the exchange rate at the date of reporting. Refer to note 8.3.

37. Events after balance sheet date

The Board of Directors approved the transfer of an amount of R80 million from the current year's surplus to the DBSA Development Fund.

No other material events have occurred between the balance sheet date and the date on which the annual financial statements were approved.

Schedule A.1

Registered bonds at 31 March 2002

	Authorised value 2002 R million	Authorised value 2001 R million	Coupon rate %	Market yield during the year % High	Market yield during the year % Low	Repayment date	**Nominal balance in issue 2002 R million**	**Unamortised discount 2002 R million**	Balance in issue 2001 R million	Unamortised discount 2001 R million
(i) Local				High	Low					
DV06	-	3 000	10,0	11,06	8,20	2001	**Note 3**	-	1 257,8	32,0
DV07	**5 000**	5 000	14,5	14,01	10,41	2010	**1 895,3**	**55,0**	1 895,6	57,9
DV20	**500**	500	Jibar + 50bp	11,53	9,52	2004	**500,0**	**1,3**	500,0	1,9
DV21	**1 000**	1 000	15,0	13,97	10,47	2016	**1 000,0**	**5,5**	1 000,0	6,0
LL06	**Note 1**	**Note 1**	14,0	**Note 2**		2005	-	-	163,0	5,8
Subtotal	**6 500**	9 500					**3 395,3**	**61,8**	4 816,4	103,6
Less DV06 transferred to short-term financing	-	(3 000)					-	-	(1 257,8)	(32,0)
	6 500	6 500					**3 395,3**	**61,8**	3 558,6	71,6
(ii) Foreign										
Euro-rand bond	**7 500**	7 500	0,0			2027	**7 500,0**	**7 151,2**	7 500,0	7 188,4
Euro-rand bond	**1 000**	1 000	13,5			2028	**1 000,0**	**48,5**	1 000,0	48,6
Subtotal	**8 500**	8 500					**8 500,0**	**7 199,7**	8 500,0	7 237,0
Total	**15 000**	15 000					**11 895,3**	**7 261,5**	12 058,6	7 308,6

Notes

1. Local LL06 registered bonds were taken over from the Local Authorities Loan Fund and were not originally issued by the Bank.
2. No trading in the financial markets during the financial year.
   The LL06 bond was bought back and cancelled during the financial year.
   Buy back rate 12,01%.
3. The DV06 stock matured 31 October 2001.

Schedule A.2

Unregistered bonds at 31 March 2002

	Authorised value 2002 R million	Authorised value 2001 R million	Coupon rate %	Repayment date	**Nominal balance in issue 2002 R million**	**Unamortised discount 2002 R million**	Balance in issue 2001 R million	Unamortised discount 2001 R million
(i) Local								
0% Private placement	**500**	500	0,0	16 Nov 2006	**500**	**198,3**	500	241,1
13,5% Coupon note private placement	**215**	215	13,5	03 Apr 2015	**215**	-	215	-
	715	715			**715**	**198,3**	715	241,1

Hedging instruments

	Risk hedged	Hedge detail		
		Foreign capital amount outstanding on swap		
Agence Française de Développement I	Currency	FRF 88,5m	13,45m	Capital and interest due thereon swapped for a single rand payment.
		FRF 11,5m	1,75m	Capital and interest due thereon covered by forward exchange contracts.
Agence Française de Développement II	Currency	FRF 112,5m	17,15m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Agence Française de Développement III T1	Currency	FRF 59,3m	9,1m	Capital and interest due thereon swapped for rand payments at a floating interest rate.
Agence Française de Développement III T2	Currency	FRF 43,7m	6,6m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Agence Française de Développement III T3	Currency		4,3m	Capital and interest due thereon swapped for rand payments at a floating interest rate.
Chiao Tung Bank Co. Ltd	Currency		US$ 7,4m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
European Investment Bank II.1	Interest			Fixed interest swapped for a floating rate based on a notional amount of R200m.
European Investment Bank II.2	Interest			Fixed interest swapped for a floating rate based on a notional amount of R100m.
European Investment Bank II.3	Interest			Fixed interest swapped for a floating rate based on a notional amount of R100m.
European Investment Bank III.2	Interest			Fixed interest swapped for a floating rate based on a notional amount of R100m.
Euro-rand bond (private placement)	Interest			Fixed interest swapped for a floating rate based on a notional amount of R200m and cash inflow of R300m on maturity.
Kreditanstalt für Wiederaufbau I T1	Currency	DEM 10,8m	5,50m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau I T2	Currency		7,90m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau I T3	Currency		6,60m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau I T4	Currency	DEM 12,78m	6,50m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau I T5	Currency	DEM 1,59m	0,80m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau I T6	Currency		2,10m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau II T1	Currency	DEM 4,38m	2,24m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau II T2	Currency	DEM 18,17m	9,29m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau II T3	Currency		2,25m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau III T1	Currency		2,82m	Capital and interest due thereon swapped for rand payments at a floating rate.
DV21	Interest			Fixed interest swapped for a floating rate based on a notional amount of R500m.
DV21	Interest			Fixed interest swapped for a floating rate based on a notional amount of R500m.
DV21	Interest			Lookback floating interest swapped for floating interest based on notional amount of R500m.
DV21	Interest			Lookback floating interest swapped for floating interest based on notional amount of R500m.

Schedule C

Other loans as at 31 March 2002

	2002 ZAR (m)		2002 Foreign (m)	2001 ZAR (m)		2001 Foreign (m)	Interest rate % on loan	Swapped interest rate	First capital repayment	Remaining instalments
African Development Bank USD	796,8	US$	70,0	561,8	US$	70,0	Note 1	-	February 2003	20 Equal semi-annual payments of USD 3,5m
African Development Bank ZAR I.1	-			200,0					Redeemed	-
African Development Bank ZAR I.2	-			140,0					Redeemed	-
African Development Bank ZAR 2.1	200,0			200,0			Note 2	-	August 2004	20 Equal semi-annual payments of R10m
Agence Française de Développement I	150,4		15,2	107,2		15,2	3,50	16,75%	April 2004	26 Equal semi-annual payments of Euro 0,58m
Agence Française de Développement II	169,2		17,2	147,4		20,9	3,50	Fixed 12,13%	October 2000	9 Equal semi-annual payments of Euro 1,9m
Agence Française de Développement III	197,4		20,0	160,8		22,9	3,50	Note 6	April 2001	14 Equal semi-annual payments of Euro 1,43m
Chiao Tung Bank Co. Ltd	84,4	US$	7,4	64,4	US$	8,0	3,0	Fixed 2,6052%	March 2000	12 Equal annual payments of USD 0,62m
European Investment Bank I.1	100,0			100,0			14,95	-	April 2002	Single payment of R100m
Unamortised discount	-			(0,1)						
European Investment Bank I.2	50,0			50,0			14,3	-	August 2007	Single payment of R50m
Unamortised discount	(0,6)			(0,6)						
European Investment Bank II.1	200,0			200,0			15,25	3m Jibar -202bp	January 2004	Single payment of R200m
Unamortised discount	(2,5)			(3,6)						
European Investment Bank II.2	100,0			100,0			13,75	3m Jibar -120bp	May 2009	Single payment of R100m
Unamortised discount	(4,4)			(4,7)						
European Investment Bank II.3	100,0			100,0			15,0	3m Jibar -100bp	February 2009	Single payment of R100m
Unamortised discount	(2,4)			(2,6)						
European Investment Bank III.1	100,0			100,0			13,25	-	August 2010	Single payment of R100m
Unamortised discount	(6,7)			(7,1)						
European Investment Bank III.2	100,0			100,0			13,25	3m Jibar +4bp	August 2010	Single payment of R100m
Unamortised discount	(3,3)			(3,5)						
European Investment Bank III.3	182,0	US$	15,9	-		-	Note 3	-	March 2016	22 Equal payments of USD 0,795m
Japan Bank for International Cooperation II				159,4	JPY	2 510,5	2,5	-	Redeemed	
Kreditanstalt für Wiederaufbau I	288,5		29,2	190,3		27,1	2,0	Note 4	June 2008	40 Equal semi-annual payments of Euro 0,73m
Kreditanstalt für Wiederaufbau II	136,0		13,8	81,1		11,6	2,0	Note 5	June 2009	40 Equal semi-annual payments of Euro 0,345m
Kreditanstalt für Wiederaufbau III	27,9		2,8	-		-	2,0	6m Jibar -4,86bp	June 2010	40 Equal semi-annual payments of Euro 0,07m
Nordic Investment Bank 1	113,8	US$	10,0	80,3	US$	10,0	Libor + 0,4%	-	August 2003	20 Equal semi-annual payments of USD 0,5m
Nordic Investment Bank 2	113,8	US$	10,0	-		0,0	Libor + 0,6%	-	June 2003	20 Equal semi-annual payments of USD 0,5m
Total	**3 190,3**			**2 820,3**						

Note 1 6-month Libor, plus 50 basis points, plus the weighted average between 6-month Libor and the African Development Bank's cost of funding relating to Libor linked advances.

Note 2 6-month Jibar, plus 50 basis points, plus AFDB's lendings spread determined 2x per year.

Note 3 Variable $ rate reset every 3 months.

None of the loans are secured over assets of the Bank.

All loan commitments are guaranteed by the South African government except for FRF 117,7 million in terms of the third loan from the Agence Française de Développement.

