
DBSA

Development Bank
of Southern Africa

Development Fund

# What is the Development Bank of Southern Africa about?

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation in South Africa lead to the transformation of the Bank's role and function.

In 1997, the DBSA was reconstituted in terms of the Development Bank of Southern Africa Act (No. 13 of 1997) as a development finance institution. The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act and further regulated by the Public Finance Management Act (No. 1 of 1999) and the Companies Act (No. 61 of 1973).

## Mandate

The DBSA's mandate is to provide financial, technical and other assistance to achieve the objects of the Bank as provided for in section 3 of the DBSA Act, with a focus in its investment activities on infrastructure funding broadly defined and with the object of acting as a catalyst to maximise private sector access to opportunities in the provision of public funding.

## Objectives of the Bank

The main objectives of the Bank are the promotion of economic development and growth, human resource development, institutional capacity building, and the support of development projects in the region. The ancillary objectives of the Bank are to assist other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development, and to assist national, international and private sectors bodies with the management of specific funds.

## Vision

A prosperous and integrated region, progressively free of poverty and dependency.

## Mission

To advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development.

## Strategic objectives

- Promote broad-based economic growth, job creation, cooperation, integration and prosperity
- Build human and institutional capacity
- Co-deliver social and economic infrastructure
- Serve as a centre of excellence for development financing, effectiveness and good governance
- Engender sustainability, externally and internally

To support the strategy of the DBSA, investments in infrastructure assets are made within the following three broad segments:

- Social transformation: Support the creation of sustainable living environments and alleviate basic services backlogs
- Economic stimulation: Support the growth of the economic base and employment opportunities
- Capacity development: Support the upliftment of human capital in the areas where growth and development are constrained by lack of education and skills

## Roles

### Financier

- Loans
- Equity investments
- Co-funding
- Grants
- Development expenditure

### Advisor

To build institutional, financial and knowledge capacity for development:

- External training
- Subsidised lending
- Technical assistance grants

### Partner

To leverage private, public and community stakeholders in the development process:

- Co-funding
- Mobilise funding for clients

### Integrator

To mobilise and link stakeholders, resources and initiatives for sustainable development outcomes.

### Implementer

To originate and facilitate key interventions for building capacity and providing development solutions:

- Project implementation in collaboration with clients (Siyenza Manje programme)
- External training

# Business performance overview

| | 5-year average | 2009/10 | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|---|---|---|---|---|---|---|
| Total capital cost of approvals (DBSA and co-funders) (R million)[1] | 49 093 | **47 158** | 88 982 | 34 212 | 52 176 | 22 939 |
| South Africa | 37 029 | **22 151** | 73 334 | 28 979 | 40 189 | 20 491 |
| Other countries | 12 065 | **25 007** | 15 648 | 5 233 | 11 987 | 2 449 |
| Total DBSA contribution to approvals (R million)[1] | 12 513 | **15 000** | 20 480 | 10 767 | 8 265 | 8 052 |
| % of total capital cost funded by others | 72,5 | **68,1** | 77,0 | 68,5 | 84,2 | 64,9 |
| Average value per approval (R million) | 78,2 | **110,1** | 87,1 | 87,5 | 50,7 | 55,5 |
| Number of investment approvals in period | 161 | **137** | 235 | 123 | 163 | 145 |
| Disbursements (R million) | 6 112 | **8 257** | 9 306 | 6 160 | 3 703 | 3 077 |
| Technical assistance grants (R million) | 52,3 | **67,5** | 82,5 | 46,3 | 32,1 | 33,0 |
| Number of employees (excluding contractors, etc.) | 577 | **680** | 608 | 578 | 514 | 506 |
| Net contribution per employee to disbursements (R million) | 10,3 | **12,2** | 15,3 | 10,7 | 7,2 | 6,1 |
| % of employment equity managers at year-end | 74,2 | **74,6** | 76,9 | 74,0 | 77,1 | 68,4 |
| Impact on employment (thousands of jobs)[2] | 26,2 | **31,6** | 31,2 | 32,8 | 19,0 | 16,4 |
| Impact on GDP (R million)[3] | 5 066 | **6 944** | 7 083 | 5 121 | 3 052 | 3 128 |

1. *Excludes technical assistance grants and terminations.*
2. *Based on the DBSA's disbursements within South Africa only.*
3. *Based on the DBSA's disbursements within South Africa only, at constant 2009/10 prices.*

**Exchange rates**

On 31 March 2010, the R/US$ exchange rate was 7,265 and the R/€ rate was 9,833.

**Financial year**

The financial year of the Development Bank is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2009/10, are to the financial year ended 31 March.

# Financial performance overview

| | 5-year average | 2009/10 | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|---|---|---|---|---|---|---|
| **Financial position (R million)** | | | | | | |
| Cash and cash equivalents | 1 968 | **2 707** | 2 475 | 2 314 | 890 | 1 454 |
| Financial market assets | 5 539 | **5 521** | 5 321 | 5 078 | 5 217 | 6 556 |
| Investment in development activities[1] | 26 555 | **36 221** | 31 997 | 25 330 | 21 223 | 18 003 |
| Other assets | 553 | **695** | 589 | 525 | 548 | 406 |
| Total assets | 34 614 | **45 144** | 40 382 | 33 246 | 27 878 | 26 419 |
| Financial market liabilities[2] | 18 129 | **26 327** | 22 405 | 16 781 | 12 667 | 12 467 |
| Other liabilities | 752 | **927** | 741 | 686 | 673 | 733 |
| Total liabilities | 18 881 | **27 254** | 23 146 | 17 466 | 13 340 | 13 200 |
| Total equity | 15 733 | **17 890** | 17 236 | 15 780 | 14 538 | 13 219 |
| **Financial performance (R million)** | | | | | | |
| Interest on development loans | 2 384 | **3 077** | 2 784 | 2 312 | 1 982 | 1 763 |
| Interest on investments | 557 | **525** | 677* | 542 | 564 | 477 |
| Interest expense | 1 462 | **1 971** | 1 705 | 1 338 | 1 243 | 1 054 |
| Net interest income | 1 478 | **1 631** | 1 756* | 1 516 | 1 303 | 1 186 |
| Operating income[3] | 1 612 | **1 767** | 1 857* | 1 643 | 1 492 | 1 301 |
| Operating expense[4] | 581 | **716** | 669 | 556 | 504 | 458 |
| Profit for the year (before transfer to Development Fund) | 1 210 | **963** | 1 586 | 1 293 | 1 283 | 928 |
| **Financial ratios (%)** | | | | | | |
| Total capital and reserves to loan ratio | 65,8 | **54,3** | 58,5 | 67,8 | 72,0 | 76,4 |
| Long-term debt to equity ratio | 114,2 | **148,5** | 131,3 | 107,6 | 88,3 | 95,3 |
| Cash and cash equivalents to total assets | 5,6 | **6,0** | 6,1 | 7,0 | 3,2 | 5,5 |
| Total capital and reserves to assets | 46,4 | **39,6** | 42,7 | 47,5 | 52,1 | 50,0 |
| Financial market liabilities to investment in development activities[2] | 67,6 | **72,7** | 70,0 | 66,2 | 59,7 | 69,2 |
| Non-performing book debt as a % of total book debt | 5,2 | **4,9** | 5,4 | 5,2 | 4,9 | 5,4 |
| Non-performing arrears as a % of total book debt | 2,3 | **2,3** | 2,2 | 2,1 | 2,3 | 2,5 |
| Average return on equity | 8,0 | **5,5** | 9,6 | 8,5 | 9,2 | 7,4 |
| Average return on assets | 3,8 | **2,3** | 4,3 | 4,2 | 4,7 | 3,6 |
| Operating costs to income | 35,9 | **40,5** | 36,0* | 33,8 | 33,8 | 35,2 |
| Interest cover (times) | 2,0 | **1,8** | 2,0 | 2,1 | 2,0 | 2,1 |

*For a discussion of the financial results, see the financial and development investment overview on pages 44 to 51.*

1. *Development activities include development loans and equity investments.*
2. *Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative assets held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain from financial assets and liabilities, and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses, and depreciation.*

** Prior year restated for change in interest rate swap disclosure.*

# Contents



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# Abbreviations

| | |
|---|---|
| AFD | Agence Française de Développement |
| BSC | Balanced Scorecard |
| CoGTA | Department of Cooperative Governance and Traditional Affairs |
| COMESA | Common Market for Eastern and Southern Africa |
| CPI | consumer price index |
| DBSA | Development Bank of Southern Africa Limited |
| DFID | Department for International Development |
| DRC | Democratic Republic of Congo |
| EAC | East African Community |
| EIB | European Investment Bank |
| GDP | gross domestic product |
| GIS | geographic information system |
| IAIA-SA | International Association for Impact Assessment (South Africa) |
| ICT | information and communication technology |
| KfW | Kreditanstalt für Wiederaufbau |
| MIG | Municipal Infrastructure Grant |
| MIIF | Municipal Infrastructure Investment Framework |
| MSFM | Municipal Services Finance Model |
| PetroSA | Petroleum, Oil and Gas Corporation of South Africa |
| PFMA | Public Finance Management Act |
| PPFS | Project Preparation and Feasibility Study |
| RERA | Regional Electricity Regulators Association of Southern Africa |
| SADC | Southern African Development Community |
| SAM | social accounting matrix |
| SAPP | Southern African Power Pool |
| TIP | Targeted Infrastructure Programme |
| UNEP FI | United Nations Environment Programme Finance Initiative |

Increased development investment despite the tough economic conditions

# Governor's foreword

**Pravin Gordhan**
*Governor of DBSA and Minister of Finance*

It is just over a year since the new administration came into office. Amongst the government's key objectives, as reflected in the ruling party's manifesto, are to accelerate infrastructure delivery, job creation and economic growth. While significant progress has been made in this regard over the past 15 years, levels of poverty remain unacceptably high for a significant number of South Africans. Structural weaknesses in key areas of the economy persist.

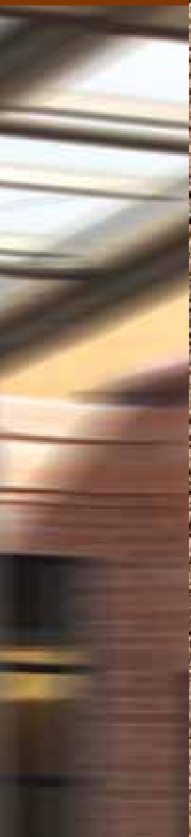
If its growth strategy is to create jobs, government needs to make the right choices about the nature of its investments. Crucial to any economy is the design of its infrastructure, and in South Africa this requires a conscious effort to create an equitable balance between social and economic priorities. The current demand for services suggests not only that government and the private sector need to scale up delivery, but that the success of their efforts will depend on how both parties change the way in which they use the country's limited productive capital. It clearly cannot be a case of business as usual. In this context, competent institutions such as the DBSA must redefine their roles as government delivery agents. It is laudable that in spite of the severe global financial crisis, the South African financial system remained stable, and the DBSA was a part of this. The Bank has the requisite skills, and its resources have been bolstered by the increase in its callable capital recently approved by government. The institution's credible history places it at the centre of many of government's infrastructure challenges.

The increase of the DBSA's callable capital is not only evidence of the government's confidence in the Bank, but constitutes a demonstrable intent to underpin the Bank's role in the development of scalable infrastructure programmes, in line with government priorities.

Amongst these priorities is the delivery of healthcare to all South Africans. As agreed with the Board and management, the Bank will facilitate the delivery of health infrastructure, under the guidance of the National Treasury and in partnership with the Department of Health and provincial governments. The Bank will play a leading role in developing the requisite public-private partnerships to ensure broad private sector participation. This initiative is well under way and specific targets will be incorporated into the Bank's annual targets.

Water and sanitation has increasingly become a source of concern for the government. The Ministry of Environmental and Water Affairs has engaged the DBSA to assist with improving and accelerating the delivery of services in this critical sector.

*"I have challenged the Bank to develop scalable green energy programmes to assist government in meeting its targets on carbon reduction."*



*The Moses Kotane Community Water Supply Project has made huge strides in providing people with access to clean water.*

# Governor's foreword continued

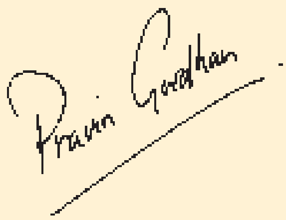
Globalisation has led to greater energy consumption. Among government's conscious choices is the pursuit of globally acceptable targets on the reduction of carbon emissions. I have challenged the Bank to develop scalable green energy programmes to help government meet these targets.

The performance of the South African education system still lags behind international norms, and the situation is exacerbated by poor, fragmented education infrastructure. The provision of enabling social infrastructure is a key area in which the DBSA's assistance is needed. Investment in people is important and should rank on the same level as investment in infrastructure.

One of the DBSA's mandated roles is to address institutional failure. Over the past three years, the Bank has developed a number of capacity building interventions, extending services to nearly 80% of municipalities and, to a limited extent, to provincial governments and national departments. The experts deployed by the Bank through the Development Fund have helped to ensure continuity of services in areas of need, specifically in poor municipalities, and their special interventions in crisis areas are greatly appreciated by local government stakeholders. Critical skills shortages persist within government and the Development Fund will also be required to focus its scarce resources on government priorities. These priorities include improving governance and financial management (through the clean audit programmes) and increasing the delivery of social infrastructure through Municipal Infrastructure Grants (MIGs). The Fund will work more closely with National Treasury, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and other key departments and ministries.

Over the past five years, South Africa has played a prominent role in the region and government recognises that South Africa's economic growth strategy rests on regional cooperation. The DBSA has a proven track record and an established reputation among regional development finance institutions. The recent financial crisis demonstrates the need for stronger regional development finance institutions. The growth of the Bank's portfolio outside South Africa, to the point where it is now worth approximately R9 billion and comprises one third of the total portfolio, provides a mature platform for the establishment of a regionally competent development finance institution to complement the broader role of the African Development Bank (AfDB) in the region. This is a natural path for the Bank and aligned to government's regional agenda. Discussions with partners and stakeholders are under way and it is anticipated that this will be formally launched during the ensuing year.

The role of the DBSA as a centre of excellence for infrastructure development calls for greater commitment and innovation by both the Board and management. I remain confident of the Bank's future role and will work closely with the Board to ensure that the organisation is properly resourced and governed to deliver on its broadened mandate.