Note 4

	Euro amount
- KfW 1t1 Fixed rate 11,24%	5 155 130,05
- KfW 1t2 3m Jibar - 6,23%	7 942 005,15
- KfW 1t3 Fixed rate 7,57%	6 627 707,41
- KfW 1t4 3m Jibar - 6,30%	6 535 732,66
- KfW 1t5 Fixed rate 6,88%	813 745,03
- KfW 1t6 6m Jibar - 4,67%	2 162 224,22
	29 236 544,52

Note 5

	Euro amount
- KfW 2t1 3m Jibar - 6,30%	2 238 760,01
- KfW 2t2 Fixed rate 6,88%	9 291 995,73
- KfW 2t3 6m Jibar - 4,77%	2 253 839,04
	13 784 594,78

Note 6

	Euro amount
- CFD 3t1 6m Jibar - 0,08%	9 041 744,66
- CFD 3t2 Fixed 11,64%	6 186 406,10
- CFD 3t3 6m Jibar - 2,52%	4 304 905,37
	19 533 056,13

DBSA

Association incorporated under section 21 of the Companies Act, No. 61 of 1973
(Registration No. 2001/030153/08)

Balance sheet
at 31 March

	2002 R 000
Assets	
Grant owing from the Development Bank of Southern Africa Limited	78 476
Total assets	78 476
Equity	
Fund account	78 476
Total equity	78 476

Income statement
for the 3-month period ended 31 March

	2002 R 000
Operating expenses	(1 524)
Consulting fees	(19)
Data processing costs	(1)
Entertainment	(3)
Remuneration	(1 434)
Subsistence and travelling	(52)
Telephone	(8)
Training	(7)
Retained loss for the period	(1 524)

Statement of changes in equity
for the 3-month period ended 31 March

	Fund account R 000	Accumulated loss R 000	Total R 000
Funds received from Development Bank of Southern Africa Limited	80 000	-	80 000
Grants utilised to fund operations	(1 524)	1 524	-
Grants disbursed	-	-	-
Loss for the period	-	(1 524)	(1 524)
Balance at 31 March 2002	78 476	-	78 476

The DBSA's role in sustainable development

Introduction

The DBSA strives to be the leading change agent for socio-economic development in southern Africa. Its key objective is to address socio-economic imbalances and improve the quality of life of the people of the region. The Bank's mandate directs it to pursue this objective by investing in and facilitating the provision of infrastructure, financing sustainable development in partnership with the public and private sectors, responding to development demands, and acting as a catalyst for investment. Its development mission means that the Bank is especially sensitive to the needs of the poor in these endeavours.

The DBSA's core operational activity is providing or arranging finance for infrastructure projects. The selection of appropriate projects to support or finance lies at the heart of the Bank's business processes. This selection is based on the single critical criterion of sustainable development, understood in relation to the Bank's vision and key objective.

Sustainable development

Initially, as elsewhere in the world, the DBSA understood the concept of sustainable development to refer primarily to the biophysical environment. The integrated and lasting management of the environment, now and in the future, was seen as the basis of sustainable development. The Bank thus adhered to the Brundtland Commission's (1987) definition of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs…"

Since the Earth Summit in Rio de Janeiro in 1992, the concept of sustainable development has been refined, and it is now recognised that to be sustainable, development must improve economic efficiency, protect and restore ecological systems, and enhance the well-being of people. In line with this, the Bank subscribes to the meaning given to sustainable development in South Africa's National Environmental Management Act, No. 107 of 1998, where it is seen as requiring the integration of economic, environmental and social factors in the planning, implementation and evaluation of projects. More specifically, the Bank endorses the view of the United Nations Development Programme that in order to enhance the well-being of people in the region and achieve a "better life for all", we need to:

- Accelerate economic growth, but with greater equity and an emphasis on self-reliance
- Improve the living conditions, income and health of the disadvantaged majority
- Ensure the fair and sustainable use of environmental and natural resources for the benefit of present and future generations

In this report on the DBSA's performance, we consider each of the three dimensions of sustainable development – economic, environmental and social – before presenting a number of projects as case studies that illustrate the Bank's approach and contribution.

The economic impact of DBSA projects

Overall impact

The DBSA seeks to maximise its development impact by focusing on the developmental dynamics in society. It funds infrastructure projects that help to reduce poverty and improve the quality of people's lives.

The Bank participates indirectly in the economy through the funding of various infrastructure projects, and its development impact can be measured using economic and statistical models. A general economic equilibrium analysis (social accounting matrix and input-output model) was used to quantify the direct and indirect economic effects on the South African economy of the projects financed by the DBSA during 2001/02, taking into account the backward and forward linkages they created. This modelling estimated the macroeconomic impact achieved through the funding of projects, and the transfer of technology and management skills. The economic impact of linkages created with other role players was taken into account, as was the impact of projects through the buying of materials and through the chain reaction triggered by salaries and profits (less retained earnings) that are ploughed back into the economy in the form of private consumer spending.

The Bank's macroeconomic impact was measured according to its mandate and its contribution to gross domestic product (value added to the national economy), employment creation, capital utilisation (use of machinery, transport equipment, buildings, and other social and economic infrastructure), and income generated specifically for low-income households. These impacts were calculated for both the construction and the operational phases of projects. The economic activity associated with the construction phase has a limited life, usually no longer than three to four years, whereas that associated with the operational or production phase is ongoing, and has an annual effect on the economy.

In general, the macroeconomic impact of the DBSA was significantly higher in 2001/02 than in the previous year, especially as regards employment creation. This was due to a 151 per cent increase in funding in real terms, and to a marked shift in the funding portfolio. In 2000/01, the focus was on the water sector, which is relatively capital-intensive, whereas in 2001/02, funding was distributed more evenly across sectors, including those in which higher levels of employment creation are possible.

Projects by sector

Sector	2000/01 %	2001/02 %
Roads	1	**8**
Electricity	7	**11**
Sanitation	4	**14**
Water	80	**26**
Entrepreneurial development	4	**11**
Human resource development	4	**2**
Chemical	0	**28**
Total	100	**100**

Development impact 2001/02

	Employment creation (number of jobs)	Income to low-income households (R million)	Contribution to gross domestic product (R million)	Capital utilisation (R million)
Total loan approvals (DBSA and co-funders)	42 996	1 102	8 946	39 792
DBSA loan approvals	13 709	337	2 745	12 124
DBSA disbursements	5 791	109	894	4 360
Total signed agreements (DBSA and co-funders)	11 500	212	1 733	8 261
DBSA signed agreements	4 608	97	798	4 127

The DBSA's role in sustainable development

Contribution to gross domestic product

Projects financed by the DBSA added value to the South African economy through the remuneration of employees, gross operating surplus, and net indirect taxes. The total impact on gross domestic product of projects funded by the DBSA and its co-funders was R8,9 billion, and the Bank's contribution to national gross domestic product was approximately 0,3 per cent.

Employment creation

There is vast unemployment in South Africa, and the creation of jobs is of paramount importance. The job opportunities created by the DBSA are particularly significant in an economy that is becoming less labour-intensive, and the current decline in employment would be even more severe without the Bank's intervention.

Taking the total loans of the DBSA and its co-funders as a basis, it is calculated that as many as 43 000 jobs have been sustained because of the DBSA's funding intervention.

Capital utilisation

In order to support the economic activity that was initially activated by the total loan funding, an estimated annual amount of approximately R39,8 billion is required for the country as a whole in respect of the 2001/02 capital stock.

Poverty alleviation

Reducing poverty has been a central concern of the South African government since 1994, and is also emphasised in DBSA policy. It is therefore appropriate that a significant share (R1,1 billion) of the household income generated by the loan funding is destined for low-income households. If multiplier effects are taken into account, the total loan funding brings an additional benefit of R128 per year to the average low-income household in South Africa.

Statistics South Africa has developed a household infrastructure index to guide development in the various provinces. As the table shows, the Bank's investment correlates with this index to some extent. The first column in the table below indicates the priority for investment in household infrastructure according to Statistics South Africa. The second column specifies the relative investment values (the total loans of the DBSA and co-funders) within the different provinces.

The DBSA's role in sustainable development

Household infrastructure needs and investment

Province	Household infrastructure index[1] (Statistics South Africa)	Total loans[2] (DBSA and co-funders)
Eastern Cape	9	8
Free State	4	3
Gauteng	3	7
KwaZulu-Natal	7	6
Mpumalanga	5	1
Northern Cape	1	2
Northern Province (Limpopo)	8	5
North West	6	4
Western Cape	2	9

1. Ranking is from 1 = lowest need to 9 = highest need.
2. Ranking is from 1 = least investment to 9 = highest investment.

Strategic partnerships

The DBSA is committed to building partnerships with other stakeholders – international, regional and local – in order to learn, share experiences, formulate joint values, and advance environmental best practice in operations. To this end, it has established a number of important international partnerships.

In 1991, the United Nations Environmental Programme Finance Initiatives (UNEP FI) began working with a small group of commercial banks in the First World to promote awareness of the environmental agenda in the banking industry and encourage their commitment to environmental sustainability in key areas of their operations. In 2002, the DBSA became involved with UNEP FI's Working Group on Environmental Management and Reporting (EM&R). The group, whose members are drawn from financial and insurance organisations around the world, including Africa, is trying to develop international guidelines on environmental reporting and management for the financial sector.

To promote the group's aims in Africa, and especially in South Africa, the DBSA and UNEP FI jointly hosted a two-day regional outreach event in January 2002, focused on the financial sector in Africa and foreign direct investment. There were presentations on innovative financing to deliver cleaner energy and water, and improved education and health services; on new business models to promote micro-financing, entrepreneurship and public-private financing of local economies; on attracting foreign direct investment; and on creating linkages between Africa and the world's developed economies to achieve sustainability. The recommendations from this event will be presented to the World Summit for Sustainable Development (WSSD) in Johannesburg later this year. The DBSA also serves on UNEP FI's Africa Task Group.

Another emerging partnership is with the World Bank's Prototype Carbon Fund. The DBSA is currently examining the issue of climate change and its implications for the region. Negotiations are under way for the Bank to provide project development services to the Prototype Carbon Fund, in order to build capacity and open up new sources of finance for its clients.

The DBSA has created a formal programme of participation in the forthcoming WSSD. It will also use the opportunity to host joint events with its domestic and international partners; for instance, it is participating in a project on wind energy with Kreditanstalt für Wiederaufbau, and in the Multilateral Financial Institutions' Environmental Group to report back on its attempts to harmonise environmental guidelines.

Regional and local partnerships

Regionally, the DBSA seeks to assist its clients and the broader environmental community by participating in capacity building initiatives. For instance, it presented its environmental risk management methodology at a workshop for financial sector professionals hosted by the International Finance Corporation in Johannesburg.

Locally, the Bank has identified the lack of environmental management capacity in municipalities as a potential risk for the successful and sustainable implementation of infrastructure projects. To counter this risk, it has formed partnerships with some of its local authority clients. Two case studies in KwaZulu-Natal illustrate the supportive role played by the Bank.