**Pravin Gordhan**

# Board of Directors

## Mr Jayaseelan Naidoo
**(55)**

*Non-executive Director: J&J Group*

**DBSA Director as from:**
1 May 2000

**Chairman of the DBSA Board as from:**
24 August 2000

**Other directorships:**
- Bill and Melinda Gates Foundation: Global Health Advisory Panel Member
- Global Alliance for Improved Nutrition: Chairman of the Board (non-executive)
- J&J Development Projects Trust: Founder

## Mr Phillip Jabulani Moleketi
**(53)**

*Director of Companies*

**DBSA Director and Deputy Chairman of the Board as from:**
1 January 2010

**Academic qualifications:**
- Advanced Management Programme, Harvard Business School (2003)
- MSc (Financial Economics), University of London (2001)
- Postgraduate Diploma in Economic Principles, University of London (1996)
- Senior Military Management Course, Moscow and Kiev (1983)

**Other directorships:**
- Brait Société Anonyme: Chairman of the Board (non-executive)
- FIFA World Cup Organising Committee, South Africa: Non-executive Director
- Harith Fund Managers (Pty) Ltd: Non-executive Director
- Remgro (Pty) Ltd: Non-executive Director
- Vodacom (Pty) Ltd: Non-executive Director

## Mr Paul Cambo Baloyi
**(54)**

*Chief Executive Officer and Managing Director: DBSA*

**DBSA Director and staff member as from:**
1 July 2006

**Academic qualifications:**
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

**Other directorships:**
- Block II Waterford (Pty) Ltd: Executive Director and Shareholder
- Business Ventures: Non-executive Director
- Chrometco Ltd: Non-executive Director
- DBSA Development Fund: Chief Executive Officer
- Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA Nominee)
- Nulane Investment Holdings (Pty) Ltd: Non-executive Director
- Pan-African Investment Fund: Non-executive Director (DBSA Nominee)
- Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director
- TCX Investment Management Company: Non-executive Director (DBSA Nominee)

## Mr Frans Msokoli Baleni
(50)

*General Secretary: National Union of Mineworkers*

**DBSA Director as from:**
1 January 2010

**Academic qualifications:**
- BA (Social Science Development Studies), University of Johannesburg (2006)
- Diploma in Political Science and Trade Unionism, Whitehall College, Dublin (1990)

**Other directorships:**
- Elijah Barayi Memorial Training Centre: Non-executive Director
- Eskom: Non-executive Director and Chairman of Tender Committee
- International Federation of Chemical, Energy, Mine and General Workers' Unions: Executive Member
- JB Marks Bursary Trust Fund: Trustee and Chairman (non-executive)
- Mineworkers Investment Trust: Chairman (non-executive)
- Rand Mutual Assurance: Non-executive Director
- University of Johannesburg: Member of Council

## Mr Andrew Boraine
(51)

*Chief Executive: Cape Town Partnership*

**DBSA Director as from:**
1 August 2005

**Academic qualifications:**
- BA Hons (Economic History), University of Cape Town (1987)
- BA (History), University of Cape Town (1983)

**Other directorships:**
- Accelerate Cape Town: Non-executive Director
- Cape Town City Hall Redevelopment and Management Company: Non-executive Director
- Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)
- DBSA Development Fund: Non-executive Director
- International Downtown Association: Non-executive Director
- St Patrick's Trust: Trustee

## Mr Kenneth Brown
(48)

*Deputy Director-General: Intergovernmental Relations, National Treasury*

**DBSA Director as from:**
1 January 2010

**Academic qualifications:**
- MSc (Economics), University of Illinois at Urbana-Champaign (2000)
- BA Hons (Economics), University of the Western Cape (1997)
- BA, University of the Western Cape (1995)
- Primary Teacher's Diploma, Perseverance Training College (1982)

## Mrs Thembisa Dingaan
**(37)**

*Consultant and Director of Companies*

**DBSA Director as from:**
1 August 2007

**Academic qualifications:**
- H Dip Tax, University of the Witwatersrand (2000)
- LLM, Harvard University (1997)
- LLB, University of KwaZulu-Natal (1995)
- B Proc, University of KwaZulu-Natal (1994)

**Other directorships:**
- Export Credit Insurance Corporation of SA: Non-executive Director
- Identity Corporate Advisors (Pty) Ltd: Executive Director
- Mustek Limited: Non-executive Director
- Skweyiya Investment Holdings (Pty) Ltd: Executive Director

## Dr Lulu Gwagwa
**(51)**

*Chief Operating Officer: Lereko Investment Holdings (Pty) Ltd*

**DBSA Director as from:**
1 August 2004

**Academic qualifications:**
- PhD (Development Planning), University College London (2003)
- MSc (Social Policy), London School of Economics and Political Science (cum laude) (1990)
- Certificate in Gender Planning, University College London (1989)
- Masters in Town and Regional Planning, University of Natal (1980)
- BA (Geography), University of Fort Hare (1978)

**Other directorships:**
- FirstRand Ltd: Non-executive Director
- Massmart: Non-executive Director
- Sun International Ltd: Non-executive Director

## Prof. Omar Aboobaker Latiff
**(56)**

*Director and Partner: PricewaterhouseCoopers*

**DBSA Director as from:**
1 August 2007

**Academic qualifications:**
- Financing Infrastructure in a Market Economy, JFK School of Government, Harvard University (2000)
- H Dip Tax, University of Natal (1992)
- CA (SA) (1981)
- BCompt (Hons), University of South Africa (1979)
- BCom (Accounting), University of Durban-Westville (1976)

**Other directorships:**
- Bellewan (Pty) Ltd: Non-executive Director
- HASMA Investments (Pty) Ltd: Non-executive Director
- Jodya cc: Member
- LMD Africa Chartered Accountants Inc: Non-executive Director
- LMD Africa Forensics (Pty) Ltd: Non-executive Director
- Mlando Investments (Pty) Ltd: Non-executive Director
- Omar Aboobaker Latiff Family Trust: Trustee
- PricewaterhouseCoopers Incorporated: Director
- PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director
- PricewaterhouseCoopers Partnership: Partner

## Mrs Wendy Lucas-Bull
(57)

*Executive Director:*
*Peotona Group Holdings (Pty) Ltd*

**DBSA Director as from:**
1 August 2005

**Academic qualifications:**
- BSc, University of the Witwatersrand (1976)

**Other directorships:**
- Anglo-Platinum (Pty) Ltd: Non-executive Director
- Dimension Data Holdings Plc: Non-executive Director
- Eskom Holdings Ltd: Non-executive Director
- IQ Group (Pty) Ltd: Non-executive Director
- Nedbank Group Ltd: Non-executive Director

## Dr Claudia Manning
(43)

*Executive Director:*
*Sangena Investments*

**DBSA Director as from:**
1 August 2005

**Academic qualifications:**
- DPhil, University of Sussex (1996)
- MPhil, University of Sussex (1992)
- BA Hons (Economic History), University of Natal (1988)
- BA (Economic History; English), University of Natal (1987)

**Other directorships:**
- Development Bank of Southern Africa Ltd: Non-executive Director
- Presidential BEE Council: Member of Council
- Roadcrete Africa (Pty) Ltd: Non-executive Director
- Stewart Scott International (Pty) Ltd: Non-executive Director

## Mr Ivan Mzimela
(48)

*Chairman: Hollard Risk Capital*
*Executive Director: Capricorn Ventures International*

**DBSA Director as from:**
1 August 2007

**Academic qualifications:**
- Leadership Development Programme for Senior Executives, Ashridge Business School, London (2000)
- Leadership for Change, Directors Diploma in Corporate Governance, Wits Business School (1999)
- Project Management Certificate, IBM (1998)
- Strategic Planning Certificate for Chief Executives, National University of Singapore (1997)
- MA (Counselling and Educational Psychology), University of Regina, Canada (1992)
- BA Hons (Psychology), University of the North (1985)
- BA (Social Work), University of the North (1984)

**Other directorships:**
- DBSA Development Fund: Non-executive Director
- Holland Life and Hollard Insurance Company: Non-executive Director
- Hollard Risk Capital: Chairman of the Board (non-executive)
- Insurance Institute of South Africa: Non-executive Director
- Insurance Sector Education and Training Authority: Deputy Chairperson (non-executive)

## Mrs Malijeng Theresa Ngqaleni (51)

*Chief Director: Provincial and Local Government Infrastructure, Intergovernmental Relations, National Treasury*

**DBSA Director as from:**
3 February 2009

**Academic qualifications:**
- LMSc (Ag. Econ), University of Saskatchewan, Canada (1989)
- BA (Economics), National University of Lesotho (1983)

**Other directorships:**
- DBSA Development Fund: Non-executive Director

## Ms Tryphosa Ramano[1] (38)

*Chief Financial Officer: WIPHOLD Group*

**DBSA Director as from:**
1 August 2007

**Academic qualifications:**
- Executive Leadership Development Programme, Harvard and NABA Business School (2002)
- CA (SA) (1994)
- Postgraduate Diploma in Accounting, University of Cape Town (1993)
- BCom (Accounting), University of Cape Town (1992)

**Other directorships:**
- Adcorp Holdings: Non-executive Director
- Afrisun Leisure (Pty) Ltd: Non-executive Director (Alternate)
- Emfuleni Casino Resort Manco (Pty) Ltd: Non-executive Director (Alternate)
- Emfuleni Resorts (Pty) Ltd: Non-executive Director (Alternate)
- Financial Services Board of South Africa: Non-executive Director (Alternate)
- National Credit Regulator: Chairperson, Audit Committee (non-executive)
- Old Mutual Investment Group Property Investments (Pty) Ltd: Non-executive Director
- South African Institute of Charted Accountants: Non-executive Director
- USB Executive Development Ltd: Non-executive Director
- Women Investment Portfolio Holdings Ltd: Executive Director

## Prof. Edward Charles Webster (67)

*Professor of Sociology: University of the Witwatersrand*

**DBSA Director as from:**
1 August 2007

**Academic qualifications:**
- PhD, University of the Witwatersrand (1983)
- BPhil, University of York (1972)
- MA (Politics, Philosophy and Economics), Oxford University (1971)
- University Education Diploma, Rhodes University (1964)
- BA Hons (History), Rhodes University (1964)

**Other directorships:**
- Chris Hani Institute: Non-executive Director
- DBSA Development Fund: Non-executive Director
- Human Sciences Research Council: Member of Council
- Labour Job Creation Trust: Trustee

## DBSA Corporate Secretariat

**Mrs Bathobile Sowazi**
Group Corporate Secretary
PO Box 1234
Halfway House 1685

1. *Resigned from the DBSA Board on 19 April 2010.*

# DBSA Board Members during the year under review

## Mr Trevor Fowler
(59)

*Chief Operations Officer: Office of the Presidency*

**DBSA Director between:**
1 August 2004 and 31 December 2009

## Ms Nomboniso Gasa
(42)

*Independent Gender and Policy Researcher and Analyst*

**DBSA Director between:**
1 August 2003 and 31 December 2009

## Dr Deenadayalen Konar
(56)

*Director of Companies and Consultant*

**DBSA Director between:**
1 August 2001 and 31 December 2009
(co-opted to Audit Committee:
1 June 1995)

## Prof. Brian de Lacy Figaji
(65)

*Company Director*

**DBSA Director between:**
1 August 1997 and 31 December 2009

# Chairman's report

Jayaseelan Naidoo
*DBSA Chairman*

The year under review has been remarkable in a number of respects, with the DBSA Group recording historic achievements in several key performance areas. The levels of disbursements made by the Bank in 2009/10 were exceptional, both in terms of direct balance sheet financing and indirect financing effected by unlocking government's Municipal Infrastructure Grants (MIGs). This reflects the Bank's unprecedented role in technical capacity building in the public sector, which has been expanded rapidly through direct, hands-on support of infrastructure delivery at local level, particularly in poor localities with weak human and institutional capacity. The progress in this high-priority area will be presented in detail in the executive and operational reports to follow, and in particular in the Development Fund's annual report.

This year was unusual in that a new government administration took office, presenting a fresh opportunity to reflect on the future direction of the country. It was inspiring to witness the workings of our robust democracy, to engage in the renewal of the national development agenda and support the strengthening of public institutions, as part of building a stronger developmental state.

Our reflections in this regard were also sobering. Although important policy shifts have been introduced and new strategic directions embraced, we were humbled by the stark realities of the challenges remaining in service delivery, job creation and housing provision, challenges rendered even more difficult by the financial and economic crises of the past months. Even as we grapple with growing protests in poor communities, we are troubled by how daunting the development and transformation agenda remains, both in South Africa and the wider region. It is clear that a great deal still needs to be done to improve service delivery, reduce unemployment and unravel the legacies of the past that continue to characterise our distorted human settlements.

In reviewing the DBSA's response, we have sought to put into clearer perspective the challenges and opportunities faced by the Bank and its stakeholders. This has raised some key questions. As a key investor in local infrastructure projects, how can we direct our interventions so that we make a more immediate difference? How can we intervene more aggressively to address the persistent geography of poverty and underdevelopment? Can we design our interventions so that they contribute to building local consensus on the priorities and trade-offs, while minimising unconstructive, violent protests?

*"The Bank aims to be pioneering, responsive, effective, capable, committed and ethical in its dealings with clients, partners and stakeholders."*


*The DBSA's ambitious Public Spaces Mural Project is aimed at beautifying walls and buildings throughout South Africa.*

# Chairman's report continued

At the very least, the challenges call for greater development activism, more innovation, stronger capacity and stricter discipline in execution, not only on the part of the DBSA but of the whole range of actors who play important roles in the economy and society at large. At the same time, we cannot lose sight of the fact that the sustainable achievement of South Africa's transformation agenda and Millennium Development Goals remains dependent on the country and region growing out of pervasive poverty.

The solution lies not only in increasing our financial and capacity building investments, but also in improving their underlying quality. Without quality investment, the additional jobs, tax revenues, basic services and productivity needed to uplift the poor sustainably will not materialise. Neither will we be able to bring more land under cultivation and provide the infrastructure and input support required to increase food supplies and bring down escalating prices.

Our renewed understanding of the development challenges and opportunities has enabled us to identify the organisation's absolute and comparative advantages more clearly, in the context of a stronger developmental state and integrating region. In the light of this, we have refocused our efforts on the ultimate beneficiaries of development, as opposed to the financial and institutional intermediaries, who are the means to an end rather than the end itself, a fact that is sometimes overlooked.

The DBSA's future direction continues to be set by its shared developmental vision of a *prosperous and integrated region progressively free of poverty and dependency.* And we remain committed to deepening our *development impact in the region through expanded access to development finance, and the effective integration and implementation of sustainable development solutions.* As the Governor has indicated, the DBSA's emerging position reflects the demands of a more determined and ambitious government; the bolder, hands-on approach of the Bank itself to its engagement in accelerated development, especially at local level; and a new set of strategic qualities that characterise our ethos and governance as a leading development finance institution.

The Bank aims to be pioneering, responsive, effective, capable, committed and ethical in its dealings with clients, partners and stakeholders. We have been a relevant and successful institution for many years, because we have always striven to do more and to do better, through innovation and growth. We need to carry this good momentum forward and strengthen our unconventional paradigm for development finance in this region and on the continent. We will have to sustain our high levels of performance, respond more urgently to the needs of our clients and be ready to give our best at all times.

My congratulations to management and staff on the very good results achieved this year. I thank the Board for their invaluable advice and determined effort to make the DBSA a successful institution. I wish Jabu Moleketi, my successor as chairman, every success. I leave the position with fond memories of the incredible journey this institution has travelled. It is one we can all be proud of.

**Jayaseelan Naidoo**


BITELLI

# Group executive management

## Mr Paul Currie
(48)

*Group Risk Officer*

**DBSA staff member and Group Executive as from:**
17 May 2010

**Academic qualifications:**
- Advanced Management Programme, INSEAD (2007)
- MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales (2000)
- CA (SA) (1994)
- Postgraduate Diploma in Accountancy, University of Pretoria (1994)
- BCom (Accounting), University of Port Elizabeth (1991)
- BSc (Physiology), University of Cape Town (1983)

## Mr Pieter de la Rey
(46)

*Group Chief Financial Officer*

**DBSA staff member and Group Executive as from:**
1 August 2007

**Academic qualifications:**
- MCom (Business Management), University of Johannesburg (2004)
- CA (SA) (1993)
- BCompt (Hons), University of South Africa (1989)
- BCompt, University of South Africa (1987)

## Mr Ernest Dietrich
(47)

*Group Treasurer*

**DBSA staff member as from:**
2 January 2001

**Group Executive as from:**
1 April 2006

**Academic qualifications:**
- CFA Charter (2002)
- MBA, University of Cape Town (1996)
- MSc (Mathematics), University of the Western Cape (1992)
- HDE, University of the Western Cape (1985)

## Dr Snowy Joyce Khoza
(52)

*Group Executive:*
*Business Technologies and Facilities*

**DBSA staff member and**
**Group Executive as from:**
1 October 2002

**Academic qualifications:**
- Executive MBA, Graduate School of Business, University of Cape Town (2008)
- Finance for Executives Programme, INSEAD, France (2005)
- Utility Regulation and Strategy, University of Florida, USA (2001)
- Global Programme for Management Development, University of Navarra, Spain (2000)
- Economics and Public Finance Certificate, University of South Africa (1999)
- PhD (Social Policy), Brandeis University, USA (1996)
- MA (Social Science), University of South Africa (1990)
- BA Hons (Social Work), University of Fort Hare (1986)
- BA (Social Work), University of the North (1981)

**Other directorships:**
- Chamber of Commerce South Africa: Member of Economic Advisory Board
- Ka-Manowi Manor cc: Non-executive Director
- National Housing Finance Corporation: Non-executive Director
- Trans-Caledon Tunnel Authority: Chairman of the Board (non-executive)

## Dr Paul Kiyingi Kibuuka
(49)

*Group Executive and Managing Director:*
*DBSA Development Fund*

**DBSA staff member as from:**
1 August 1994

**Group Executive as from:**
1 July 2009

**Academic qualifications:**
- DPhil (Demography), University of Pretoria (1999)
- MA (Demography) (cum laude), University of Pretoria (1996)
- BA Hons (Demography), University of Pretoria (1994)
- BStat, Makerere University, Uganda (1984)

**Other directorships:**
- Mphato Investments: Non-executive Director
- Lincoln Consultants Ltd: Non-executive Director

## Mr Magare Luther Mashaba
(58)

*Group Executive:*
*South Africa Operations*

**DBSA staff member as from:**
14 January 1985

**Group Executive as from:**
1 September 2001

**Academic qualifications:**
- Advanced Management Programme, INSEAD Executive Education (2004)
- Treasury Management Training, New York Institute of Finance (2002)
- Financial Markets and Instruments, University of Pretoria (2000)
- Capital Markets Explained, International Faculty of Finance (1999)
- Diploma in Economics, Economics Institute, University of Colorado (1993)
- MSc (Ag. Econ), Michigan State University (1993)
- BSc Hons (Ag. Econ), University of Pretoria (1986)
- BSc (Ag. Econ), University of Fort Hare (1981)

**Other directorships:**
- Hluma Local Investment Agency: Non-executive Director
- Mafikeng Industrial Development Zone (Pty) Ltd: Non-executive Director
- Rural Housing Loan Fund: Non-executive Director
- uShaka Marine World: Non-executive Director

# Group executive management continued

## Mr Ravindra Naidoo
**(39)**

*Group Executive: Development Planning*

**DBSA staff member and Group Executive as from:**
1 May 2008

**Academic qualifications:**
- MPA, Harvard University (2004)
- Certificate in Policy Management, Harvard University (2003)
- Certificate in Policy Management, University of Manchester (1998)
- Diploma in Project Management, Damelin (1998)
- BCom, University of Durban-Westville (1991)

## Mr TP Nchocho
**(42)**

*Group Executive: Investment Banking*

**DBSA staff member as from:**
1 February 2002

**Group Executive as from:**
1 April 2010

**Academic qualifications:**
- MSc (Development Finance), London School of Economics (2007)
- Programme for Venture Capital and Private Equity, Wits Business School (2003)
- MBL, Graduate School of Business Leadership, University of South Africa (2001)
- BCom, University of the North (1989)

**Other directorships:**
- National Department of Public Works, Audit and Risk Committee: Non-executive Chairman
- Seroto Investment Holdings Limited: Non-executive Director

## Mrs Loyiso Ndlovu[1]
**(39)**

*Group Executive: Human Resources*

**DBSA staff member as from:**
1 October 2002

**Group Executive as from:**
1 October 2006

**Academic qualifications:**
- MBA, University of South Africa (2006)
- Management Development Programme, University of South Africa (2003)
- BSc (Industrial Information Technology), University of Central England, Birmingham (1994)

**Other directorships:**
- Conservation International: Advisory Council Member
- Fair Cape Holdings: Non-executive Director

*1. No longer in the Bank's employ.*

## Mr Admassu Yilma Tadesse
**(41)**

*Group Executive: International Division*

*Group Executive: Corporate Strategy and Communication*

**DBSA staff member as from:**
1 June 2002

**Group Executive as from:**
11 September 2006

**Academic qualifications:**
- Private Equity Investments Euromoney (2006)
- Senior Executive Programme, Harvard Business School (2003)
- MBA, Strategy and Finance, Wits Business School (2002)
- MSc (Policy and Planning), London School of Economics (1994)
- BA (Economics and Business Administration), University of Western Ontario (1991)

**Other directorships:**
- African Association of Development Finance Institutions and Exim Banks (Vice-Chairman)
- Development Bank of Zambia: Non-executive Director
- ECF Children's Fund: Director
- Investment and Support Fund for Businesses in Africa (FISEA): Non-executive Director
- Promotion et Participation pour la Coopération économique (Proparco): Non-executive Director (DBSA nominee)
- Private Equity Investments Euromoney (2006)
- SADC Development Finance Resource Centre: Trustee (DBSA nominee)
- SADC-EAC-COMESA Tripartite Account: Trustee (DBSA nominee)

## Mrs Leonie van Lelyveld
**(39)**

*Group Chief Operating Officer*

**DBSA staff member as from:**
1 April 1998

**Group Executive as from:**
1 January 2006

**Academic qualifications:**
- CA (SA) (1997)
- Certificate in the Theory of Accounting, University of South Africa (1994)
- BCompt Hons (Accounting), University of Pretoria (1993)
- BCom (Accounting), University of Pretoria (1992)

## Mr Heinz Maria Weilert
**(46)**

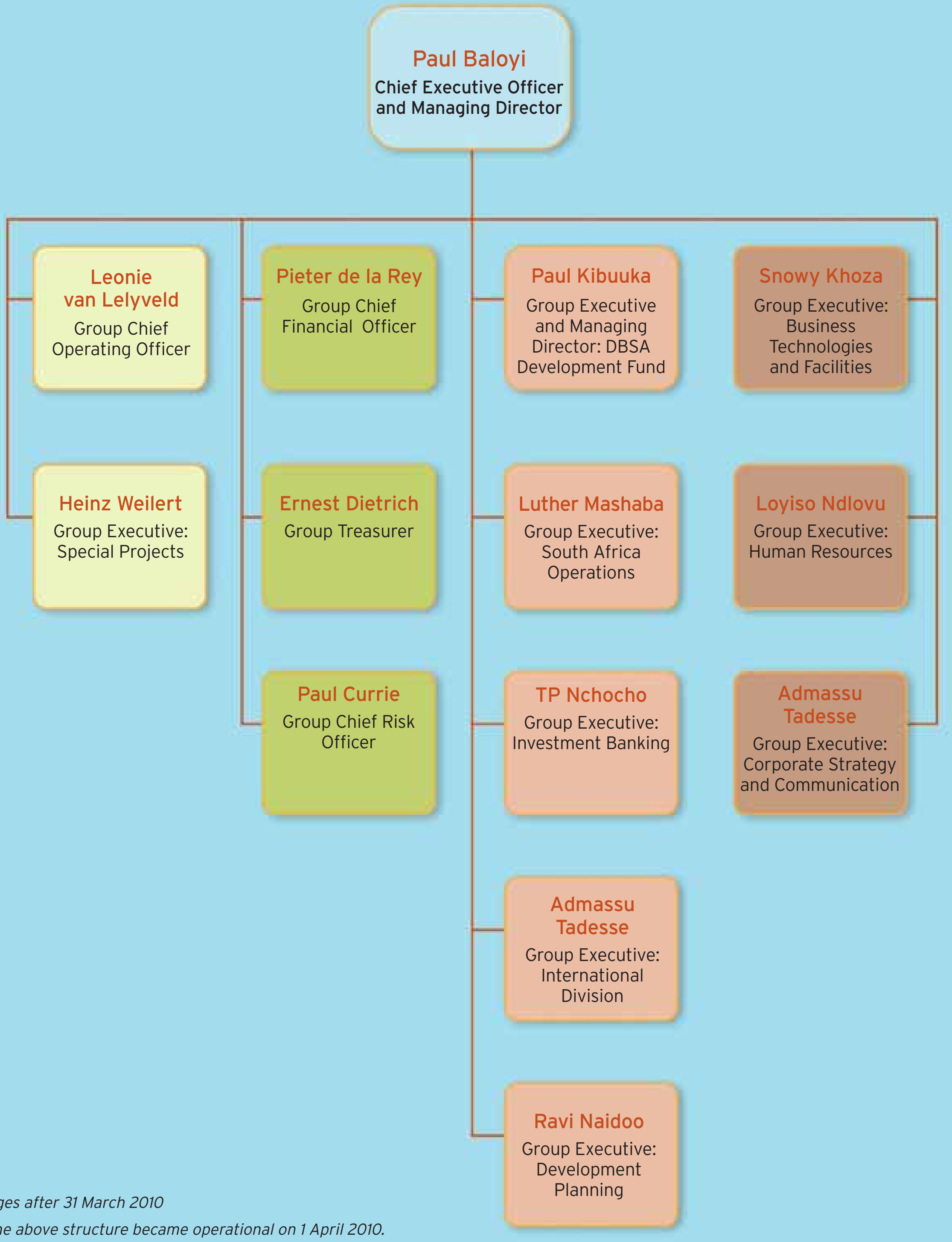
*Group Executive: Special Projects*

**DBSA staff member and Group Executive as from:**
1 October 2007

**Academic qualifications:**
- Fellow of Insurance Institute of South Africa (2002)
- MCom (Accounting), University of the Witwatersrand (1990)
- CA (SA) (1990)
- BCom Hons (Accounting), University of the Witwatersrand (1986)
- BCom, University of the Witwatersrand (1985)

**Other directorships:**
- Nedbank Namibia Ltd: Non-executive Director
- NedNamibia Holdings Ltd: Non-executive Director
- Southern African Association for Learning and Educational Differences: Treasurer

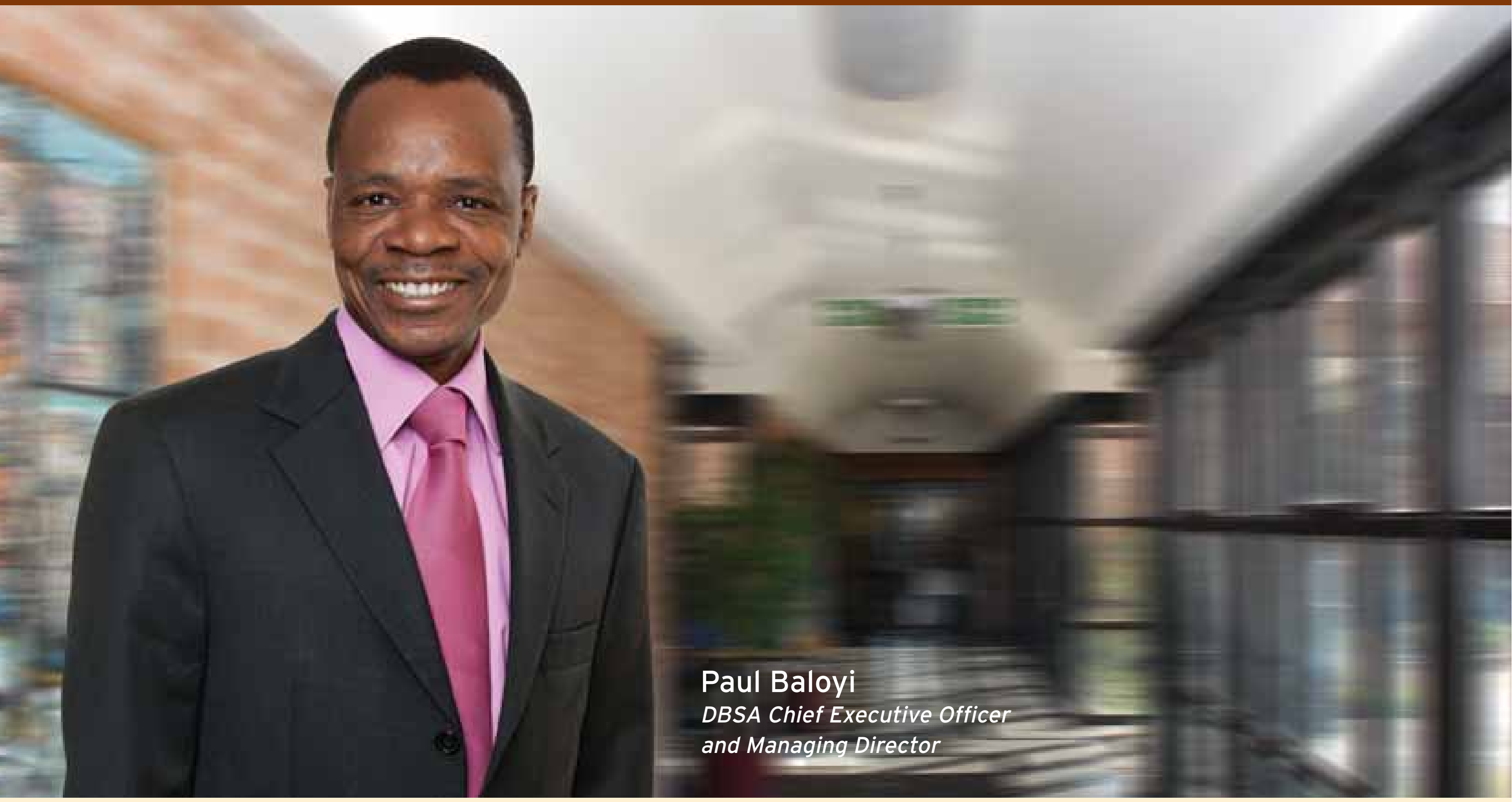
# Organisational structure




*Changes after 31 March 2010*

1. *The above structure became operational on 1 April 2010. The former Human Capital and Technology Division split in two, and Project Finance was separated from South Africa Operations, as noted elsewhere in the Annual Report.*
2. *Paul Currie, Group Chief Risk Officer from 17 May 2010.*

# Chief Executive Officer's report



Paul Baloyi
*DBSA Chief Executive Officer and Managing Director*

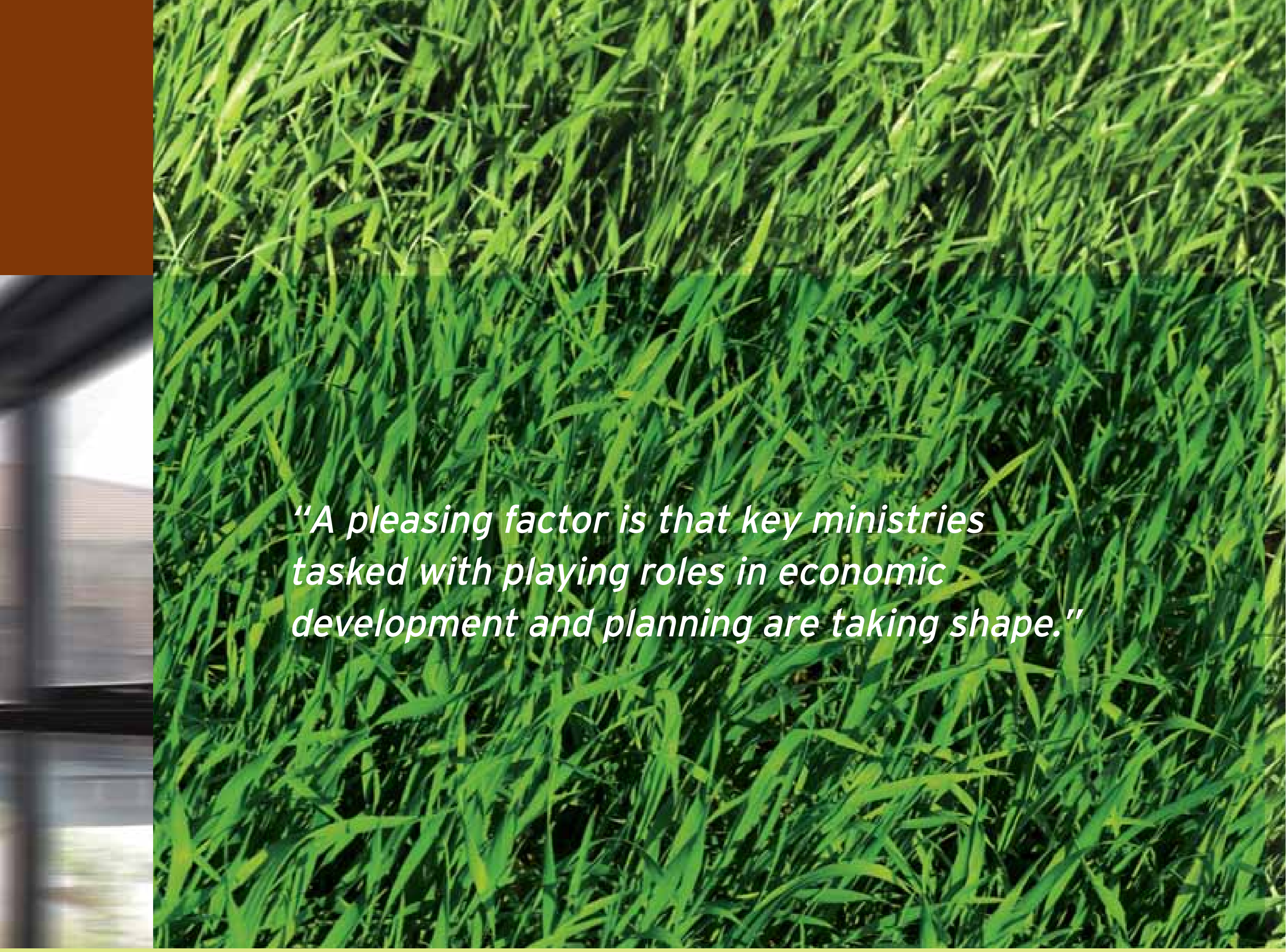
The results achieved by the DBSA Group in 2008/09, the year in which we celebrated our silver jubilee, were a watershed in the organisation's history. These results laid a solid foundation for our expanded growth during 2009/10, despite the challenges emanating from the global financial crisis. Deep and substantive consultation with the new executives in various ministries over the past 18 months has given us a clearer, more consolidated perspective on the key drivers that put the DBSA at the centre of infrastructure development and overall economic beneficiation for growth. We have agreed on major programmes and started to operationalise them in collaboration with various ministries, local governments and key departments that have specific mandates to develop infrastructure, both social and economic.