The DBSA, as a major funder of capital development for the former Durban Metropolitan Council (now the eThekwini municipality), was concerned about the borrower's ability to comply with environmental legislation. It therefore offered technical assistance to deal with the environmental risks associated with projects and to enhance the

Council's environmental management capacity. This led to the formation of the Durban Metropolitan Environmental Policy Initiative, with the short-term objective of ensuring that the Council complied with environmental impact assessment legislation, and the long-term objective of ensuring that projects were sustainably implemented.

The initiative was pursued to its conclusion over a three-year period, and the Council accepted a policy on environmental management. Yet this policy has not been implemented. Although a groundswell of concern was created, within the Council and in the broader community, and stakeholders were extensively involved, the initiative did little more than raise awareness.

Given the limited success of this comprehensive approach, it was decided to focus the technical assistance provided to the Msunduzi municipality purely on increasing its capacity to comply with environmental impact assessment legislation. The project was initiated in 2000, but because of various delays is not expected to be complete before June 2003.

Most of the lessons learnt from these capacity building initiatives concern the management of technical assistance projects. First, a clear plan for implementation and training should be specified and agreed to at the outset. The transfer of skills from consultants to clients should start at once. Secondly, the capacity of the client and the commitment of staff at all levels will influence the time frame. Thirdly, the Bank should tailor its role according to the capacity of the client. Fourthly, best practice is critical in such technical assistance projects, and should be attended to from the start.

In-house environmental management

Environmental sustainability of projects and programmes

Environmental sustainability is one of the cornerstones of the DBSA's approach to project financing. To assess whether a project is environmentally sustainable, the Bank uses the following rules:

- For renewable energy sources, harvest rates must equal depletion rates.
- For non-renewable energy sources, depletion rates must equal rates at which renewable substitutes are developed.
- Waste emissions must remain within the assimilative capacity, without unacceptably diminishing the capacity to absorb future waste.
- There should be no net loss of habitat or biodiversity; irreversible environmental alterations should be avoided and future options maintained.

To ensure that all projects and programmes funded by the DBSA are environmentally sound and sustainable, the Bank undertakes environmental appraisals geared to their entire life cycles. The environmental risks associated with a project are identified and evaluated. Measures to mitigate such risks must be taken by the borrower. Borrowers are helped to design appropriate environmental management systems and to build capacity to fulfil their environmental obligations. In 2001, the DBSA finalised an Environmental Management Plan containing guidelines for its borrowers.

The Bank's environmental appraisal process aims to:

- Find opportunities within projects to maximise their developmental and environmental benefits by promoting sustainable development
- Minimise environmental risks and liabilities to the DBSA
- Assist borrowers to comply with environmental legislation
- Identify methods to prevent, mitigate or compensate for the environmental risks associated with its projects and programmes
- Assist in managing the business risks to the DBSA
- Ensure that developmental impact is positive

Environmental risk assessment
The assessment and management of any environmental risks associated with projects are integral to sustainable development. The DBSA defines environmental risk as "a measure of the potential threats to the environment that activities may have. It combines the probability that events will cause or lead to degradation of the environment and the magnitude of the consequences of that degradation."

The DBSA considers three main sources of environmental risk:
- *Environmental impacts:* These are risks arising from the nature of the impacts associated with the project itself.
- *Legal requirements:* The legislation pertaining to a project is a significant source of risk if there is no compliance. Legal risks can include siting requirements, e.g. planning authorisation and environmental impact assessment approvals; operating requirements, e.g. water permits; and environmental liability, whereby the proponents of projects are held responsible for any existing or future contamination.
- *Institutional capacity:* The ability of a borrower to meet environmental requirements during the construction and operation of a project can be another source of risk.

All of these risks are appraised, as not only could they have a negative impact on the environment, but they could also generate liability for the Bank. An independent study commissioned and completed in 2001 identified potential areas of environmental liability for the DBSA that are not covered by the appraisal procedure. It recommended strategies to minimise these liabilities. The DBSA's environmental team, together with the legal department, is currently implementing these recommendations by reviewing its internal procedures and human resources, interactions with borrowers, interventions in projects, and contractual arrangements.

The environmental appraisal is not just focused on negatives. Rather, it adopts an integrated approach and considers alternatives to enhance the environmental and social benefits of projects. A key part of this is effective public participation, which helps to identify other options and appropriate project designs.

Formulating an environmental strategy
The DBSA is involved in a number of environmentally related activities. It recognises the need to coordinate these such that the environmental development impact is enhanced and best practice promoted. The Bank is therefore considering the formulation of an Environmental Strategy covering both its internal and external activities. This would deal with issues such as the need for a formal environmental policy and an environmental reporting system.

The DBSA and the social aspects of sustainable development

Strategic partnerships
In 2001/02, the DBSA was involved in SPI-Finance 2002, an international initiative to develop social performance indicators for the finance industry, at the suggestion of Swiss Re. The other participants were the Union Bank of Switzerland, Credit Suisse, and Zürcher Kantonalbank (Switzerland); Deutsche Bank (Germany); the Cooperative Bank and Cooperative Insurance (United Kingdom); Rabobank (Netherlands); and Westpac Banking Corporation (Australia).

The DBSA welcomed this opportunity to bring the development needs of southern Africa to the fore, and thus influence the approach of northern financiers and the potential development impact of their activities. It was also an opportunity to gain insight into international best practice regarding social performance indicators for the finance industry, which could be introduced into the Bank's own processes.

The cost of the DBSA's participation was subsidised by Swiss Re (CHF20 000) and Kreditanstalt für Wiederaufbau (14 000), and the DBSA contributed   10 000.

The SPI-Finance project is linked to the Global Reporting Initiative, which aims to promote and standardise reporting by businesses on their economic, environmental and social performance, that is, their corporate responsibility reporting. The Initiative was established by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environmental Programme. While the Initiative has formulated a number of generic social performance indicators, it recognised from the beginning that sector-specific indicators are also required. The Initiative and E2, the Swiss consultancy managing the SPI-Finance project, have formally agreed that the indicators developed by the project will serve as the sector-specific indicators for finance in the Initiative's Sustainability Reporting Guidelines, which will be published in an updated version later this year.

The SPI-Finance project divided the field of social performance into four areas:

- Internal social performance
- Performance in relation to the community and society in general
- Social issues in the supply chain
- Social impact of products and services

Indicators for *internal social performance* include internal policy on issues such as equal pay for equal work, training, health and safety, and remuneration of senior managers and Board members. As far as the *general society* is concerned, two indicators were selected: charitable contributions, and economic value creation, i.e. the company's contribution to gross national product. Regarding *suppliers*, there are also two indicators: the screening of suppliers to establish their employment conditions, and health and safety record; and suppliers' satisfaction with the company's performance (prompt payment, fair treatment, and so on).

With respect to the social impact of *products and services*, the project distinguished between four kinds of financial activity: retail banking, investment banking, asset management, and insurance. As an investment bank and participant in the SPI-Finance project, the DBSA will have a voluntary obligation to report on three indicators:

- The socially relevant elements of its investment policy e.g. how its products foster social capital, how it handles developing countries' debt, and so on
- Its global or cross-border transaction structure, using the World Bank's classification of economies into four groups according to gross national product per capita
- Transactions with high social benefit, i.e. the provision of tailored and innovative products and services, based on special ethical or sustainability criteria

In addition to the four areas already outlined, performance indicators were also formulated for management, to describe the quality of their engagement with corporate social responsibility. These indicators include information on the corporate social responsibility policy, and how it is organised and audited; on how the institution handles sensitive issues like bribery, money laundering and contributions to political parties; on the number of recorded instances of non-compliance with laws or regulatory codes; and on the procedures for involving and communicating with stakeholders.

Aside from the SPI-Finance project, the DBSA has actively promoted awareness locally of the importance of the social dimensions of sustainable development. The Bank commented extensively on the King II Report, not only as regards corporate governance, including accounting and auditing, but also as regards what the report termed "non-financial reporting" or "sustainability reporting". The Bank provided financial support and professional input to the "Measuring Impact" conference arranged by

The DBSA's role in sustainable development

the Accountability Institute of Southern Africa in August 2001. It worked together with Stellenbosch University to prepare and present a module on community participation, as part of a training programme for local government officials; and with Rand Afrikaans University to present seminars dealing with social impact assessment and public participation.

The DBSA's social appraisal process

The social appraisal process aims to ensure that projects supported by the Bank are socially sustainable; to identify and evaluate any social risks or obstacles that might limit development impact; and to develop measures to mitigate such risks.

International best practice, and the Bank's own experience, indicate that in order to minimise a project's social risk and optimise its development impact, it is necessary to appraise its social soundness, that is, the fit between the project and the social environment in which it will operate, the extent of community participation in the project, and the community's level of knowledge.

The DBSA considers the social impact of any project in four main areas: quality of life, gender equity, empowerment, and human capital formation. The Bank's focus is always on strategies to reduce poverty.

In assessing a project's anticipated direct impact on *quality of life*, the following kinds of impacts are considered: greater access to relevant services (e.g. new water connections); higher income levels or more equitable income distribution; increased economic opportunities (e.g. electricity connections which facilitate access to information or enable home industries); improved health standards (e.g. water and sanitation projects which lower the incidence of water-borne diseases).

Most of the poorest people in southern Africa are women, and women face particular constraints in development. The DBSA therefore regards gender issues as strategically important and is committed to advancing *gender equity*. The Bank recognises that not all its borrowers share these views, and so it tries to promote gender equity through the projects it finances, by apprising borrowers of its gender policy and encouraging them to implement it. In appraising a project with regard to gender equity, an assessment is made of its impact on women's practical needs (arising from the societal roles assigned to them and the conditions they experience); and on their strategic needs (relating to their empowerment and to overcoming their subordinate position in society). In its projects, the DBSA promotes equal access by women and men to opportunities and resources, and tries to minimise any limitations on the project's effectiveness that might arise from the gender division of labour. It also strives to ensure that women as well as men participate actively in decisions that affect their lives, for example, by serving on project steering committees.

In appraising the social dimensions of sustainable development, the Bank sees *empowerment* as progressive growth in the capacities of community groups and individuals to bring about and benefit from broad social transformation. It thus takes into account the extent to which a project will increase the opportunities and abilities of civil society to participate in and influence decision-making; allow the beneficiaries to make informed social choices; and promote or foster civic accountability.