We reached consensus on crucial questions such as policy for major sectors (health, education, water and sanitation), coordination and, most importantly, the prioritisation of key programmes in the context of scarce resources. As regards coordination, the discipline of performance management being implemented by the Presidency will be pivotal in improving the performance of the state as a whole. A pleasing factor is that key ministries tasked with playing roles in economic development and planning are taking shape. It is worth mentioning that the Bank was involved in these initiatives to varying degrees as an important partner, a fact acknowledged by our stakeholders and partners. As part of its ongoing role in this regard, the Bank is engaged in operationalising a number of significant government programmes in partnership with government departments. Some of the highlights are recorded in the divisional reports of our Annual Report.

## The year under review

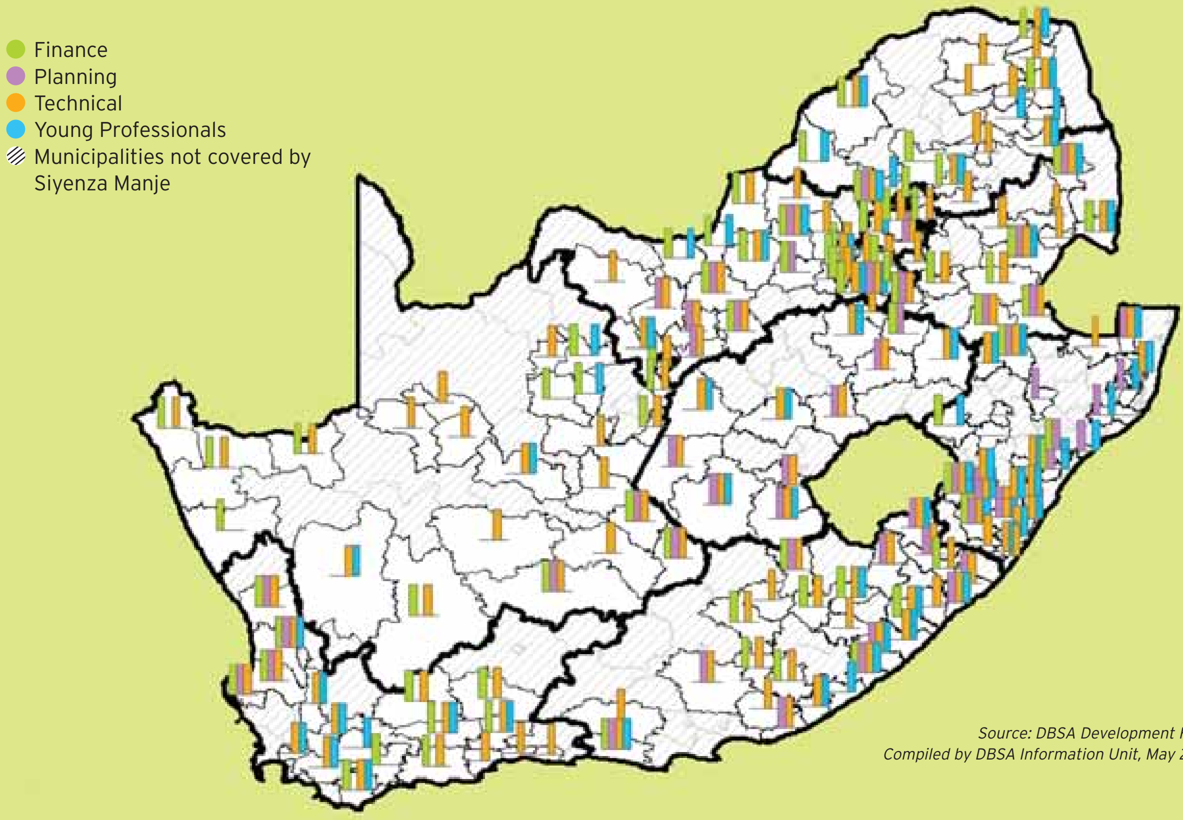
The Bank has again exceeded most of its developmental targets for the year under review. The bulk of our efforts went to our core area of mandated focus, and one of our key aims was to ensure stability within local government in areas where the Bank has invested. This is in line with our risk management agenda of preserving value in the Bank's lending portfolio, which to date remains largely in the public sector (approximately 70%, including state-owned entities). Success is evident in the fact that impairments were restricted to levels lower than the historical highs.

Siyenza Manje remains the DBSA's most effective programme on the ground. It is the intervention of greatest value to the government, and the one most deeply appreciated by them. The outcomes achieved are remarkable. Projects under management increased



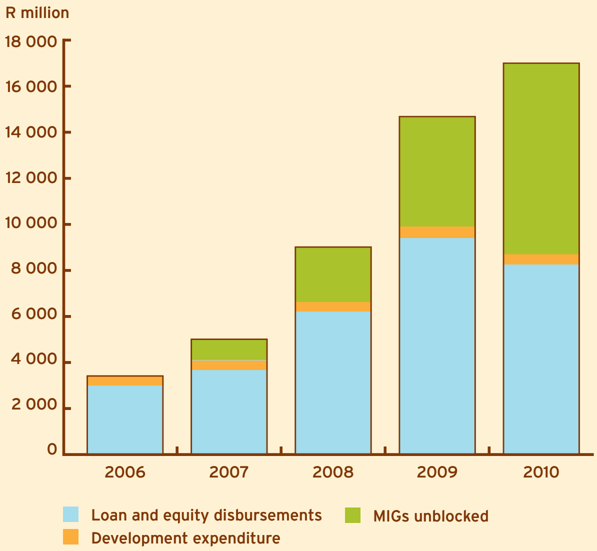
*"A pleasing factor is that key ministries tasked with playing roles in economic development and planning are taking shape."*

## Siyenza Manje experts deployed in local municipalities, 31 March 2010



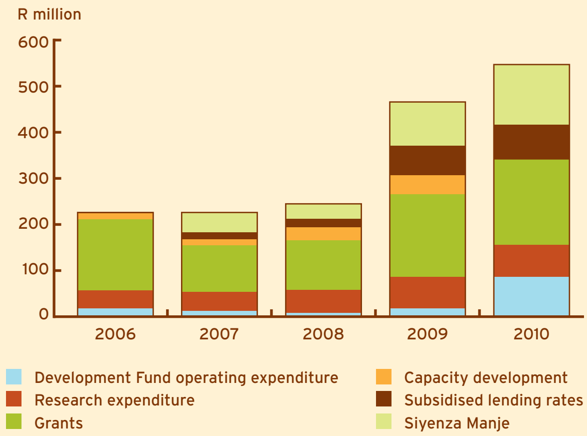

*Source: DBSA Development Fund*
*Compiled by DBSA Information Unit, May 2010*

significantly, while projects completed rose from 769 in the previous year to 1 237 in the year under review.




**Total financial value of DBSA's interventions (including MIGs), 2005/06 to 2009/10**

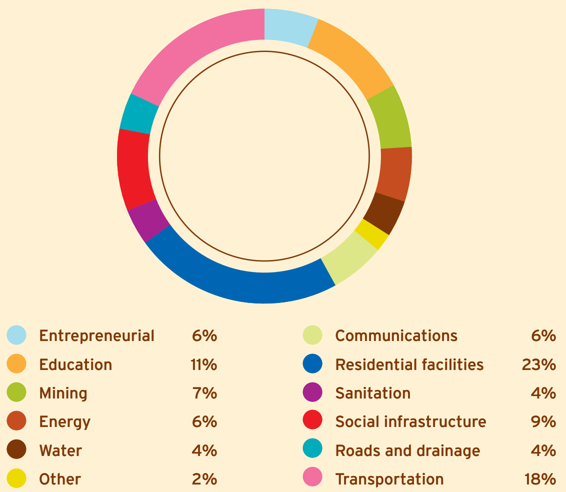
Overall funding beneficiation, including Municipal Infrastructure Grants (MIGs) released, rose by 21% from R14,6 billion in the previous year to R17,7 billion in the year under review. A key feature of the MIG funding released through the Bank's work at local government level is that the bulk of it goes towards social infrastructure. Direct disbursements by the Bank were not materially lower than in 2008/09, despite severe constraints on cost-effective liquidity during the year. The level change in government inevitably led to greater bureaucratic lethargy in many planned public sector programmes. In hindsight, we underestimated the length of time the new government would need to return to operational stability after Polokwane. Certain of the Bank's interventions intended to shield the organisation from the high cost of liquidity required government approval and could not be effected timeously. As a result, the margin contracted by approximately R300 million. The Bank nevertheless increased its commitment to non-revenue-generating expenditure in support of various programmes at both local and provincial government level. This expenditure, together with the Bank's contribution to the Siyenza Manje programme, amounted to R550 million, compared to R464 million in 2008/09.




**Development expenditure by type of initiative, 2005/06 to 2009/10**

Significant resources were committed towards increasing approvals and commitments, in line with the Bank's goal of doubling its level of disbursements over the next five years. The Bank has also received a number of large mandates, which will translate into significant increases in approvals and disbursements in the next two years.

The sector distribution of approvals was well within the Bank's focused priority sectors.




**South Africa approvals, 2009/10**

## Year ahead

In a major strategic shift, the Bank will focus on assisting government with the scalability of initiatives to stimulate growth in prioritised social and economic sectors, especially in water and sanitation, education, health and energy. Government's collective spend on these sectors alone is estimated at R300–R500 billion, of which 40–50% is intended to be sourced from the market. During the year under review, the Bank made good progress in soliciting market interest and we are optimistic that there is sufficient capacity, buoyed by the return to market by major institutions, both local and international, in the latter part of 2009. While this is encouraging, liquidity costs still demonstrated some downward rigidity and may continue to pose a challenge for the Bank.

In the year ahead, the Bank will proactively increase and deepen its partnerships in order to play a more vigorous role in catalysing infrastructure and socio-economic development projects. Our approach to infrastructure funding will aim to go further than simply addressing funding gaps and responding to market conditions. We will embrace a more proactive, innovative and research-led approach to identifying and developing projects, in the context of a more integrated, multi-sectoral approach to development planning and programming. Targeted programmes of action will enable the Bank to accelerate the mainstreaming of environmentally sustainable design into its development interventions across the region.

A number of long-serving Board members retired over the past year. The Bank is deeply indebted to them for their strategic guidance. Among those who retired was Mr Jay Naidoo, who has led the DBSA admirably and helped it to reach many milestones. Under his astute leadership, the Bank evolved from what was largely a conduit for municipal finance into a leading, internationally recognised development finance institution in the region. On behalf of the Board, executives, management and staff, I would like to express our sincere gratitude for his leadership and wish him well for the future.

The government has been through massive change over the past year, and change of this magnitude is rarely without challenges. I am pleased that the DBSA experienced a smooth transition in this regard. With Jay's retirement, we are fortunate to have acquired a new Chairman of the calibre of Mr Jabu Moleketi, former Deputy Minister of Finance. On behalf of the Board, management and staff, it is my pleasure to welcome Jabu into the DBSA family.

Finally, we are grateful to Minister Gordhan for his stewardship during the year as the new Governor of the Bank. I have no doubt that we will reach exciting new milestones during his tenure and we look forward to his continued support of the Bank.

**Paul Baloyi**

# Macroeconomic overview

*The newly renovated OR Tambo International Airport.*

The year under review tested governments and public and private sector organisations around the world, as they grappled with the aftermath of the global financial crisis. South Africa and the rest of the SADC region were no exception. The DBSA found itself in a challenging operating environment, characterised by growing developmental needs and escalating stakeholder expectations. The tough economic climate strained the finances of the Bank's clients in both the public and the private sectors. This impaired their borrowing capacity, which in turn affected the potential for the Bank to grow its assets. The financial crisis also increased the risk levels of the Bank's existing loan book. Despite lower interest rates and the progressive stabilisation of global financial markets, funding generally remained tight and expensive. The simultaneous decline in deposit rates presented a further challenge to the Bank, as its interest income from investments also came under pressure.

## Global conditions

The first half of the 2009/10 financial year was especially difficult for the world economy as the fallout from the economic and financial crisis continued. Credit was tight; asset markets suffered setbacks and demand evaporated in many countries. The manufacturing and trading sectors in the advanced economies were forced on to the defensive: sales dropped, inventories were run down, production was cut back sharply and employment suffered. These impacts fed through to the emerging market economies through various trade and financial transmission channels, including lower export earnings and services remittances, and reduced access to external investment and aid. Despite these problems, key emerging market economies held up relatively well as a result of their resilient internal growth dynamics, sound domestic policies and strong international competitiveness.

By mid-2009, the unprecedented efforts of central banks, governments and multilateral organisations around the world began to stabilise the financial sector and support demand in hard-hit economies. Key bank balance sheets had been refinanced, monetary policy had been loosened dramatically, and many governments were providing large-scale fiscal stimulation and support for key sectors. As these measures took hold and confidence rose, the global economic recession bottomed out. Despite vulnerabilities and structural problems in many countries, signs of recovery began to emerge.

The third quarter of 2009 saw a surprisingly strong rebound in global production. Global trade started to recover, commodity prices rose and equity markets strengthened. Capital markets also began to ease. However, many underlying vulnerabilities and structural imbalances persisted. The financial crisis and its economic aftermath had left their mark on the business and household sectors of many countries. Credit markets were far from fully functional and the global banking sector needed to rebuild its capital base. Institutions were wary of further asset quality problems at the sovereign and corporate level, and the approaching debt rollover deadlines were also a source of concern.

The recovery was led by the developing economies of Asia, notably China and India, and gradually extended to the other emerging markets and advanced countries. As production started to recover, commodity producers benefited from the increased demand and resultant higher prices for commodities. However, the economic recovery in the advanced countries was driven largely by monetary policy and government spending. As fiscal deficits widened, the high rate of public debt accumulation threatened the durability of the recovery. Despite greater confidence by year-end, the economic recovery in many countries remained fragile. Few countries saw a broad-based resumption of household spending or private investment, and the pace of the global rebound began to flag. Global inflation remained muted during the upswing, owing to the low level of interest rates and the general absence of excess demand.

In the latter half of the year, large institutions found access to the global capital markets easier, although finance remained relatively expensive. Many countries and organisations had suffered a downgrade in their credit ratings, and margins and risk premiums were high. Bank credit for households and for small and medium enterprises also remained tight, as financial institutions remained risk averse while they were rebuilding asset quality.

## Conditions in southern Africa

The hostile global economic environment had a particular impact on southern Africa. The economy of the sub-Saharan region had expanded by 5,5% in 2008 and 7% the year before, but virtually stagnated in 2009. While some countries weathered the difficult conditions reasonably well, others were hard hit. Growth in eight of the 15 SADC countries either stagnated or contracted. Exports suffered, migrant remittances declined, international finance remained scarce and aid flows were under pressure. The tradable goods sectors of many countries were impeded by constraints on trade credit and shorter-term finance. In South Africa, the massive infrastructure development programmes of the public sector were negatively affected by conditions in offshore capital markets. Fixed investment faced a similar fate in other countries, where local capital markets could not fund longer-term projects.

However, as global economic prospects bettered, investor risk appetite improved and the earlier pullback of global investors from emerging markets began to reverse. Low interest rates and weak growth in the advanced countries, rising commodity prices and the spread of the recovery to emerging markets saw a return of yield-seeking capital. Commodity-producing countries with links to the strong economies of Asia benefited from the early recovery in the East and the surge in commodity demand in the second half of the year. Countries that had followed sound economic policies were also better able to withstand the external economic shocks.

## The South African economy

The local economy was already in a cyclical slowdown by 2008, following its longest continuous upswing in history. The growth dynamic was weakening: infrastructure bottlenecks, electricity constraints and skills shortages affected the production side. On the demand side, an overextended consumer sector, a cyclical slowing in export demand, and high inflation and interest rates constrained private fixed investment and growth. As inflation rose, monetary policy was tightened progressively, which further reduced demand. The global crisis exacerbated these problems. Although the domestic financial sector proved fundamentally sound, the adverse global conditions significantly affected the export sector, asset markets, and the availability and cost of foreign finance.

As the international recession deepened, the toll on the South African economy rose. In the last quarter of 2008, the economy contracted for the first time in many years; output continued to fall over the first half of 2009. In the third quarter of the year, however, as global economic conditions improved and domestic policy measures bore fruit, the economy stabilised and the recession appeared to bottom out. By year-end, the economy recorded significant quarter-on-quarter growth. However, the overall output for the year was still 1,8% less than the year before, owing to weak internal and external demand. The trade, manufacturing, and mining and quarrying sectors suffered particularly marked contractions.

Although public spending on infrastructural projects and social grants was already significant and the fiscus experienced cyclical revenue constraints, the government provided additional contra-cyclical support. Fiscal policy became even more supportive and the budget deficit widened. Public sector support to the economy was evident in the strong growth of the construction, general government services, and community, social and personal services sectors.

The lower real expenditure levels in the South African economy correlated with lower import volumes for the year. Despite a concurrent decline in export volumes, this was enough to reduce the deficit on the current account of the balance of payments. The lower deficit on the current account, combined with net inflows on the capital account, supported the exchange rate of the rand. The stronger currency, the absence of demand pressures in the economy and a slowdown in food price increases contributed to a dramatic fall in the inflation rate from its mid-2008 peaks. This created room for manoeuvre by the monetary authorities, and the succession of cuts in the interest rate over the 2009/10 financial year provided additional support to the economy.

## The DBSA

The unsettled global, regional and local economic conditions presented significant challenges to the DBSA in the year under review. Although investment in infrastructure in South Africa and the rest of the SADC region became even more central to medium- and longer-term economic prospects, the recession undermined the ability of both the public and private sectors in many countries to accelerate fixed investment. Pressure on the income and balance sheets of public and private sector entities, combined with pressure on public finances and the external balances of some countries, saw the postponement or even cancellation of some planned investment. This made the ambitious asset growth targets set for the Bank even more challenging to achieve. Furthermore, tight conditions in capital markets, large risk premiums, and significant competition among South African parastatals for local and global funding made it more difficult to access and raise affordable funding. Flows of overseas development aid to the region were also negatively affected by the global recession.

An additional challenge was the downward trend in domestic interest rates, which significantly reduced the interest income from the Bank's investments. The economic slowdown also constrained dividend income from the Development Bank's equity investments. Furthermore, the strength of the rand had a negative impact on the translation value of proceeds from regional operations. In these challenging financial and economic conditions, the pre-emptive monitoring of risk on the existing book and the sound management of emerging risks became even more crucial to the Bank's performance.

By the end of the financial year, the South African economy showed signs of revival. The factors that supported this recovery included expansionary fiscal policy; supportive monetary policy with lower interest rates; significant public sector investment, particularly in infrastructure and poverty alleviation; lower inflation; improving conditions in global capital markets and the global economy; and continued strength in commodity prices. However, many vulnerabilities and persistent structural problems remain in the world economy and the global financial system. A return to sustainable strong growth in many countries, including South Africa, will take time and will not be without setbacks. Having successfully weathered a difficult year, the Bank will still face challenges in its operating environment in the year ahead.


*Newly refurbished student accommodation in Braamfontein, Johannesburg.*

# Sustainability overview

The DBSA is committed to ensuring the long-term sustainability of its activities. As a responsible corporate citizen that is integrated into society, the Bank values transparency. Consequently, it has significantly increased the information provided to its stakeholders every year. It discloses measures of organisational performance, as well as its approach to managing the environmental, social and economic sustainability of its activities.

Sustainability is fundamental to the DBSA's role. The purpose of the Bank is to accelerate sustainable socio-economic development by funding social and economic infrastructure to improve the quality of life in the region. The DBSA Act mandates the Bank to promote sustainable development, and one of the Bank's five guiding principles is to "engender external and internal sustainability". The work of the DBSA is aligned with the South African government's priority focus on sustainable growth and development. The benefits of the Bank's commitment to sustainability were evident during the year – despite the tough economic conditions, the organisation's strong emphasis on sustainability enabled it to enhance its impact on development.

In line with the trend to integrate financial and sustainability reporting, the Development Bank reports the development impact of its interventions on page 40.

The section that follows below highlights specific social and environmental programmes that form part of the Bank's corporate responsibility. The report provides a snapshot of the DBSA's progress towards integrated economic growth, environmental stewardship and social responsibility.

## Environmental sustainability

The Development Bank recognises the need to prioritise environmental sustainability in all of its lending and capacity building in southern Africa. Its environmental policy aims to ensure that investments take place in a socially and environmentally sound manner, in line with regulatory requirements and international good practice for sustainable development. The Bank also considers the environmental effects of its internal activities. This year, it paid special attention to sustainability principles in its physical site design and management practices.

### Environmentally sustainable operations

The DBSA collaborates with regional partners in the private and public sectors and in civil society to ensure that its development interventions facilitate the transition towards a sustainable low-carbon economy. During the year, the Bank adhered to its policy

requirement that all programmes and projects undergo a rigorous environmental appraisal as part of the broader investment appraisal process. It also reviewed the procedures for this appraisal, focusing on ensuring that on-lending through financial intermediaries remains socially responsible and environmentally sound. Key stakeholders, including international development partners, provided valuable inputs to this review.

The DBSA is developing a strategic framework on climate change to highlight its impact on various sectors and articulate principles and major initiatives to guide the Bank's response. In addition, a perspective on energy and climate change was developed. As the energy sector is the main source of greenhouse gas emissions in South Africa, several options were proposed for investment in renewable energy and energy efficiency projects.

The Bank remains a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI), a global partnership between UNEP and the financial sector aimed at fostering environmental and social awareness in this sphere. The initiative has over 170 signatories among development finance institutions, commercial banks, fund managers and insurance companies worldwide. The DBSA participated in the UNEP FI's Global Roundtable in Cape Town in October 2009. The theme of the event was "Financing Change and Changing Finance".

## Environmental management

In 2009/10, the Bank implemented various projects that enabled it to become more energy-efficient, shrink its carbon footprint and reduce its overall impact on the environment. As a result of the core initiatives listed below, it succeeded in reducing its energy requirement by 36%:

- The Bank completed the changeover to solar geysers initiated in 2008/09.
- It completed the installation of energy-saving light bulbs in all the buildings on site.
- Timer circuits were installed to switch off wall-mounted air conditioners when the buildings are empty.
- Occupancy sensors for office lighting were piloted; the programme will be rolled out during 2010/11.
- The Bank's new off-grid visitors' entrance signifies its commitment to energy efficiency, greening future buildings and reducing its carbon footprint. An important feature of the new building is the foundation, which is deep enough (three metres) to provide a cost-effective opportunity to use the earth's temperature as a control system. Fresh air is drawn into the building via underground pipes, serving to preheat the air in winter and cool it in summer, and underfloor heating is then used to keep a constant temperature. Following the success of this system, these environmentally sustainable design concepts were also applied to the Vulindlela office extension, which will eventually house 50 people.
- The Bank launched an internal environmental network to share knowledge and develop capacity on energy efficiency, climate change, and environmental policy, legislation and best practice.

## Supporting environmental infrastructure

The Bank continued to broaden its support for environmentally sustainable infrastructure by funding ground-breaking projects with a positive impact on the environment. Highlights of these projects are provided in the box overleaf.

*Solar power panels at the DBSA's new visitors' entrance.*

## The sustainable development portfolio

*Ohorongo cement manufacturing plant (Namibia):* The establishment of the Ohorongo cement factory is aimed at reducing cement imports into Namibia. The factory design, based on "best available technology", allows for the use of alternative fuels in the production process. Initially, at least 15% of the fuel can be in the form of invasive bush, and this can be increased to 70% after two years. The use of alternative fuels is likely to reduce energy costs by up to 10% and save the importation of about 55 000 tonnes of coal, worth about NAD53 million at current prices. The project is well located – the highest concentrations of invasive bush occur in the region of the proposed plant. Invasive bush has caused considerable loss of grazing in Namibia, which has contributed to the decline of the national commercial livestock herd by over 60% in 40 years. Large-scale de-bushing could also prevent the further lowering of the water table in the north of the country and thereby contribute to the sustainable management of the region's water resources.

*Flower Valley charcoal:* The DBSA provided a technical assistance grant to the Flower Valley Conservation Trust to undertake a feasibility study for harvesting invasive alien vegetation on the Agulhas Plain. The project aims to ensure the conservation of the lowland fynbos and enable harvesters to become shareholders in a new charcoal factory being established near Bredasdorp.

*Overstrand hiking trail:* The Bank provided a technical assistance grant to the Overstrand Municipality for a feasibility study on a hiking trail from Hawston to Gansbaai, and for assessing development opportunities on municipal land in the Hemel-en-Aarde Valley.

*Eastern Cape case study on sanitation:* Drawing on field experiences, a Bank study assessed the sanitation crises facing municipalities countrywide. Sanitation has many dimensions and involves a complex chain of actors and operations. This study explored successful pro-poor approaches to sewage treatment works. It also highlighted attempts to promote a paradigm shift that views waste water as a valued resource providing opportunities for wealth creation rather than as a waste product. The study outlined an action plan for the DBSA, based on the understanding that "Prevention is far less costly than grappling with poisoned waters".

*NOVA Institute – Zamdela housing insulation retrofit:* This project tests the thermal performance of retrofitted insulation material as part of a research project in the low-income housing sector. It includes both the retrofitting and the testing of internal conditions in the houses. The goal is to improve living conditions in low-income housing through better designs and the use of appropriate materials.

### Strategic environmental partnerships

The DBSA continued to broaden its support for strategic environmental initiatives, both nationally and regionally. These are outlined below.

- The DBSA entered into a research partnership with the Industrial Development Corporation and the World Wildlife Fund on a project to quantify the potential for job creation through the greening of the South African economy.
- The Rehabilitating Drylands for Poverty Alleviation Fund, involving the DBSA and the Department of Environmental Affairs, was established during 2009/10. The Fund provides grant funding for mitigating the impact of climate change in dryland areas.
- The Bank hosted the Gauteng branch of the South African affiliate of the International Association for Impact Assessment (IAIA-SA), a monthly gathering of professionals from a range of disciplines to discuss best practice and reflect on environmental and social developments.
- The DBSA joined the Environmental Goods and Services Forum, an association initiated by the Department of Trade and Industry to represent environmental goods and services providers across all sectors in South Africa. The Bank sponsored the first official event of the Forum, the Buy-Environmental Trade Show and Conference, held in Midrand in June 2009.
- The Agence Française de Développement (AFD), the French Ministry for Ecology, Energy, Sustainable Development and the Sea, the World Bank and the DBSA will co-host a Climate and Cities Symposium at the DBSA in November 2010.

- The International Institute for Environment and Development partnered with the DBSA and other international stakeholders to publish their findings on *Synthesizing the challenges of environmental mainstreaming.*
- The line of credit from the Kreditanstalt für Wiederaufbau (KfW) to the DBSA provides loan funding for renewable energy and energy efficiency projects.
- The DBSA continued its partnership with the World Bank and the Department of Energy as the implementing arm of the Renewable Energy Market Transformation Unit. The project supports market transformation regarding policy, regulation and institutional capacity building in the renewable energy sector and provides grant funding for pre-investment in renewable energy projects in South Africa.
- The DBSA partners with the AFD on a project preparation fund of €3 million for 2010/11 focused on sub-Saharan Africa, and a memorandum of understanding was signed with the European Investment Bank for another preparation fund of €6 million over three years for infrastructure projects in southern and eastern Africa. Finance is provided to sponsors to acquire specialist services in relation to environmental and social impact assessments, carbon credits, and so on.
- The DBSA secured an agreement with the government of Finland to establish the Energy and Environment Partnership Programme for southern and eastern Africa. This programme will provide €8,5 million for project development in eight countries, including Botswana and South Africa. The purpose of the facility is to support pilot programmes in energy efficiency and renewable energy, particularly small-scale projects in rural areas. The DBSA manages the programme and serves on its Joint Steering Committee.
- The SKEPPIES Fund is a joint venture between the DBSA and the Critical Ecosystem Partnership Fund. It provides grant funds to projects that promote development and conservation among communities in the Succulent Karoo (Northern and Western Cape).
- The DBSA and the International Institute for Environment and Development cooperated on a report entitled *What works for us – Mainstreaming environment into development.* The report was published in July 2009 and reprinted in January 2010 in response to popular demand.

## Social sustainability

This section outlines the DBSA's approach to social sustainability, both internally and externally.

### Labour practices

The labour practices of the DBSA are critical to ensuring its internal sustainability. These are some of the key elements:

- *Equal opportunities:* The DBSA's employment equity vision is to build a workforce of exceptional quality, which represents the demographics of South Africa. It has made considerable progress in addressing the under-representation of designated groups in terms of the requirements of the Employment Equity Act, No. 55 of 1998, and the Codes of Practice of the Department of Labour.
- *Employee relations:* The DBSA is committed to promoting sound relations with employees and acknowledges the rights of employees to representation, freedom of association and collective bargaining as a way to determine conditions of service. It provides managerial and supervisory staff with formal training on the industrial relations aspects of disciplinary issues, grievances and performance concerns. In 2009/10, 71 employees attended this training.
- *Grievances and disciplinary proceedings:* The DBSA adheres to an approved disciplinary code and related procedures. The purpose of the code is to:
  - Establish a uniform procedure for managing and enforcing the Bank's rules and regulations on employee conduct
  - Ensure that individual employees contribute effectively and efficiently to the goals of the Bank and that their conduct supports its economic rationale
  - Maintain acceptable standards of conduct in the DBSA, which are fair to both the Bank and its employees
  - Support constructive labour relations within the DBSA, providing employees and managers with a simple guide for disciplinary processes

The policies and procedures governing grievance and disciplinary processes are founded on the following principles:

- The assumption of innocence before guilt
- Corrective, rather than punitive, discipline
- The right of employees to be heard and treated fairly
- The separate escalation of grievances relating to discrimination, sexual harassment and bullying to ensure swift resolution

## Health and safety

The DBSA's occupational health and safety programme adheres to best practice and complies fully with the Occupational Health and Safety Act, No. 85 of 1993. The Bank measures compliance with the Act on a monthly basis and implements policies and procedures to ensure that any related risks are mitigated. Independent audits are performed biannually to ensure compliance with the regulations. The DBSA also tracks safety performance and work-related injuries and fatalities. During 2009/10, 37 injuries on duty were reported (and zero fatalities), as shown in the table below.

**Occupational health and safety incidents, 2009/10**

| Type of incident | Number |
|---|---|
| First-aid incidents | 21 |
| Medical incidents | 16 |
| **Total** | **37** |

The main events in the DBSA's occupational health and safety programme during the year included the following:

- 56 staff members completed the occupational health and safety induction training.
- 16 staff members obtained injured-on-duty leave.
- An emergency evacuation policy was implemented, with biannual evacuation exercises.
- Emergency evacuation chairs were installed to ensure the safe evacuation of persons with disabilities or injuries.