During the implementation and operational stages of projects, the DBSA aims to optimise the use of local resources and knowledge, and the development of local skills and capacities. A project's anticipated impact on *human capital formation* is thus assessed with regard to:

- The creation of training opportunities (disaggregated by gender)
- The creation of employment opportunities (split into temporary and permanent, and disaggregated by gender)

Kwaguqa (Witbank) roads and storm water

- The content and extent of project management training
- The involvement of local and emerging contractors (especially in relation to affirmative procurement and black economic empowerment)
- The stimulation and support of local entrepreneurship

Project case studies

The DBSA financed 37 new projects in 2001/02. The full list of projects can be found at the end of this report. This information is also available on the Bank's website: www.dbsa.org.

This section describes seven projects in various sectors funded by the Bank in previous years. The focus is on the social and environmental impact found during formal evaluations, so as to illustrate the Bank's approach to and success with achieving sustainable development. The projects are concerned with urban infrastructure, sanitation, transport, peri-urban development, and energy.

Kwaguqa (Witbank) roads and storm water

The objective of this R13,6 million project, more than half of which was financed by the DBSA, was to upgrade roads in the residential area of Kwaguqa using labour-intensive concrete-block paving. The average construction cost was R109 per square metre, and although concrete-block paving is more expensive than tarmac, this compares well with similar costs in the region.

Social aspects

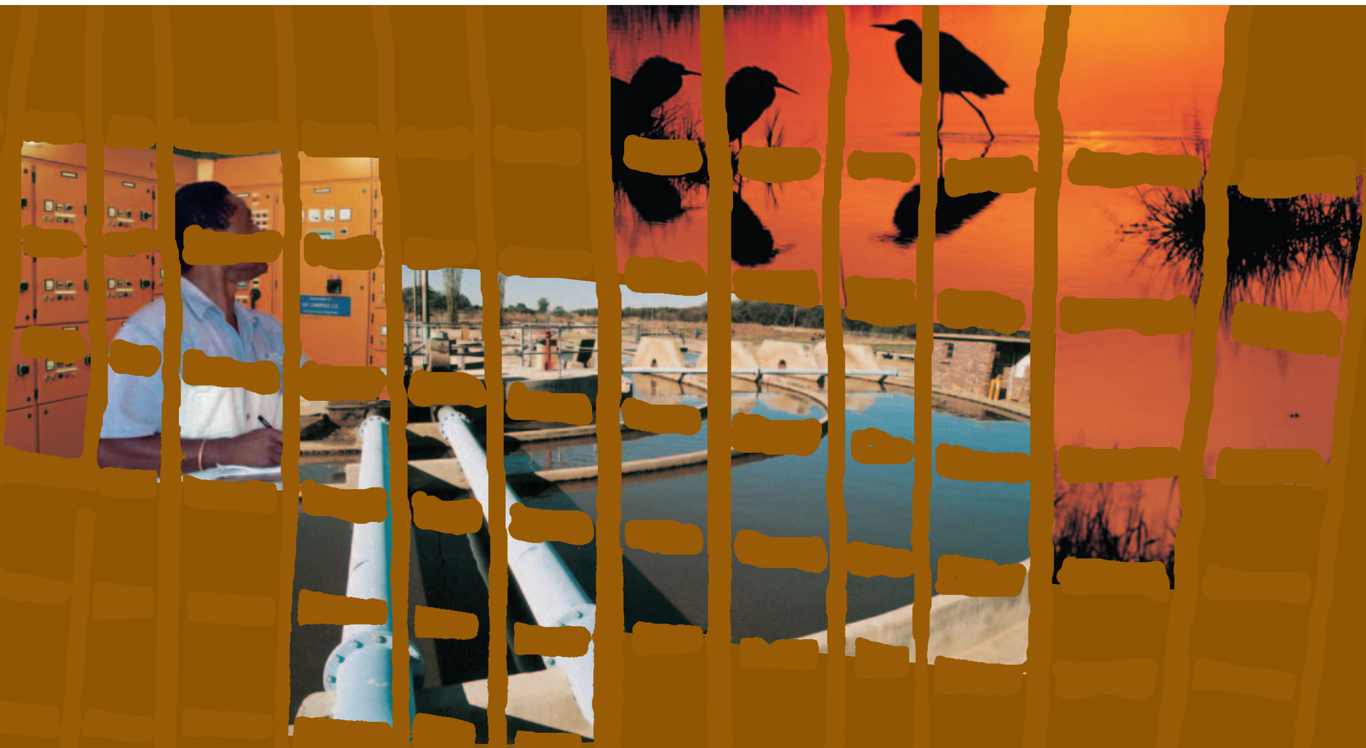
During the construction period 200 jobs were created, with workers receiving training in the laying of blocks and the construction of side drains for storm water. Fifteen emerging contractors were involved, initially under the supervision of a main contractor. (In the second phase of the project, one of these "emerging" contractors became the supervisory one.) Several were successful in finding other construction work after the project had been completed. About 50 of the labourers also found further employment in the concrete-block plant that was established with grant finance as part of the project, and later privatised.

Besides job creation and the involvement of emerging contractors, the community mentioned several other benefits. There is less dust, children can play soccer and other games in the street, lorries can come in to collect refuse, taxis can get closer to homes, and – importantly in a community where car ownership is increasing – paved roads are far easier on vehicles than gravel roads.

Environmental aspects

The fact that concrete-block paving is labour-intensive was not the only reason for choosing this method of construction. Roads paved with concrete blocks have the advantage of requiring less maintenance than tarred roads. They also have a number of environmental benefits, notably that of reducing soil erosion. In Kwaguqa, the roads were deliberately constructed below average ground level so that they serve in a limited way as floodwater channels. This proved very successful, particularly in areas where lack of ground cover on the road verges causes soil to be washed on to the road. The combination of floodwater and soil rapidly creates potholes in tar roads, whereas those paved with concrete blocks are more resilient.

Nonetheless, the evaluation found that storm-water management remains problematic. Some houses in low-lying areas were flooded because drainage pipes had filled up with sand. It was also found that residents use the road reserve for dumping rubble, and a programme to raise environmental awareness was suggested.



Upgrade of Modimolle's waste-water treatment plant

Upgrade of Modimolle's waste-water treatment plant

In 1998, just after the Nylsvlei nature reserve had been declared a Ramsar site because of its international importance as a habitat for waterfowl (104 species) and migrating birds, the main sewage works at Modimolle (formerly Nylstroom) spilt over into the Nyl River, upstream of the reserve. Partly in response to this environmental crisis, the DBSA provided a loan of R3 million (three quarters of the total cost) to increase the capacity of the sewage works from 2,3 to 4 megalitres a day, thus accommodating increased volumes of effluent resulting from population growth.

Social aspects

The upgrade extended Modimolle's capacity for sewage treatment by 20 years, and allowed an additional 500 households to be connected. A further 1 100 households, mainly from deprived sections of the community, will be connected in the near future. Some 40 local labourers were employed during the construction period.

Environmental aspects

This project is of particular environmental interest, because the sewage works is located upstream of the largest inland flood plain in South Africa – 16 000 hectares when fully inundated – of which Nylsvlei forms a part. During appraisal, it was determined that the project presented high environmental risk, because of potential water pollution during construction and operation. The DBSA therefore required that a full Environmental Impact Assessment be undertaken and an Environmental Management Plan drawn up. These were also necessary for the provincial Department of Agriculture and Environmental Affairs to authorise the project. In the event, the borrower proceeded before complying with the Bank's conditions or the legislation, and the DBSA therefore suspended disbursements. Full compliance was eventually achieved, but the cash flow problems experienced by the borrower led to a reported deterioration in relations with the Bank.

Upgrade of the Homevale disposal works

The objective of the project was to support socio-economic advancement and improve the quality of life of disadvantaged communities in the Kimberley municipal area, by upgrading existing bulk sanitation infrastructure and increasing treatment capacity from 20 to 30 megalitres a day.

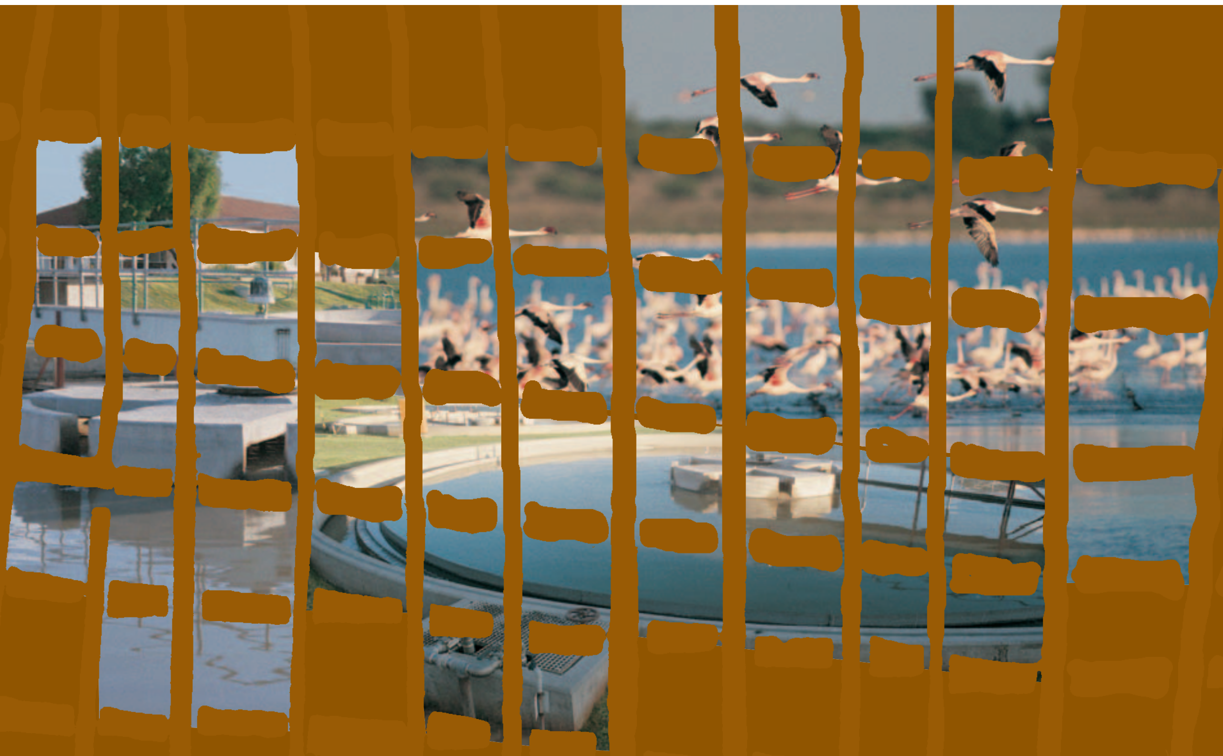
Social aspects

While the project has benefited the whole Kimberley community, the main beneficiaries were the low-income residential areas of Homevale and Galeshewe. Other social benefits included the training of 13 persons in paving, shuttering and bricklaying, and the training of operators.