## Training and development

Extending the capability of the DBSA is fundamental to ensuring that the organisation has the appropriate mix of skills to deliver on its strategic goals. The Bank accomplishes this by building skills internally (through providing staff training) and acquiring human capital externally (managing vacancy levels). This year, the DBSA proposed a capability-based framework for the development of human capital to meet the challenges of an evolving environment.

The Bank invests in building competency levels by offering training and access to further education. This allows the organisation to enhance skills, refresh competencies and close specific skills gaps. This year, it invested R6,7 million as part of a three-year targeted training programme.

A highlight of the training initiatives is the Graduate Programme, which targets new graduates for future leadership and professional roles in the DBSA. The programme provides graduates with an opportunity to develop expertise over two years, with three-monthly rotations between different divisions in the organisation. Twelve graduates were employed in April 2009, in the fields of economics, finance, business science, actuarial science, mathematics and governance. The next intake for this programme will be in 2011/12.

## HIV and AIDS

The DBSA is committed to addressing the reality of HIV and AIDS in the workplace in a positive, supportive and non-discriminatory manner. It seeks to create a supportive environment so that HIV-positive employees can continue working under normal conditions for as long as they are medically fit to do so. The Bank's HIV and AIDS policy is based on the following principles:

- Testing for HIV and AIDS is purely voluntary.
- No employee or applicant for employment will be discriminated against on the basis of his or her HIV status.
- Employees who are HIV positive or have AIDS will not be subject to any form of discrimination.
- Employees with HIV and AIDS will be treated in the same way as someone with a comparable medical condition.
- The DBSA will create a supportive environment for employees who voluntarily disclose their HIV status by enabling them to participate in awareness programmes and encouraging the development of support groups.

The HIV and AIDS policy is implemented through a confidential management programme provided by an external service provider, at no cost to employees.

## Black economic empowerment

The Codes of Good Practice of the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, enable organisations to track their transformation performance against an agreed set of parameters. The Codes deal with different aspects of transformation, such as stakeholders, staff, clients, procurement practices, business partners and the community.

Empowerment and transformation have been important fundamentals in the DBSA for many years. This year, the Bank maintained its Level Three Contributor status,

with an effective rating of 80,2 (2008/09: 75,9), under the Adjusted Generic Scorecard for public entities.

## Society

In support of one of the government's priority focus areas, the DBSA aimed its social development efforts at education, innovation and youth development.

### *Innovation*

One of the primary challenges of sustainable development is that it demands new and innovative choices and ways of thinking. In response to this challenge, the DBSA facilitated various initiatives during the year:

- *Innovation and Entrepreneurship Week:* The DBSA hosted its first Innovation and Entrepreneurship Week during the Global Entrepreneurship Week in November 2009. This consisted of three events: a two-day conference for external delegates, a youth conference and a university conference. The two-day conference involved 21 presentations by leading academics and senior stakeholders from government and the private sector, and was attended by 100 delegates. The youth conference, which was sponsored by the City of Johannesburg and facilitated by Junior Achievement South Africa, exposed students to basic business skills. The university conference, facilitated by Students in Free Enterprise, provided university students with basic entrepreneurial skills and innovation tools and techniques.
- *Impumelelo Partnership:* In May 2009, the DBSA hosted the launch of the 2010 Sustainability Awards for the Impumelelo Innovations Award Trust, as well as a replication workshop. The event was aimed at promoting the replication of innovative models that address development challenges in the environmental landscape. The Bank also sponsored the publication of an environmental case study.
- *The Southern African Innovation Network:* The DBSA is one of the founding members of this network, created as part of an initiative by the Department of Science and Technology. This non-profit entity provides a platform for learning, sharing and talking about innovation and brings together government, academia and industry to find new solutions that create real value.

## Corporate social investment

The Bank supported a range of initiatives during the year. Highlights of its corporate social investments in 2009/10 include the following:

- *Investing in mathematics education:* In 2009/10, the Development Bank paid special attention to mathematics education in underprivileged schools. As a foundational requirement for acquiring scarce skills such as engineering, the study of mathematics needs support at school level. The Bank sponsored 2 000 branded mathematics dictionaries, which were distributed to 21 rural schools in five provinces. These uniquely South African dictionaries, compiled by pedagogic specialists, provide learners in grades 10 to 12 with more than 1 000 words most often used in mathematics assessments. The dictionaries are seen as particularly useful and were enthusiastically received by teachers and learners alike.
- *Lap-desks for ill-equipped schools:* In line with its focus on investment in education, the DBSA continued to provide lap-desks to poor schools. The lap-desk is an ergonomically designed desk that fits on a learner's lap, whether seated on the floor, a bench or a chair. Learners can also take the desks home to do their homework. Since the start of the programme in 2008, the Bank has sponsored 15 000 lap-desks, which were handed out to disadvantaged schools (with at least a 30% desk shortage) across all the provinces. The DBSA-branded lap-desks provide basic information about the Bank, as well as information on the nine South African provinces, the eight different geometric shapes, the alphabet and the national anthem. A survey to measure the impact of the sponsorship showed improved concentration, writing skills and academic performance among learners. Learners are also much more comfortable during lessons, and it is reported that more of them complete their homework.
- *Decorating public spaces with art:* Over the last six years, the Development Bank has sponsored various arts and culture projects, such as arts research, exhibitions, school art competitions, arts awareness workshops for educators and a sculpture garden. In 2009, the Bank initiated the Public Spaces Mural Project, which aims to improve the appearance of township walls and promote art as a possible career to communities. The Bank has invited partners such as municipalities, universities, art galleries and art museums to participate in the project. In the initial phase, public spaces were identified in Atteridgeville and Saulsville in the City of Tshwane. A community forum nominated 15 community members to participate in the creation of the murals with an internationally known resident artist, as well as fine arts lecturers and students from the University of Pretoria. The community members were offered a certified training course in art theory and design, before embarking on the fieldwork paintings. The theme of the paintings is the DBSA's mission – a prosperous and integrated region, progressively free of poverty and dependency. Following the success of the first phase, a second phase has started in eThekwini in KwaZulu-Natal.


DBSA
PALESA

# Development impact overview

This section highlights key development impact initiatives during the year under review, starting with an overview of the macroeconomic impact of the Bank's operations. This is followed by a review of initiatives carried out by the Bank's capacity building arm, the Development Fund, which has been refocused on three divisions: Capacity Development and Deployment; Community Development Facilitation; and Rural Development.

## Macroeconomic impact

The DBSA uses a Partial General Macroeconomic Equilibrium Model based on a Social Accounting Matrix (SAM) to calculate the socio-economic impact of its projects. The model specifically incorporates the Bank's sectoral investment focus. The model, which has 2006 as a base year, has been adjusted to 2009/10 prices, and the discussion below is in real (inflation-adjusted) terms.

As noted in the Macroeconomic overview, the global financial crisis slowed the growth of the regional economy, limited opportunities for investment and led to higher risk exposures for funders. This is reflected in the Bank's results: in 2009/10, the DBSA and its co-funders approved projects to the value of R47,3 billion*. The value of the DBSA's approvals (excluding co-funders) was R15,1 billion*. The real value of the Bank's signed agreements with clients was R7,1 billion* and disbursements were R8,3 billion*. The bulk of the disbursements went to roads and drainage (19,7%), social infrastructure (17,2%), entrepreneurial and manufacturing (12,3%) and residential facilities (10%).

The SAM models were used to calculate the impacts of the DBSA's funding, and these were compared to the previous year's results. The findings are shown in the graphs opposite. Note that the approved funding portfolio is generally only disbursed in future years. This portfolio will therefore have only a potential impact, which will come into effect once the funds are actually disbursed. The same holds for signed agreements. Hence only the disbursed funding portfolio can be said to have an actual development impact this year. The graphs opposite show all three of the portfolios.

It is estimated that the total funding approved by the Bank and its co-funders has a potential impact of

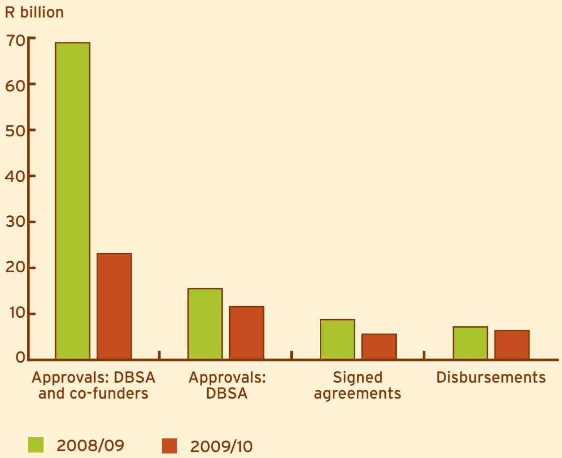
*Includes technical assistance grants.

R46,6 billion on GDP, of which R23 billion will be in South Africa. This constitutes approximately 1% of South Africa's GDP in 2009/10 (2008/09: 2,8%). The actual impact of the Bank's disbursements on the GDP of the southern African region is estimated at R8,1 billion, of which R6,9 billion is in South Africa.

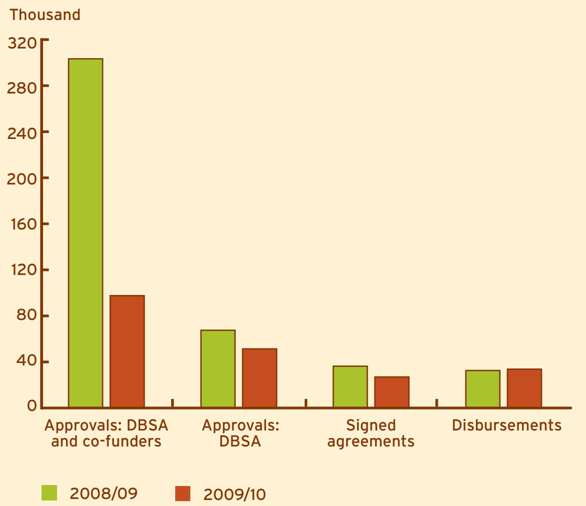
The total funding approved by the DBSA and its co-funding partners in 2009/10 has an estimated potential impact on employment creation of over 209 500 employment opportunities in the southern African region. Of these, 96 000 employment opportunities could be created in South Africa. The Bank's own disbursements will create an estimated 39 300 employment opportunities, of which 31 600 (80%) will be in South Africa (similar to the 2008/09 figure of 31 200).

To support the economic activity initiated by these disbursements, a capital amount of R23,4 billion will be employed, directly and indirectly, in the southern African region. Over R21,1 billion of this will be in South Africa, made up of R7,5 billion in DBSA disbursements and R13,6 billion in capital invested by other industries to supply the additional materials and goods required. This amounts to 3,9% of South Africa's total gross fixed capital formation in 2009/10.

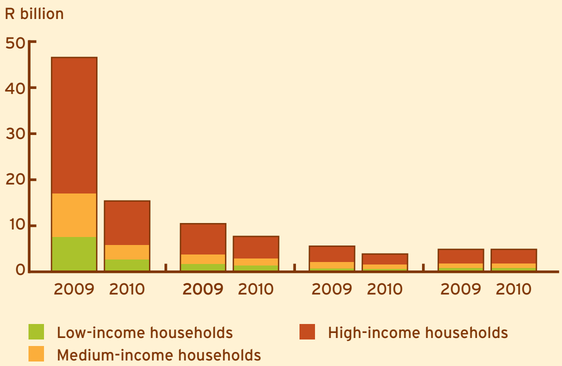
Every investment results in additional income to households through economic linkages. The total funding approved by the DBSA and its co-funders has the potential to create additional household income of R15,3 billion in South Africa. Of this amount, R2,6 billion will be to the benefit of low-income households earning less than R32 000 a year.



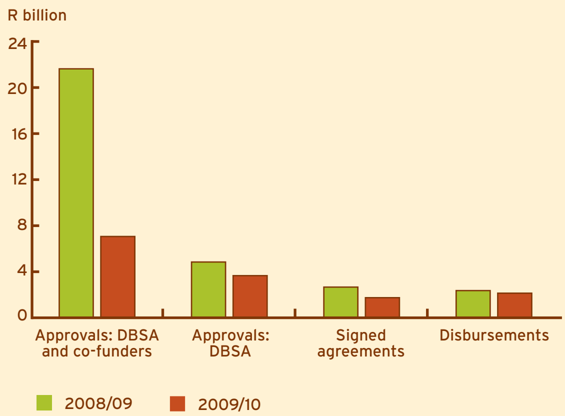

Estimated impact on GDP in South Africa, 2008/09 and 2009/10




Estimated employment creation in South Africa, 2008/09 and 2009/10




Estimated impact on household income in South Africa, 2008/09 and 2009/10




Estimated impact on government revenue in South Africa, 2008/09 and 2009/10

# Development impact overview continued

The DBSA's disbursements will create additional total household income of R4,7 billion, of which R0,8 billion will accrue to low-income households.

The investments also contribute to government revenue for all three spheres of government (national, provincial and local) through the taxes paid on additional economic activity. The additional tax revenue as a result of the Bank's disbursements in South Africa is estimated at R2,2 billion.

## Capacity Development and Deployment

This Division of the DBSA Development Fund comprises the Siyenza Manje programme, the DBSA Vulindlela Academy and the Agencies Unit.

### Siyenza Manje programme

Siyenza Manje provides crucial support to the government in accelerating service delivery at the municipal level. In recognition of the achievements of this programme, the CoGTA asked the Fund to provide additional support to the government's Local Government Turnaround Strategy. The Fund, in consultation with the DBSA's Development Planning Division, formulated a comprehensive response in which Siyenza Manje will spearhead the Bank's support, using its existing resources.

In addition to these new initiatives, Siyenza Manje continued with its normal operations: deploying resources, offering project implementation support, and building the capacity of its clients. By year-end, a cumulative total of 189 engineers and technicians, 80 finance experts, 26 planners, 156 young professionals and 164 artisans were employed on a contract basis and deployed in low-capacity municipalities and departments across the country. These numbers include 121 experts deployed on the basis of contracts with professional service providers.

The deployees assisted 199 municipalities and 18 government departments, and facilitated 3 825 capital infrastructure projects aligned to MIG (a 38% increase from 2008/09) to the value of R8,9 billion. This year, 1 237 of the projects were completed, which was 77% more than the target set in the BSC. These projects connected 203 125 and 107 195 households to water and sanitation reticulation services, respectively; 410 093 and 406 719 households obtained access to bulk water and sanitation, respectively. During the implementation of these projects, 64 869 job opportunities were created.

The deployees also facilitated the development of 544 systems, 489 policies and 173 plans. They offered on-the-job training to 388 municipal officials in the field of planning, 1 025 in technical services and 1 008 in financial management.

### Vulindlela Academy

The DBSA Vulindlela Academy is a platform for capacity building, knowledge sharing and skills transfer at the local government level. The Academy is accredited by the Local Government Sector Education and Training Authority (LGSETA) and has a suite of eight accredited full qualifications. It has established strategic partnerships with a range of national and international partners, as shown later in this Annual Report.

The Vulindlela Academy offered 11 366 training interventions to external learners; 7 361 of these involved delegates identified by Siyenza Manje deployees and referred to the Academy for training. This year alone, 44% of Siyenza Manje municipalities benefited from Vulindlela's training programmes. The Academy also offered 1 031 training opportunities to delegates from SADC and 2 974 to delegates from other DBSA intermediaries.

The year also saw the rollout of the Pan-African Capacity Building Programme, a virtual academy that provides training in competencies that are critical to the efficient management of public services in Africa. Although it uses the Vulindlela Academy delivery platform, the Programme has its own Advisory Board, comprising representatives of the sponsoring development finance institutions and the four participating universities. The Board members held an inaugural meeting in February 2010 and a programme steering committee was established. By year-end, the Programme had achieved the following:

- It offered a range of short courses to 385 delegates from a variety of African countries (target: 100).
- It entered into negotiations with three universities in Africa to serve as centres of excellence for the delivery of a Masters programme in Infrastructure Management, in collaboration with an international university based in France.
- It led the design of the curriculum for the placement of young professionals under the Siyenza Manje programme in line with their workplace skills development plans. This culminated in the development of a partnership programme with the Agence Française de Développement (AFD) that placed 15 young professionals on internships in medium-sized French municipalities.

### Agencies

The Agencies Unit was established in October 2002 to assist in alleviating constraints on development implementation and management in the SADC region. The DBSA acts as an agent to government and donor organisations that do not have an institutional presence in the region. The Unit attracted eight new agencies this year. It also signed agreements to manage funds on behalf of partners to the value of R441 million, increasing the overall portfolio to R757 million.

Through the Voluntary Counselling and Testing programme implemented in partnership with KFW, the Unit built or upgraded 52 clinics across the country. The Job Creation Trust created 842 jobs through SMME development. The Succulent Karoo Ecosystem Programme targets socio-economic development projects linked to biodiversity and environmental management. The programme's work in partnership with Conservation International, benefited 290 families in the Western Cape.

## Community Development Facilitation

This Division of the DBSA Development Fund consists of the Sustainable Communities programme and the Project Development and Project Management Units.

### Sustainable Communities

The Sustainable Communities programme brings together different stakeholders to design a sustainable development plan that addresses the short-, medium- and long-term development needs of an area. In the process of establishing a Development Charter or Social Compact, a contract is negotiated between the community and other stakeholders regarding the development vision, rules of engagement and priorities for future development of the area. This is translated into a community-based, integrated development planning process that deals with issues of space, the built environment, infrastructure, the economy, social assets and human capital assets.

During the year, the programme leveraged funding of R99,5 million, disbursed grant funding of R24 million and developed bankable projects in three selected sites. It also established partnerships with both the public and the private sector to support the development of sustainable communities.

### Project Management Unit

The Project Management Unit provides project management support to different programmes in the Division and the DBSA. It focuses on developing systems, plans and frameworks. During the year, the Unit prepared nine plans for projects and programmes at the Sustainable Communities sites. It also provided project management support for the implementation of DBSA initiatives such as the Sapsiza project and the health and education roadmaps (as discussed in this Annual Report). In addition, the Unit facilitated the setting up of project management offices in the King Sabata Dalindyebo and Theewaterskloof Local Municipalities.

### Project Development Unit

The Project Development Unit was fully incorporated into the Division during the year. The Unit focuses on the conceptualisation, pre-feasibility, feasibility and structuring stages of project development. It also raises funds for qualifying projects.

## Rural Development

The LEDi, now the Rural Development programme of the DBSA Development Fund, aims to integrate development interventions in poor regions so as to catalyse economic growth through improved infrastructure and service delivery. Programmes in three pilot sites, Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality, were brought into implementation during the year. The Fund provided technical assistance to develop economic and institutional turnaround strategies for these municipalities, and identified 24 catalytic development projects. The beneficiary municipalities have since taken over the responsibility for these projects.

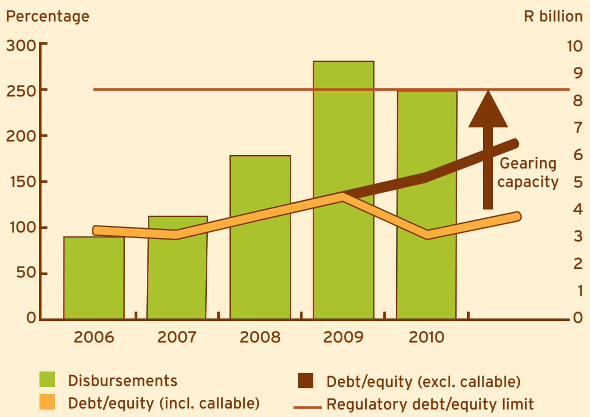
Two innovative project finance products were developed. The first, the Regional Economic Model, forecasts the impact that an investment in a specific sector will have on economic growth. The model is being tested in the Theewaterskloof Local Municipality and the eThekwini Metropolitan Municipality. The second, a MIG-leveraged product, is intended to assist rural and under-resourced municipalities in frontloading MIG allocations. This shortens the project implementation cycle and enables them to fast-track infrastructure service delivery.

# Financial and development investment overview

**Pieter de la Rey**
*Group Chief Financial Officer*

Investment in development activities is not limited to loan and equity disbursements only. The Development Bank of Southern Africa, over and above its normal income-generating investment operations, contributes financially to various developmental initiatives.

The year under review was challenging, as the impact of the global economic crisis continued to be felt. Interest rates declined sharply and the cost of especially short-term borrowing increased significantly. Furthermore, the currency strengthened rapidly against major trading currencies.

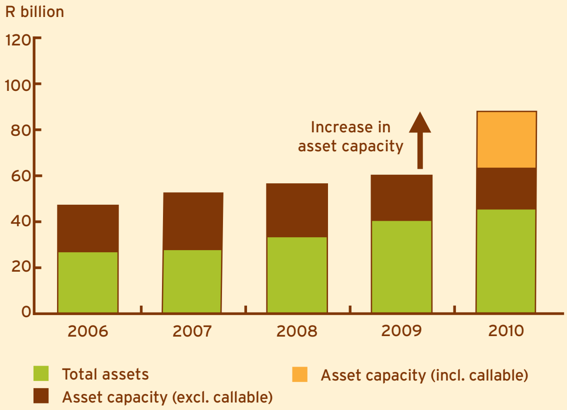



**Effect of capitalisation plan on gearing capacity, 2005/06 to 2009/10**

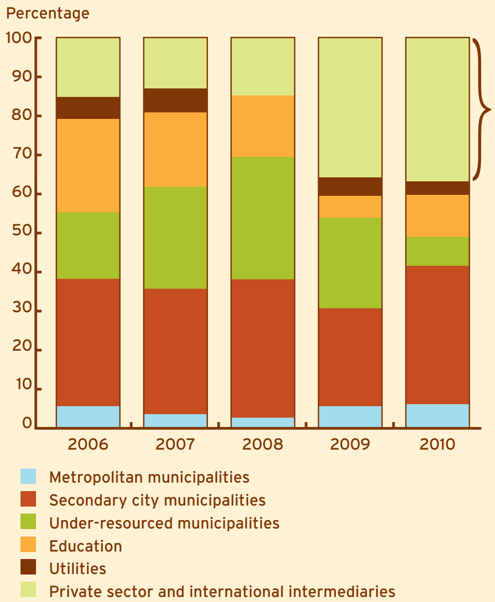
Despite the tough conditions, the DBSA achieved significant development impact. The financial results for the year ended 31 March 2010 show that the DBSA did not compromise on its commitment to support a range of development initiatives, despite market conditions that put pressure on sustainable earnings and the surplus available for future growth. Early in the year, the Bank implemented various financial initiatives to mitigate the anticipated economic fallout. This allowed the Bank to enhance its support for infrastructure investment, especially in public entities, in a challenging environment.

In support of such enhanced delivery, the Minister of Finance approved the capitalisation plan that the Bank presented to the National Treasury. In terms of this plan, the callable capital of the Bank was increased from R4,8 billion to R20 billion. The regulated leverage ratio was also amended to include the callable capital as equity, as illustrated in the graph on the left showing the effect of the capitalisation plan on gearing capacity. In the interim, the Minister of Finance has agreed to a government guarantee of R15,2 billion in support of all creditors, whilst the increase in callable capital is being amended by Parliament.

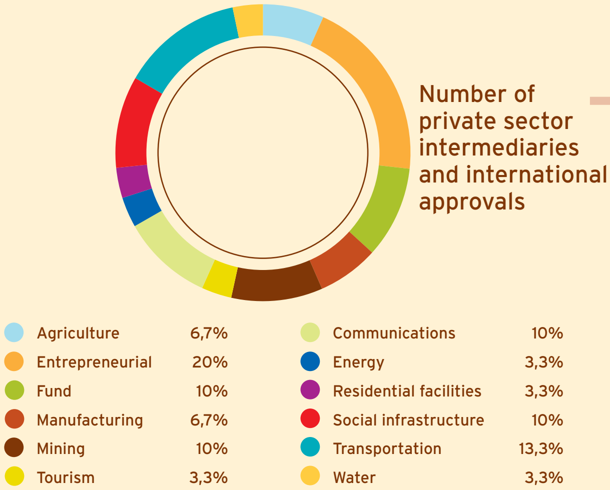
The recapitalisation increases the Bank's asset capacity (i.e. the value of assets that can be supported by its capital structure) by R25 billion for 2009/10 and R37,5 billion for 2010/11, as illustrated below.

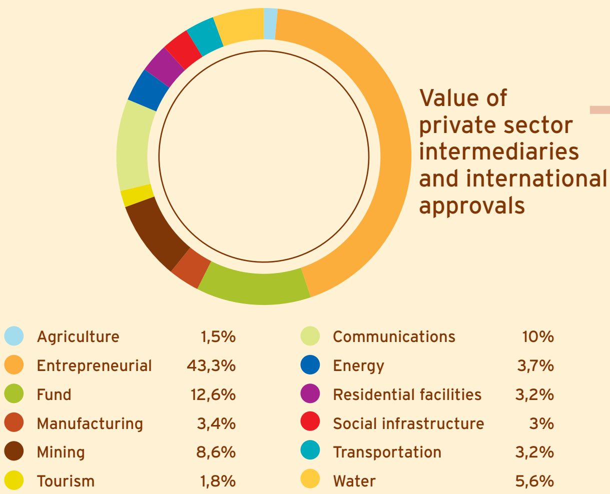



Effect of capitalisation plan on asset capacity, 2005/06 to 2009/10




Number of loan and equity approvals, 2005/06 to 2009/10



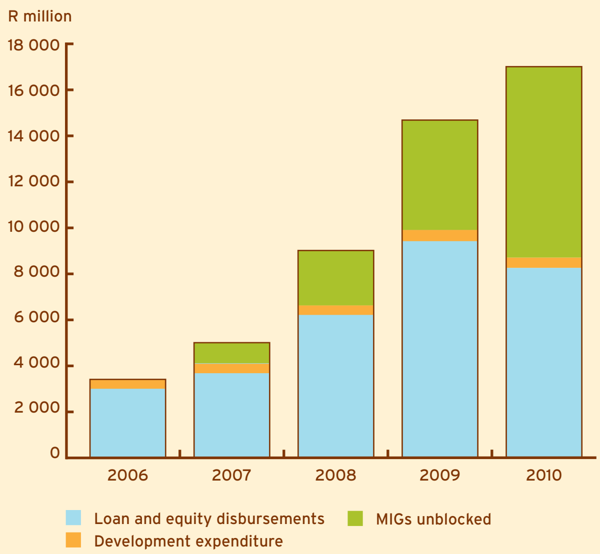




## Development investment

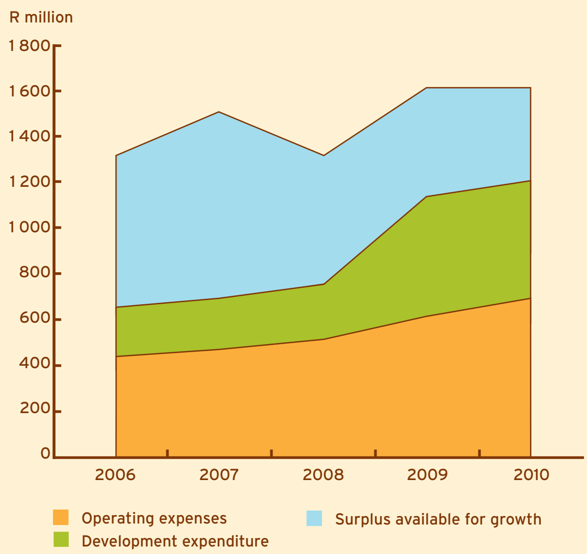
During the year, the DBSA approved development investments to the value of R18,8 billion (2008/09: R23,6 billion). These loan and equity approvals are reflected, per sector, in the graph on the right.

Although the tough economic conditions constrained the ability of the market to take up funding, the Bank nevertheless succeeded in disbursing loan and equity funding of R8,3 billion. An additional R550,2 million (2008/09: R464,1 million) of the Bank's operating expenditure and grants was spent on developmental initiatives. The Bank's total contribution to development in 2009/10 therefore amounted to R8,8 billion.

In addition to its own contributions to development, the DBSA also assists in unblocking other sources of funding for municipal clients, such as the government's Municipal Infrastructure Grant (MIG). The first graph on page 46 shows the total financial value of the DBSA's interventions, including disbursements on development investments, development expenditure, and the value of MIG funding unblocked through the Siyenza Manje programme.



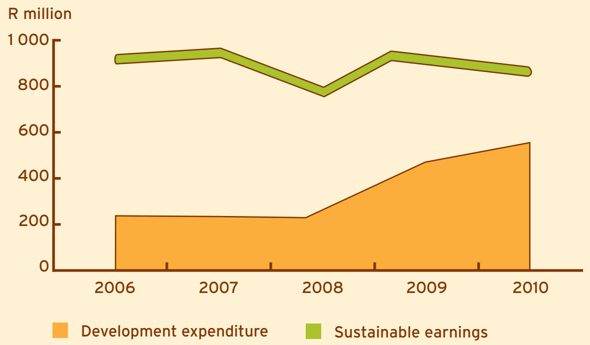

Total financial value of DBSA's interventions (including MIGs), 2005/06 to 2009/10




Operating and development expenses, 2005/06 to 2009/10

## Development expenditure

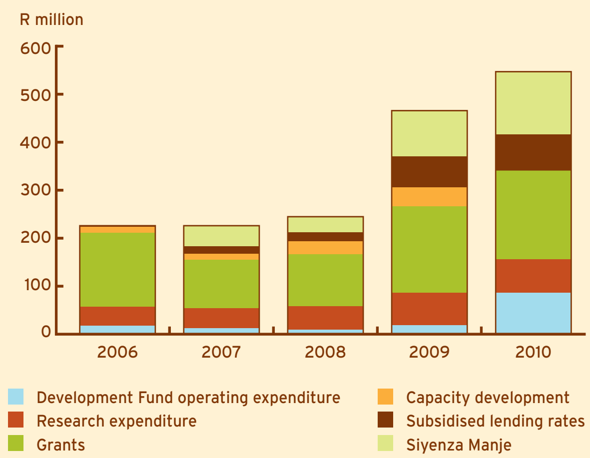
As mentioned on page 45, the Development Bank spent R550,2 million on developmental initiatives, representing 66,9% of its sustainable earnings for the year. This was significantly higher than the 2008/09 figure of 48,9% and the target of 45%, owing to a combination of lower than expected levels of income (see the section on Financial performance below) and significant pressure to increase the assistance provided by the organisation.




Distribution of sustainable earnings on development initiatives, 2005/06 to 2009/10

The DBSA aims to keep its expenditure on development initiatives to around 45% of sustainable earnings in future. Rather than cutting its developmental initiatives, the Bank will instead pursue options such as raising more external funding through the DBSA Development Fund; managing normal operating expenses more tightly (as per the graph opposite); and lowering the cost of funding.

Over the past few years, the Bank has greatly increased its development expenditure, in terms of both the value and the number of initiatives, as shown below.




Development expenditure by type of initiative, 2005/06 to 2009/10

The R550,2 million spent on developmental initiatives in 2009/10 includes the following, among other initiatives (see table opposite for details):

- *Subsidising lending rates to under-resourced municipalities (R72,9 million):* The DBSA's Targeted Infrastructure Programme (TIP) provides concessional lending rates to poorly resourced municipalities

that would otherwise not have been able to afford funding. During the year, R670,0 million was disbursed under the programme, bringing the total TIP book to R1,5 billion. The interest concession for the year amounted to R72,9 million (2009: R65,3 million), representing a 46,5% concession on the full rates.