Environmental aspects

An important environmental (and economic) benefit of the upgrading was the prevention of potential spillages. The costs to the municipality of cleaning up the environment in the event of a spill were estimated at R1 million per incident.

However, the upgrade has had two unanticipated but significant environmental impacts. First, the treatment plant is located next to Kamferspan, which was proclaimed a national heritage site in 1994 because it is home to the largest flamingo populations in South Africa. Water levels in the pan have risen as more effluent is discharged, and the levels of nutrients loaded into the closed system of the pan have also increased. Initially, it was expected that the upgrading would lead to lower phosphate levels in the effluent, but this has not happened, because phosphates are not removed at the works, and the



Upgrade of the Homevale disposal works

Department of Water Affairs and Forestry enforces only the General Effluent Standard. Whereas Kamferspan used to be dry much of the time, it is now more than 60 per cent full for most of the year. As a result, the pan's ecosystem is changing, and reed beds with significant habitat diversity have become established. This is not necessarily a negative consequence. However, if the pan fills too much and the water quality changes, the natural habitat of the plankton on which the flamingos feed will be destroyed, leading inevitably to the loss of the birds.

Secondly, members of the public are permitted to collect the dried sludge for use as fertiliser. This poses a health risk, as the sludge contains roundworm eggs, which are not killed during the drying process. There are now plans either to construct a proper composting facility or to contract this out to the private sector. A positive feature of the current process is that methane is collected to fuel the heaters used for drying the sludge, thus cutting down on greenhouse gas emissions.

Lesotho Highlands Water Project: Katse feeder roads and reservoir crossings

Katse Dam in the Lesotho Highlands was the largest single dam in the world until the construction of the Three Gorges Dam in China. When dams like these are built, large numbers of people are usually affected. After the inundation of the Katse Dam, inter-community visits and general mobility around the reservoir were hindered. It was necessary to compensate these communities in the Malibamatso and Bokong valleys by restoring their mobility.

The Lesotho Highlands Development Authority (LHDA), the implementing agent of the project, supported the principle that people should not be impeded at all. However, due to budgetary constraints and the difficult terrain, it became necessary to limit the number of crossings created to facilitate mobility. The feeder roads and reservoir crossings project, funded by the DBSA, was born. It consists of a system of gravel roads (approximately 95 kilometres long) linking the villages around the reservoir, five concrete access steps, and four bridges.

Social aspects

Large capital projects such as dams and roads, which uproot or displace whole communities or individuals within them, threaten the very social cohesion that helps people to fight poverty communally. The feeder road system aimed to restore linkages between communities and their displaced members, and thus preserve the cohesion of traditional social structures. In general, the roads have helped to regenerate inter-community networks.

The new roads have had a number of additional social benefits. Public transport is now available in the form of a new bus service. A round trip to town that used to take several days can now be done in a single day. Possibilities for tourism are also being explored.

The improved transport routes have brought the area out of its deep isolation, with the result that time-honoured practices are changing. For example, there is a noticeable shift from traditional thatched huts to building-block houses, which are regarded as a sign of affluence and success.

In addition to restoring and improving mobility, the project also sought to create employment and operational capacity in the area. The very hard, rocky soil and mountainous terrain meant that labour-intensive construction methods had to be combined with plant-intensive ones. Although local residents could not reap maximum benefits from job creation, they nevertheless benefited immensely from the project, with some R7,4 million injected directly into the communities in the form of wages in exchange for labour. On average, 574 people were employed per month for a period of 26 months.

Lesotho Highlands Water Project
Katse feeder roads and reservoir crossings

Labour-intensive construction also had other advantages. Most of the people employed were from local villages, thus ensuring direct contact with affected communities, immediate and appropriate resolution of problems, a minimum of labour disputes, and completion of the project well within the budget and the schedule.

Environmental aspects

The Environmental Management Plan, according to which the project was implemented, made provision for the protection of natural assets during construction, community safety, compensation and rehabilitation. Environmental monitoring and auditing were done for the duration of the contract.

Rehabilitation was undertaken according to the Rehabilitation Plan. This was limited primarily to the trimming and grassing of road shoulders, as finished fill embankments could generally not be rehabilitated owing to large quantities of rock spoil on the slopes. Most cut embankments, being near vertical, could also not sustain rehabilitation. Cost factors also made rehabilitation impracticable.

Although the general condition of the roads is still acceptable, sections are deteriorating. Rockfalls, common on all the roads in Lesotho, are a problem. Blocked side drains, together with illegal accesses created by communities, are affecting the wearing course of the roads in certain areas. Environmental monitoring and auditing seem to have ceased, and maintenance standards have dropped. This is of grave concern to both the DBSA and the LHDA, although both organisations no longer have any direct influence on maintenance decisions.

In accordance with the LHDA's asset transfer policy, the roads were officially transferred to the Government of Lesotho's Department of Rural Roads, whose technical standards differ from those of the LHDA. Furthermore, the roads in question have a low carrying capacity and therefore will not be high on the national priority list as far as maintenance is concerned. Nevertheless, the LHDA has appointed a special task team at executive level to deal with the transfer of the Lesotho Highlands Water Project's assets and the maintenance problem.

The Maputo General Union of Cooperatives project

The General Union of Cooperatives (UGC) acquired a R4,8 million loan and a R250 000 technical assistance grant from the DBSA. The objective of this project is to promote economic development in peri-urban Maputo by providing access to finance and support services for productive activities, ranging from poultry farming to cultivation of bananas and mangoes.

Social aspects

In many developing contexts, land is regarded as a catalyst for reducing poverty. It is government policy in Mozambique that families must make use of newly acquired land or risk losing it. This policy and the need to counter poverty and meet basic needs have led to rapid transformation of land-use patterns on the outskirts of Maputo. However, change in land use has not been accompanied by wider environmental policy and management support systems. The government has drawn up some agricultural policy and offers some advice, but not enough to address all the environmental and empowerment concerns.

UGC provides agricultural expertise, and helps people to consolidate their land holdings into more productively sized farms, trying to maximise economic returns without losing the human scale of development, and also to ensure environmental sustainability and responsibility. A striking feature of UGC is its holistic, integrated approach to community empowerment. It offers health, educational, economic and social support to local, family-sized cooperative structures.

The Maputo General Union of Cooperatives project

Two distinct types of credit are provided. The first is investment credit for constructing poultry houses and related infrastructure, including water wells and pumps. Investment credit also covers drinkers, feeders and ancillary equipment, most of which is produced by cooperatives that belong to UGC. It can also be used to purchase genetically superior planting material. Investment credit is offered without collateral. It is recovered by retaining 50 per cent of profit from operations over a specific time period.

The second type of credit is input credit. It is made available to a producer after a period of training. Input credit comes in the form of day-old chicks, feed, poultry extension, veterinary assistance, fertiliser, tools, and so on. Other production inputs, such as wood shavings, charcoal, kerosene, insecticides and quicklime, are also covered. Receipts are registered with UGC's accounts unit. Once they have been reconciled with the input credit invoices, the producer receives half of the net profit. UGC usually offers refinancing when a member incurs loss.

Environmental aspects

UGC promotes sustainable agricultural practices such as intercropping and rotation planting. Organic farming methods and principles are followed where possible. Limited use is made of pesticides, and fertilisers (mostly phosphorus) are used primarily for seedlings in the nursery. Care is taken to ensure that the use of alien plants for food, windbreaks or wood resources does not result in the introduction of invasive species.

Water comes from boreholes managed by the cooperative. To date, no water disputes have occurred. Groundwater is not a limited resource at this stage. No significant water resource management has yet been necessary, because the farming operations are small and use appropriate methods that do not result in pollution or erosion.

However, communities in the area are beset by malaria and other environmental health problems resulting from poor sanitation. In response, UGC has mounted awareness campaigns and is establishing safe water supplies and clinic services.

The project's empowerment of poor communities through peri-urban agriculture and poultry farming is impressive. It follows environmentally sound practice and complies with existing environmental legislation, working to the advantage of both the environment and the communities that depend for their livelihood on the natural resources provided by local ecosystems. Nonetheless, UGC has to deal with environmental issues on an ad hoc basis with little policy, legislation or support from government on bioregional planning and sustainable resource management. Some government initiatives have taken place at regional level, but most of UGC's achievements depend on its own environmental ethos and its promotion of development that is socially, economically and environmentally sustainable.

National Electrification Programme

In 1994, the South African government initiated the first phase of the National Electrification Programme (NEP) at a cost of R8 billion. The aim was to provide affordable and sustainable electricity to 2,5 million households, mainly in poor and rural areas, to improve their quality of life, and to electrify all schools and clinics. Longer-term objectives were to facilitate more effective participation in economic activities, particularly by previously disadvantaged people, and to contribute to the protection of the environment. An evaluation of the first phase of the NEP was undertaken for the Department of Minerals and Energy to draw out lessons that can be incorporated in the planning and implementation of the second phase.

This report combines evaluations of the first phase in six areas (Durban, Khayelitsha, Kimberley, Mmabatho, Orange Farm, and Thohoyandou) for the period 1994-9, and is based on previous sample evaluations conducted by the University of Cape Town's Energy and Development Research Centre.

National Electrification Programme

Economic aspects

Access to electricity is regarded as critical for economic growth. The economic viability of a project is assessed primarily by calculating the net present value and internal rate of return. A project is considered viable if the net present value is positive and the internal rate of return exceeds the social discount rate. If these values obtain, economic viability is further evaluated by weighing programme costs (capital, overhead, operation and maintenance) against benefits (sales and revenue).

In the economic analysis, only Kimberley and Thohoyandou showed positive net present values. Projected average monthly consumption figures were ambitious, and actual revenues are lower than expected. Given the very low rate of return, the projects are not meeting their projected targets. Despite its positive net present value, Thohoyandou will not break even in the project's expected 20-year lifespan, that is, in no year will the cumulative cash flow become positive. The projected cumulative cash flow for Durban, Khayelitsha and Kimberley becomes positive in 2008, and for Mmabatho and Orange Farm five to six years later. The difficulty is that projected consumption levels were calculated at 350-400 kWh, while actual levels vary from as low as 48 kWh to 152 kWh. At these levels, the best estimate for consumption at the end of the projected lifespan in 2014 is 214 kWh for Mmabatho and 171 kWh for Orange Farm, which is still far below break-even point.

Social aspects

The evaluations investigated a range of socio-economic aspects of electrification, such as the involvement and upliftment of communities in the process, and whether the provision of this service has stimulated economic activity. The findings were that electrification has led to a definite increase in communities' socio-economic status and to visible improvement in living conditions. Electrified clinics, police stations and other government offices contribute to better quality of life. Many homesteads now have an external light that provides security. Cooking with wood and fossil fuels has decreased, although not for all. Many people have shifted from sitting around fires when it gets dark to watching television or doing other activities that require electricity. Educational prospects have improved as learners spend more time reading and studying, as do many adults.

A requirement of the NEP was that during implementation local labour be used wherever possible. This was not always feasible. For instance, in Durban communities insisted that local labour be defined narrowly on a street-by-street basis. This restricted skills improvement and limited the development impact of the initiative.

Involvement of local labour and emerging contractors worked well in other places, e.g. Khayelitsha, Kimberley, Mmabatho and Orange Farm. Local residents were trained as vendors to dispense tokens for prepayment meters, and local households were selected to run vending stations, thus creating more permanent opportunities to generate income.

The evaluation found that because of electrification, economic activities have developed and increased, particularly microenterprises. These include welding, hair and beauty salons, bakeries, photocopying shops, knitting and sewing establishments, and spray-painting. Others, notably spaza shops and taverns, have been able to improve their services by installing lighting and refrigerators, which increase the range and freshness of foodstuffs. Furthermore, businesses with access to electricity can stay open later, an important advantage when prospective customers mainly work far from home and return only in the evening. Whereas many businesses were barely surviving before electrification, now they have expanded and increased their turnover. A further benefit is that electrification promotes tourism, e.g. the establishment of tribal villages as cultural tourist attractions.

Lwandle (Helderberg) solar energy

Environmental aspects

Regarding the environmental impact of the electrification programme, the evaluation registered a notable decrease in the use of fuel wood. Although a number of pump stations were established, no significant increase in water consumption was recorded. Visual evidence indicated a decrease in ambient air pollution, both indoor and outdoor. In the Galeshewe area of Kimberley, a decrease in respiratory diseases was noted. In Orange Farm, environmental issues are being brought to the attention of residents through newsletters, posters and participation in events such as World Environment Day. In Thohoyandou, environmental issues form part of the monthly reports on activities to management and provincial government, and are monitored by Eskom's head office.

Although no separate environmental budget was set aside for the NEP and there was no stated environmental policy, environmental costs were included in the programme, and an integrated approach to environmental management was followed, e.g. bird flappers were installed on some power lines, indicating that environmental issues were considered in design.

Lwandle (Helderberg) solar energy

Lwandle is a low-income area in Helderberg in the Western Cape. It used to be home to migrant workers, who came mainly from the Eastern Cape and lived in hostels. As part of the government's drive to improve living standards, most hostels have been upgraded to family units, and Lwandle hostel is one of them. It currently houses about 3 500 people.

The objective of the project was to provide solar-heated water to Lwandle's low-income residents. It cost R4,85 million, with the Western Cape Provincial Housing Board providing R1 million and the DBSA financing the rest.

Social aspects

Solar energy was preferred to electricity, because running and maintenance costs are relatively low, and the resource is renewable. The project has been widely accepted in the community. Two to four households share a bathroom. Although these are communal, users have a strong sense of ownership because of the improvement in their quality of life, and they take full responsibility for keeping the facilities in good order. Out of the 383 solar geysers fitted, only three have had their panels broken. In such a dense community, with many young people and children, this confirms that users appreciate the project's benefits. The only complaint voiced by some is that the geysers were built too high and make the area look ugly.

Environmental aspects

By its nature, solar energy is renewable and environmentally friendly, and saves on consumption of wood and fossil fuels. Generating energy in this way produces no pollution, and there are no waste products or peak power demands.

Widespread use of solar energy is new to South Africa. The successful implementation of this project is significant and has generated much interest, with efforts already being made to replicate it elsewhere. Such projects have a huge potential to improve the quality of life of South Africans and protect the environment. Valuable lessons have been learnt at Lwandle, which should help to ease implementation in other areas.

Projects approved in 2001/02

South Africa (national)

Lending operations

Presidential flood relief reconstruction programme
The provision of additional finance for the reconstruction of infrastructure damaged during the 1999/2000 floods. The total facility of R250 million, of which R100 million has already been utilised, is bridging finance in anticipation of donor funds. The project entails the reconstruction of fences, access roads, water supply and public amenities in and around the Kruger National Park.
Client: RSA Government Department of Home Affairs
Loan: R150 000 000

Mantswe Solutions guarantee
The provision of a guarantee for the establishment of a company that will sell cellular telephone airtime via electronic downloading to portable terminals located in urban and rural areas.
Client: Mantswe Solutions (Pty) Ltd
Guarantee: R2 000 000

Sasol bridging finance
The provision of a short-term bridging facility for the financing of the initial investment cost of the construction of the South Africa to Mozambique gas pipeline, until the project finance facility has been arranged.
Client: Sasol (Pty) Ltd
Loan: R650 000 000

Technical assistance operations

Project	Recipient	Grant (R)
Financial planning guidelines and model for district municipalities phase 3	Development Bank of Southern Africa Limited	300 000
Symposium of the World Commission on Dams	South African Committee on Large Dams	10 000
Planning and design of human settlements	Development Bank of Southern Africa Limited	51 300
Technical support to the Telecommunications Regulators Association of Southern Africa (TRASA)	Telecommunications Regulators Association of Southern Africa	250 000
Sponsorship for accountability conference on measuring impact	Accountability Institute	50 000
UNEP Financial Initiative workshop	United Nations Environmental Programme	50 000
Women's Development Foundation bridging finance	Women's Development Foundation	150 000
Business Map phase 2	Business Map	50 000
South African Planning Institution "Planning Africa" conference	South African Planning Institution	160 000
Southern Africa town planning event	South African Planning Institution	37 620

South Africa (national)

Project	Recipient	Grant (R)
South African Association for Marine Biological Research capacity building	South African Association for Marine Biological Research	150 000
Job Creation Trust programme launch	Job Creation Trust	33 688
Financial guarantee facility	Private Sector Consortium	250 000
South African Communications Forum	South African Communications Forum	300 000
Assessment of targeted procurement	International Labour Organisation	38 567

Eastern Cape

Lending operations

Despatch infrastructure phase 2
The upgrading of infrastructure comprising roads, pavements, an electrical substation and an administrative facility, at a total cost of R3 million.
Client: Nelson Mandela Metropolitan Municipality
Loan: R2 575 000

Nelson Mandela Metro infrastructure development programme phase 3
The provision and upgrading of bulk infrastructure and connector services, mainly for water, sewage, roads and electricity, to the value of R500 million.
Client: Nelson Mandela Metropolitan Municipality
Loan: R500 000 000

Eastern Cape Development Corporation debt consolidation
The consolidation and restructuring of 21 previous loans taken over by the Eastern Cape Development Corporation into 4 new loans.
Client: Eastern Cape Development Corporation
Loan: R33 194 598

University of Port Elizabeth infrastructure
The construction of a large lecture venue and the conversion of dormant hostels into self-catering accommodation units, at a total cost of R60,8 million.
Client: University of Port Elizabeth
Loan: R9 300 000

Technical assistance operations

Project	Recipient	Grant (R)
Nelson Mandela Metro infrastructure viability study	Nelson Mandela Metropolitan Municipality	230 000
Training of municipal councillors	Department of Local Government and Housing	560 000
Amahlathi Local Municipality integrated development planning workshop	Amahlathi Local Municipality	20 000

Eastern Cape

Project	Recipient	Grant (R)
Buffalo City integrated development plan	Buffalo City Local Municipality	500 000
Amatole District Municipality integrated development plan	Amatole District Municipality	500 000
East London waste water environmental impact assessment	East London Local Municipality	15 854
Makana Local Municipality interim integrated development plan	Makana Local Municipality	30 000
Ukhahlamba Local Municipality integrated development plan	Ukhahlamba Local Municipality	500 000
Chris Hani District Municipality capacity building programme	Chris Hani District Municipality	200 000
Kouga strategic capacity building and leadership programme	Kouga Local Municipality	236 000
St Francis Bay Groyne development environmental impact assessment	Kouga Local Municipality	200 000

Free State

Lending operations

Mantsopa water and electricity
The installation of prepayment meters for water and upgrading of electrical infrastructure.
Client: Mantsopa Local Municipality
Loan: R6 670 000

Technical assistance operations

Project	Recipient	Grant (R)
Free State Province housing lekgotla	Department of Local Government and Housing	100 000
Free State Province information technology upgrading	Department of Local Government and Housing	118 000
Harrismith Local Municipality training programme review	Harrismith Local Municipality	50 160
Tshiame water services options workshop	Maluti a Phofung Local Municipality	96 900
Mantsopa Local Municipality water control infrastructure	Mantsopa Local Municipality	125 000
Lejweleputshwa District Municipality strategic planning workshop	Lejweleputshwa District Municipality	48 500
Matjhabeng Local Municipality combined services model application	Matjhabeng Local Municipality	212 530

Free State

Project	Recipient	Grant (R)
Nala Local Municipality information technology upgrading	Nala Local Municipality	100 000
Thabo Mofutsanyana District Municipality local economic development workshop	Thabo Mofutsanyana District Municipality	67 600
Free State Local Government Association capacity building	Free State Local Government Association	600 000

Gauteng

Lending operations

Mogale City electricity supply
The provision of financing for electricity supply infrastructure and additional finance for the construction of five community facilities. The project forms part of a programme facility for the provision of municipal infrastructure in the Krugersdorp municipal area, including roads and drainage facilities, water supply, waste water and solid waste disposal, and social infrastructure.
Client: Mogale City Local Municipality
Loan: R10 315 470

Pretoria Technikon campus infrastructure
The construction of a new administration building, plus a parking area and landscaping around the building.
Client: Pretoria Technikon
Loan: R43 145 288

Vaal Triangle Technikon campus infrastructure
The provision of additional education infrastructure at the main and satellite campuses of the Vaal Triangle Technikon, thereby enhancing capacity to provide higher education. Phase 1 entails the upgrading of existing facilities and construction of new facilities at the main campus. Phase 2 entails the conversion of existing facilities and construction of new facilities at the Klerksdorp, Secunda and Kempton Park satellite campuses.
Client: Vaal Triangle Technikon
Loan: R25 700 000

Emfuleni infrastructure
The resealing and rehabilitation of roads, the construction of two sewage pump stations and the building of four community halls, at a total cost of R41,7 million.
Client: Emfuleni Local Municipality
Loan: R24 990 000

Merafong City infrastructure
The construction of a bulk reservoir (10Ml), water distribution management elements (relocation of water meters, a telemetry system and water restriction valves), the upgrading of roads and storm-water drainage, and the provision of a refuse transit station and social infrastructure (cemetery, community centre and library). The total cost of the project is R22,3 million, of which the Consolidated Municipal Infrastructure Programme is funding R14,8 million.
Client: Merafong City Local Municipality
Loan: R7 496 000

Gauteng

Ekurhuleni infrastructure programme
The provision of infrastructure services for approximately 543 000 households over a period of two years. The financing is for the upgrading of existing and construction of new electricity, water, roads and storm-water, sanitation and social infrastructure.
Client: Greater East Rand Metropolitan Municipality
Loan: R150 000 000

Tshwane Metro infrastructure programme
The upgrading and extension of bulk and reticulated water supply, sanitation, electricity supply, roads and storm-water drainage, and the construction of social infrastructure and community facilities.
Client: City of Tshwane Metropolitan Municipality
Loan: R300 000 000

St Dunstan's College campus infrastructure
The design and construction of classrooms with ablutions, staircases and walkways, sport facilities, storerooms, security fences, an access road and parking bays, at a total cost of R7,5 million.
Client: St Dunstan's College
Loan: R7 500 000

Greater Johannesburg infrastructure programme phase 2
The provision of bulk infrastructure consisting of waste water disposal works, roads and appurtenant works, and electricity supply.
Client: City of Johannesburg Metropolitan Municipality
Loan: R619 552 491

Campusnet equity
The establishment of a new venture for the provision of educational and training materials to students via an electronic distribution system.
Client: The Placement Team No. 65 (Pty) Ltd
Equity: R3 675 000

Technical assistance operations

Project	Recipient	Grant (R)
Albertina Sisulu Centre	Albertina Sisulu Foundation	117 958
Merafong City Local Municipality water services development plan	Merafong City Local Municipality	145 000
Emfuleni Local Municipality integrated development plan	Emfuleni Local Municipality	302 100
Vucosa housing planning workshop	Vulindlela United Community of South Africa	4 794
Lesedi Local Municipality integrated development plan	Lesedi Local Municipality	150 000
Mogale City mayoral inauguration	Mogale City Local Municipality	10 000
Metsweding Local Municipality integrated development plan	Metsweding Local Municipality	150 000
Tshwane Metro symposium	Tshwane Metropolitan Municipality	42 000

KwaZulu-Natal

Lending operations

Durban Point marine theme park
The construction and operation of a marine theme park in the Point area in Durban as a major visitor attraction, at a total cost of R100 million. The project is expected to kick-start urban renewal in the Point precinct.
Client: Durban Marine Theme Park (Pty) Ltd
Loan: R50 000 000
Equity: R50 000 000

Utrecht sanitation
The conversion of existing sewage conservancy tanks into on-site digesters, and the connection of these to a "solid free" drainage system to convey the partly treated effluent to a pump station with a rising main to the treatment works, at a total cost of R4,6 million.
Client: Utrecht Local Municipality
Loan: R3 632 000

Ithala rural community infrastructure programme
The development of commercial centres in eight rural areas.
Client: Ithala Development Finance Corporation Ltd
Loan: R89 881 643

Ithala Development Finance Corporation debt restructuring and consolidation
The restructuring of existing fixed-rate loans of the Ithala Development Finance Corporation into one consolidated floating-rate loan.
Client: Ithala Development Finance Corporation Ltd
Loan: R226 205 116

Hibiscus Coast small infrastructure
The extension of roads and storm-water drainage and upgrading of beaches, transport facilities, training centre and sport facilities.
Client: Hibiscus Coast Local Municipality
Loan: R21 000 000

Southbroom roads and storm water
The upgrading of roads in Southbroom and Marina Beach, and improvements to the storm-water system in Trafalgar, at a total cost of R5,5 million.
Client: Hibiscus Coast Local Municipality
Loan: R4 500 000

Msunduzi infrastructure development programme
The provision of bulk and reticulated infrastructure, including water, sanitation, waste management, municipal buildings, electricity, and roads and storm-water drainage, at a total cost of R185 million. The project will reduce backlogs in disadvantaged communities.
Client: Msunduzi Local Municipality
Loan: R59 000 000

Technical assistance operations

Project	Recipient	Grant (R)
Durban Metro assessment tools	eThekwini Municipality	300 000
Durban waste water management	eThekwini Municipality	25 000
Durban sewage disposal education programme	eThekwini Municipality	520 000

KwaZulu-Natal

Project	Recipient	Grant (R)
Durban mayoral awards 2001 for tourism and job creation	eThekwini Municipality	12 500
Dundee Local Municipality computer systems upgrade	Dundee Local Municipality	183 531
Umkhanyakude District Municipality human resource development plan	Umkhanyakude District Municipality	222 000
Umkhanyakude District Municipality water services development plan	Umkhanyakude District Municipality	200 000
Umkhanyakude District Municipality water and sanitation training plan	African Medical and Research Foundation	250 000
KwaZulu-Natal community development strategy	KwaDukuza Local Municipality	75 000
KwaDukuza Local Municipality amalgamation support programme	KwaDukuza Local Municipality	390 000
KwaZulu-Natal floating breakwater feasibility study	KwaDukuza Local Municipality	125 000
Zululand District Municipality water services development plan	Zululand District Municipality	200 000
Hibiscus Coast amalgamation support: computer connectivity and standardisation	Hibiscus Coast Local Municipality	350 000
Hibiscus Coast integrated development plan	Hibiscus Coast Local Municipality	150 000
KwaZulu-Natal biodiversity planning process and strategy	KwaZulu-Natal Nature Conservation Board	224 600
KwaZulu-Natal Environment Conference 2001	Department of Agricultural and Economic Affairs	75 000
Uthukela Water Partnership financial accounting system	Uthukela District Municipality	49 248
Weenen cultural theme park viability study	Uthukela District Municipality	159 809
Umhlathuze Local Municipality strategic environment assessment	Umhlathuze Local Municipality	105 000
Umhlathuze Local Municipality water services development plan	Umhlathuze Local Municipality	101 500
Uthungulu Local Municipality water development plan	Uthungulu Local Municipality	200 000
Uthungulu District Municipality human resource development plan	Uthungulu District Municipality	143 400
Sisonke District Municipality tourism development strategy	Sisonke District Municipality	250 000

KwaZulu-Natal

Project	Recipient	Grant (R)
Greater St Lucia Wetlands Park Authority community support programme	Greater St Lucia Wetlands Park Authority	1 000 000
uMngeni community support programme	uMngeni Local Municipality	36 000
uMngeni integrated development plan	uMngeni Local Municipality	146 000
King Shaka District Municipality capacity building	King Shaka District Municipality	129 400
First Metro Housing Company workshops on remodelling	First Metro Housing Company	40 000
First Metro Housing Company capacity building	First Metro Housing Company	150 000
Kokstad Local Municipality employment equity plan	Kokstad Local Municipality	40 000
Durban Point Marine Theme Park demand reassessment	Durban Marine Theme Park (Pty) Ltd	200 000
Isipingo Island business plan	Isipingo Island Institute	135 000
Utrecht Local Municipality human resource department	Utrecht Local Municipality	48 000
Utrecht Local Municipality capacity building workshops	Utrecht Local Municipality	50 000
Newcastle Local Municipality integrated development plan	Newcastle Local Municipality	200 000
Emnambithi Local Municipality capacity building	Emnambithi Local Municipality	86 165

Mpumalanga

Technical assistance operations

Project	Recipient	Grant (R)
Sekhukhune District Municipality capacity building	Sekhukhune District Municipality	1 000 000
Marble Hall Local Municipality workshop	Marble Hall Local Municipality	29 800
Marble Hall Local Municipality integrated development plan	Marble Hall Local Municipality	100 000
Umjinti Local Municipality integrated development plan	Umjinti Local Municipality	100 000
Mpumalanga tourism information office business model	Mpumalanga Tourism Authority	230 000
Mpumalanga ingwe project	Mpumalanga Tourism Authority	150 000
Premier's office institutional support	Office of the Premier	67 949

Mpumalanga

Project	Recipient	Grant (R)
Greater Marble Hall Local Municipality strategic planning workshop	Greater Marble Hall Local Municipality	19 000
Mbombelo strategic planning workshop	Mbombelo Local Municipality	30 000
Panorama tourist route development planning	Panorama Regional Tourism Organisation	35 000
Cultural Heartland tourism route development	Cultural Heartland Regional Tourism Organisation	50 000
Greater Tubatse integrated development plan	Greater Tubatse Local Municipality	100 000

Northern Cape

Lending operations

Kuruman infrastructure refinancing
The construction and surfacing of streets; extension of electrical network (phase 2); upgrading of bus and taxi terminus; design and construction of service infrastructure for 160 stands; roadworks and replacement of sewage equipment.
Client: Ga-Segonyana Local Municipality
Loan: R4 889 877

Technical assistance operations

Project	Recipient	Grant (R)
Kai Garieb Local Municipality economic development plan	Kai Garieb Local Municipality	187 000
Nama Koi Local Municipality economic development plan	Nama Koi Local Municipality	180 000
Khai Ma Local Municipality economic development plan	Khai Ma Local Municipality	170 000
Khai Ma Local Municipality capacity building	Khai Ma Local Municipality	80 000
Ubuntu Local Municipality economic development plan	Ubuntu Local Municipality	185 000
Emthanjeni Local Municipality economic development plan	Emthanjeni Local Municipality	142 000
Kamiesberg Local Municipality economic development plan	Kamiesberg Local Municipality	230 000

Northern Province (Limpopo)

Lending operations

Thabazimbi sewage purification

The upgrading of elements of the existing electricity network and sewage purification works, and the resealing of streets.

Client: Thabazimbi Local Municipality

Loan: R271 052

Modimolle maintenance equipment

The provision of finance for the purchasing of a grader.

Client: Greater Nylstroom Local Municipality

Loan: R1 215 000

Technical assistance operations

Project	Recipient	Grant (R)
Greater Tzaneen Local Municipality integrated development plan	Greater Tzaneen Local Municipality	150 000
Bela Bela Local Municipality integrated development plan	Bela Bela Local Municipality	150 000
Greater Tzaneen Local Municipality tourism development framework	Greater Tzaneen Local Municipality	220 000
Messina Local Municipality integrated development plan	Messina Local Municipality	300 000
Greater Letaba Local Municipality integrated development plan	Greater Letaba Local Municipality	150 000
Northern Community workshop	Northern Community	10 250
Modimolle Local Municipality integrated development plan	Modimolle Local Municipality	150 000
Modimolle Local Municipality information technology system	Modimolle Local Municipality	65 000
Thabazimbi Local Municipality integrated development plan	Thabazimbi Local Municipality	150 000
Mokgophong Local Municipality integrated development plan	Mokgophong Local Municipality	150 000
Baleni integrated tourism development plan	Mahumani Traditional Authority	110 000
Lephalale Local Municipality integrated development plan	Lephalale Local Municipality	150 000
Lephalale tourism development plan	Lephalale Tourism Development Forum	145 000

North West

Lending operations

Greater Klerksdorp refinancing phase 1
The refinancing of urban infrastructure projects.
Client: City Council of Klerksdorp
Loan: R24 998 125

Ventersdorp infrastructure
The upgrading and extension of urban and rural infrastructure. The project is expected to support social and economic development and to improve the living conditions of communities in the Greater Ventersdorp area.
Client: Ventersdorp Local Municipality
Loan: R7 443 000

Zeerust infrastructure
The provision of sewage reticulation to 94 stands in Olienhout Park, which is targeted at middle-income households, and the upgrading of the Klein Marico River crossing between Olienhout Park and Ikageleng.
Client: Zeerust Local Municipality
Loan: R1 600 000

Technical assistance operations

Project	Recipient	Grant (R)
Potchefstroom Local Municipality information technology	Potchefstroom Local Municipality	136 000
Zeerust Local Municipality integrated development plan	Zeerust Local Municipality	150 000
Mafikeng Local Municipality integrated development plan	Mafikeng Local Municipality	340 000
North West Province community-based tourism strategy	North West Tourism Board	100 000
Lindleyspoort-Madikwe rural planning workshop	Lindleyspoort-Madikwe Rural Development Forum	6 500
Nietverdiend Organisation for Community Development capacity building	Nietverdiend Organisation for Community Development	34 900
Schweizer-Reneke integrated development plan	Schweizer-Reneke Local Municipality	150 000
A Re Ageng strategic planning workshop	A Re Ageng Rural Development Forum	15 000
Tswaing Local Municipality mayoral inauguration	Tswaing Local Municipality	15 000
Tswaing Local Municipality integrated financial systems	Tswaing Local Municipality	500 000
Lekwa-Teemane Local Municipality integrated development plan	Lekwa-Teemane Local Municipality	150 000
Kgetlengriver Local Municipality integrated development plan	Kgetlengriver Local Municipality	150 000

North West

Project	Recipient	Grant (R)
Sebowana Mills business planning	Sebowana Mills	77 000
Madibeng Local Municipality integrated development plan	Madibeng Local Municipality	150 000
Potchefstroom business initiative	Potchefstroom Local Municipality	140 000
Ditsobotha Local Municipality integrated development plan	Ditsobotha Local Municipality	150 000
Klerksdorp Local Municipality integrated development plan	Klerksdorp Local Municipality	150 000
Southern District Municipality integrated development plan	Southern District Municipality	150 000

Western Cape

Lending operations

Citrusdal infrastructure support programme phase 3
The construction of pipelines and a reservoir connecting an existing well field to the upgraded water distribution network, at a total cost of R2,4 million.
Client: Cederberg Local Municipality
Loan: R2 400 000

Franschhoek housing
The provision of bridging finance for the development of low- and medium-cost housing, at a total cost of R16,5 million. The project is expected to benefit 1 391 households in the Franschhoek area.
Client: Stellenbosch Local Municipality
Loan: R6 000 000

Cape Metro new infrastructure
The provision of a line of credit to the Cape Town Metropolitan Council for the upgrading of infrastructure, at a total cost of R400 million.
Client: City of Cape Town Municipality
Loan: R400 000 000

Technical assistance operations

Project	Recipient	Grant (R)
Franschhoek empowerment	Franschhoek Empowerment Trust	1 000 000
West Coast infrastructure plan	West Coast Local Municipality	30 000
Saldana Bay Local Municipality combined service model application	Saldana Bay Local Municipality	285 950
Winelands conference	University of Stellenbosch	25 000
Bergrivier Local Municipality tourism development plan	Bergrivier Local Municipality	150 000
Greater Cape Agulhas tourism development framework	Department of Economic Affairs	200 000

Western Cape

Project	Recipient	Grant (R)
Western Cape strategic framework for human resource development in the tourism sector	Department of Economic Affairs	195 000
Capricorn strategic planning workshop	Capricorn Foundation	10 032
Western Cape nature conservation public/private sector project planning	Western Cape Tourism Board	250 000
Local government performance management workshop	Department of Local Government and Development Planning	53 860

SADC (regional)

Lending operations

Emerging Africa Infrastructure Fund
The establishment of a sub-Saharan debt fund for private sector infrastructure projects.
Client: Emerging Africa Infrastructure Fund
Loan: US$25 000 000

Technical assistance operations

Project	Recipient	Grant (R)
SADC development finance institutions	SADC	68 752
Pan-African Consultative Forum on corporate governance	Corporate Communications Consultants (Pty) Ltd	150 000
Pan-African peace tourism conference	Mpumalanga Tourism Authority	305 000
SADC Statistics Committee	SADC Sector Coordinators Offices	400 000
International symposium on rural community interaction	National Botanical Institute	191 000

Lesotho

Lending operations

Lesotho feeder roads phase 1B
The planning, design, supervision and construction of phase 1B feeder roads and bridges in the Mohale area in Lesotho.
Client: Lesotho Highlands Development Authority
Loan: R3 481 976

Technical assistance operations

Project	Recipient	Grant (R)
Lesotho Highlands capacity building	Government of Lesotho	250 000
Lesotho tourism	Government of Lesotho	200 000

Malawi

Lending operations

Malawi Housing Corporation project
The establishment of a bridging fund for the construction of houses and infrastructure services in Mzuzu, Blantyre, Lilongwe and Zomba, at a total cost of R35 million.
Client: Malawi Housing Corporation
Loan: R24 500 000

Mozambique

Technical assistance operations

Project	Recipient	Grant (R)
Mozal Community Development Trust capacity building	Mozal Community Development Trust	300 000

Seychelles

Lending operations

Banyan Tree Resorts
The construction of a resort on Mahe Island in the Seychelles. The resort will consist of 50 luxury villas with supporting facilities, such as staff accommodation, restaurants and a day-care centre. A large infrastructure component has to be constructed and installed, including access roads, and water and sewage treatment plants. The total project cost is US$38,4 million.
Client: Banyan Tree Resorts Ltd
Loan: US$8 000 000

Swaziland

Lending operations

Lower Usuthu irrigation development programme
The development of a small farmer irrigation programme in the Lubombo district, at a total cost of R899,4 million.
Client: Swaziland Government
Loan: R122 990 000

Swaziland telecommunications infrastructure
The expansion of switching capacity in the Ngwenya-Manzini Business Corridor through the installation of wireless local loop technology, and the upgrading of the billing and customer-care system, at a total cost of R75,7 million.
Client: Swaziland Post and Telecommunications Corporation
Loan: R75 662 000

Tanzania

Technical assistance operations

Project	Recipient	Grant (R)
Tanzania tourism work programme	Multilateral Investment Guarantee Agency	403 070
TNDC Spatial Development Unit capacity building	Tanzania National Development Corporation	250 000
Handeni water socio-economic study	Handeni District Council	164 200

The DBSA's role in sustainable development

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Countries of operation

The DBSA operates in the 14 countries of the Southern African Development Community (SADC). The organisation is structured as follows:

Operational region	Provinces/Countries
Northern region	Gauteng, Northern Province (Limpopo) – South Africa
Eastern region	KwaZulu-Natal, Mpumalanga – South Africa
Western region	Free State, Northern Cape, North West – South Africa
Southern region	Eastern Cape, Western Cape – South Africa
Southern African region	Other SADC countries: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, Zimbabwe

Development Bank of Southern Africa Limited

Registration number
16/0015800

Registered address
1258 Lever Road, Headway Hill
Halfway House, South Africa

Postal address
PO Box 1234, Halfway House
Midrand, South Africa
1685

Telephone
+27 11 313 3911

Fax
+27 11 313 3086

Home page
www.dbsa.org