- *Expenditure on research and advisory services (R69,1 million):* In addition to its supportive role in investment decisions, DBSA's Development Planning Division provides advisory services on issues such as government planning or public policy development at various levels, and turnaround strategies for local government.
- *Technical assistance (R67,4 million):* The Bank provides funding, advice and information to strengthen the capacity of client institutions to plan, implement and manage development projects and deliver services. It also supports processes to remove obstacles and create an enabling environment for development. By definition, technical assistance does not create assets; rather, it enables the development impact of investments to be optimised.
- *Expenditure through the DBSA Development Fund (DBSA contribution: R340,8 million):* The Fund promotes capacity building for development by providing grants, technical experts for under-resourced municipalities under the Siyenza Manje programme, training to enhance the skills of officials, and financial and administrative services to various development agencies.

## Expenditure on development initiatives, 2005/06 to 2009/10

| in thousands of rand | 5-year average | 2009/10 | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|---|---|---|---|---|---|---|
| **Profit from operations** | 1 245 247 | **963 195** | 1 586 121 | 1 293 764 | 1 282 772 | 1 100 382 |
| Add back: Foreign exchange and financial (gains)/losses | (417 827) | **(207 890)** | (718 752) | (583 512) | (344 991) | (233 990) |
| Technical assistance grants | 49 257 | **67 452** | 82 468 | 46 295 | 32 102 | 32 980 |
| **Sustainable earnings** | 876 677 | **822 758** | 949 837 | 756 547 | 969 883 | 899 372 |
| Development expenditure included in sustainable earnings | 92 378 | **141 949** | 127 401 | 68 202 | 70 494 | 53 842 |
| **Surplus available for allocation to development** | 969 055 | **964 707** | 1 077 238 | 824 749 | 1 040 377 | 953 214 |
| **Development expenditure** | (342 560) | **(550 173)** | (464 151) | (248 169) | (224 519) | (225 791) |
| Direct development expenditure | (158 173) | **(209 402)** | (249 674) | (142 372) | (102 596) | (86 822) |
| Subsidised lending rates | (35 191) | **(72 872)** | (65 273) | (19 832) | (15 218) | (2 758) |
| Research expenditure | (51 080) | **(69 077)** | (62 128) | (48 370) | (39 240) | (36 586) |
| Capacity deployment and development | (19 643) | **–** | (39 805) | (27 876) | (16 036) | (14 499) |
| Grants | (52 259) | **(67 452)** | (82 468) | (46 295) | (32 102) | (32 980) |
| **Development Fund expenditure** | (184 387) | **(340 771)** | (214 477) | (105 796) | (121 923) | (138 969) |
| Capacity building grants | (93 748) | **(120 122)** | (101 049) | (59 846) | (67 349) | (120 375) |
| Siyenza Manje costs | (61 903) | **(136 980)** | (93 983) | (36 397) | (42 156) | – |
| Other capacity deployment and development expenditure | (28 736) | **(83 668)** | (19 445) | (9 554) | (12 418) | (18 594) |
| **Surplus available for growth** | 626 494 | **414 535** | 610 087 | 576 580 | 815 858 | 727 423 |
| Development expenditure as % of distributable surplus | 35,3 | **57,0** | 43,1 | 30,1 | 21,6 | 23,7 |
| Development expenditure as % of sustainable earnings | 39,1 | **66,9** | 48,9 | 32,8 | 23,1 | 25,1 |

## Financial results

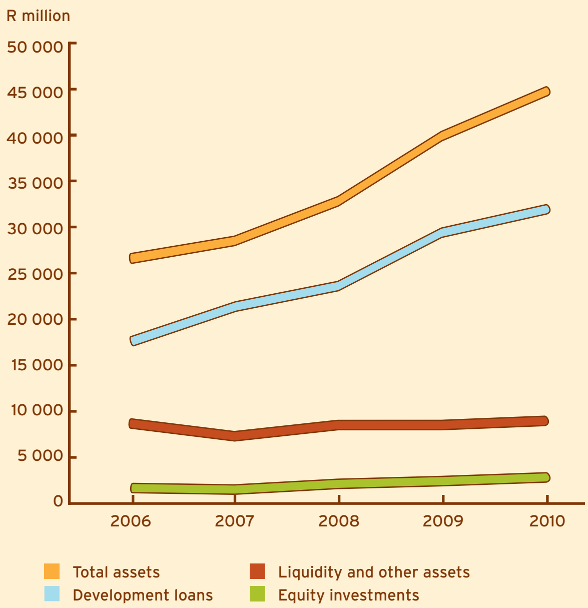
Key financial indicators are reflected in the table below.

| Key financial indicators | 2009/10 R million | Variance % | 2008/09 R million |
|---|---|---|---|
| Loans and equity disbursements | **8 257** | -11,3 | 9 306 |
| Total assets | **45 144** | 11,8 | 40 382 |
| Development loans | **32 969** | 12,0 | 29 449 |
| Equity investments | **3 253** | 27,7 | 2 548 |
| Net interest income | **1 631** | -7,1 | 1 756 |
| Net foreign exchange (loss)/gain | **-261** | | 224 |
| Net gain from financial assets and liabilities | **469** | -5,3 | 495 |
| Operating expenses | **716** | -6,9 | 669 |
| Impairment charge | **228** | 4,0 | 238 |
| Sustainable earnings | **823** | -13,4 | 950 |
| Profit from operations (before transfer to Development Fund) | **963** | -39,3 | 1 586 |
| Debt-to-equity ratio (excluding callable capital) (%) | **148,5** | | 131,3 |
| Debt-to-equity ratio (including callable capital) (%) | **95,2** | | 102,7 |
| Interest margin (%) | **45,3** | | 50,7 |
| Cost to income (%) | **40,5** | | 36,0 |
| Average return on assets (%) | **2,3** | | 4,3 |
| Average return on equity (%) | **5,5** | | 9,6 |

## Financial position

Despite the prevailing market conditions, the financial position of the organisation and the quality of the loan book remain healthy. Income-earning assets (loans and equity investments) grew by 13% to R36,2 billion. This was the main contributor to the growth in total assets to R45,1 billion (up 12% from the previous year) as reflected in the graph on the right.

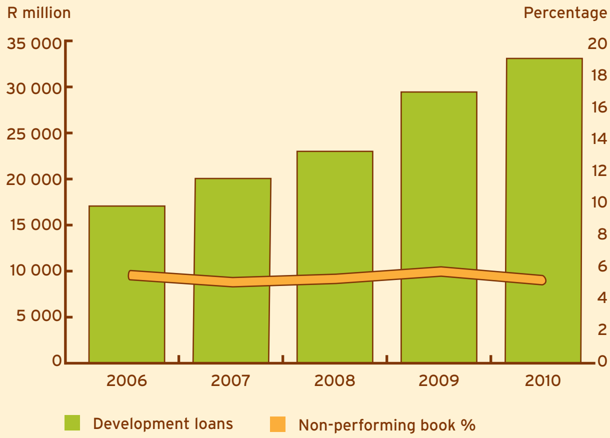
The average financial return on assets and return on equity achieved were 2,3% and 5,5%, respectively.



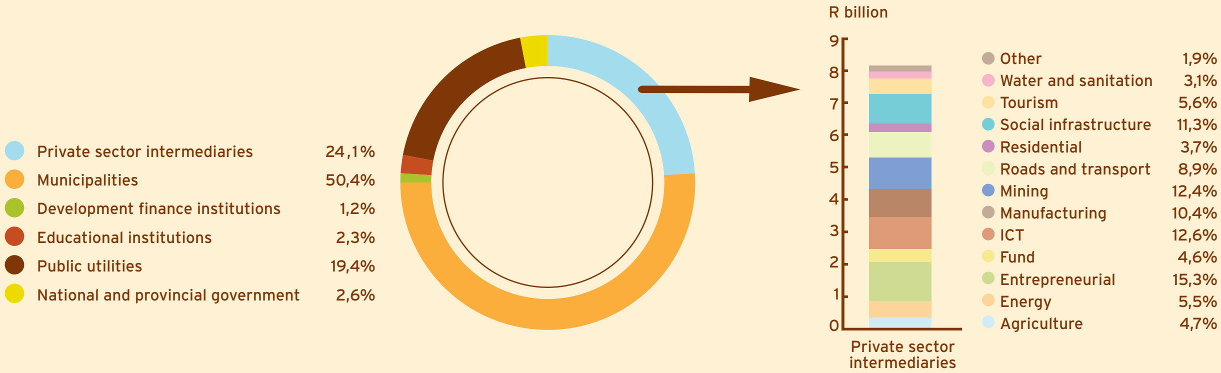

Growth of the balance sheet, 2005/06 to 2009/10

The Bank's non-performing book debt remains managed at 4,9% (2008/09: 5,4%) of the total book, as reflected in the graph on the right.

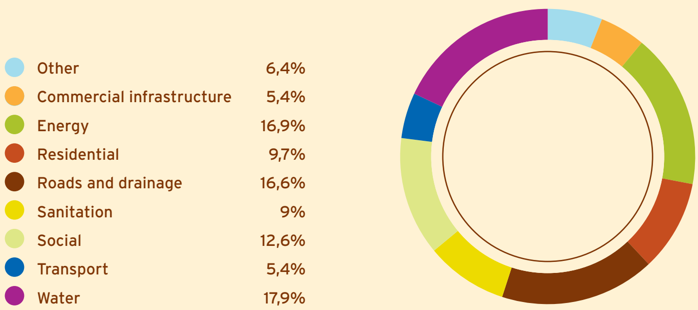
The Bank invests in a diversity of sectors and types of investment, as depicted in the portfolio graphs below. The first portfolio graph shows significant support to municipalities, at 50,4% of the loan book. The second graph, on the public sector book, shows the predominance of funding for social, enabling and economic infrastructure. The third graph shows the equity portfolio.



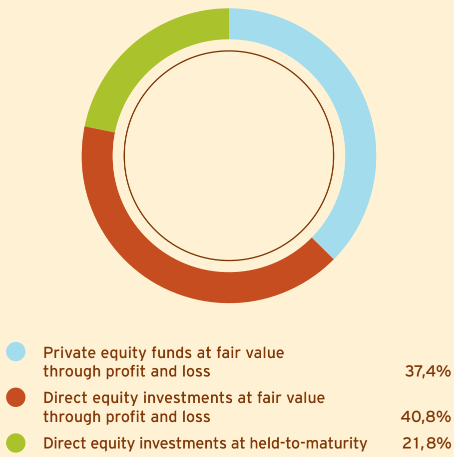

Quality of loan book, 2005/06 to 2009/10




Diversity of total loan book, as at 31 March 2010



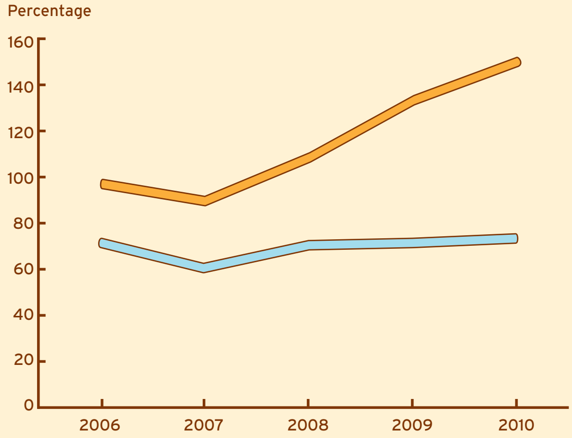

Diversity of public sector loan book, as at 31 March 2010



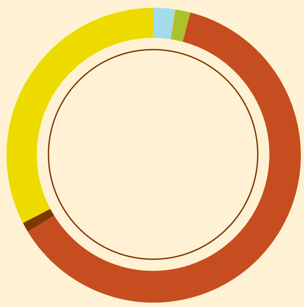

Equity portfolio based on net investment cost, 2009/10

# Financial and development investment overview
continued

The growth in loan and equity disbursements during the year was funded mainly by borrowings, which accounts for the increase in the debt-to-equity ratio from 131% in 2008/09 to 149%, as shown in the graph below. This also affected the Bank's interest expenses, and therefore the net interest margin.




Leverage ratios, 2005/06 to 2009/10



| | | | |
|---|---|---|---|
| Dividends received | R23,9 million | (2%) |
| Interest received | R0,6 million | (0,6%) |
| Fair value adjustment - realised | R16,8 million | (2%) |
| Fair value adjustment - unrealised | R642,7 million | (62%) |
| Impairment | -R11,2 million | (-1%) |
| Foreign exchange adjustment | -R336,3 million | (-33%) |

Equity portfolio impact on the income statement, 2009/10

## Financial performance

The DBSA achieved a net interest margin of 45,3% in 2009/10, down from 50,7% in the previous year. This was due largely to the volatility of interest rates, in particular the significant reduction in short-term interest rates, together with the increased cost of borrowing following the general decline in liquidity.

The strengthening of the rand resulted in a net foreign exchange loss of R261 million (2008/09: R224 million gain), largely on euro- and dollar-denominated equity investments. Still, the strong performance of these equities resulted in a net financial gain of R643 million (2008/09: R59 million).

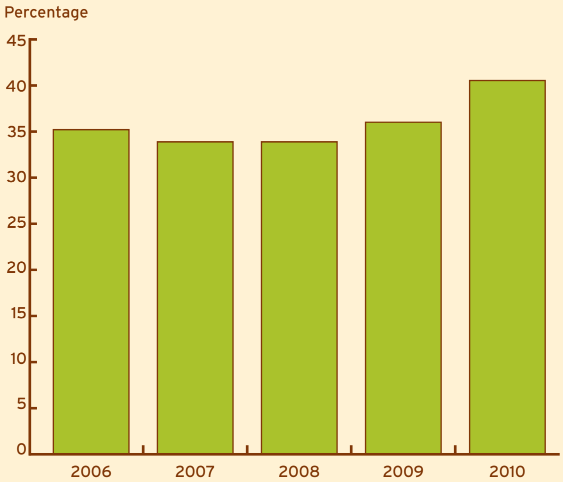
The Bank incurred a net revaluation loss of R113,8 million on hedged fair-valued assets and liabilities, inclusive of the hedge instruments (2008/09: R443 million net gain resulting from the widening of the spread of DV bonds relative to swaps). The net loss resulted largely from movements in the spread of DV bonds relative to swaps. In the case of the Bank's DV13, DV22 and DV23 issues, the relative bond yields had moved by -45, +40 and +24 basis points respectively year-on-year, resulting in a negative revaluation impact of R130 million. While the liabilities would ordinarily have been offset by the designated assets and hedge instruments, the relative volatility in spreads resulted in substantial net movements over the last two financial years.

A net revaluation loss of R66,0 million resulted from the partial early redemption of the DV07 bond maturing in September 2010. The revaluation loss represents the difference between the market value of the redeemed bond and the accounting book value, since the bond was accounted for at cost. The decision to redeem the bond was taken with full cognisance of the revaluation impact, with a view to reducing the refinancing risk that the Bank would face at the maturity of the bond.

A net gain of R5,5 million was achieved in the fair value of the post-retirement medical aid investment portfolio.

The net impairment charge of R228 million (2008/09: R238 million) to the income statement is managed in line with the overall increase in the loan book. The non-performing book debt ratios remain within acceptable norms.

The Bank has a prudential cost-to-income ratio limit of 45%. While the target was below 40%, the actual ratio of 40,5% (2008/09: 36,0%) was largely the result of the lower than expected income, as stated above. Due to various management initiatives put in place during the year, this ratio was within the prudential limit.




Cost-to-income ratio,
2005/06 to 2009/10

Given the conditions set out above, profit from operations (before the transfer to the Development Fund and capacity development and deployment expenses) was a solid R963 million.

For further financial results and analyses, the five-year financial review of the Bank is on the inside front cover, and the annual financial statements are on pages 91 to 166. The development expenditure table, which categorises direct and indirect development expenditure, is on page 47.

## Financial sustainability and strategy

Key drivers and associated risks with regard to achievement of the future objectives include the balance sheet capacity and the ability to raise cost-effective funding. Building on the approved capitalisation, which created the capacity, the current and future funding initiatives also include the issuing of preference shares and targeted pension fund strategies.

The objective of the Finance Division is to maintain effective financial management, forecasting, financial analysis and decision-making capabilities to ensure the long-term financial sustainability of the Bank and its business divisions. The current focus of the Division is on the capital optimisation of the Bank.

## The year ahead

The Bank will continue to implement its strategy to increase investment in its mandated interventions and maximise its development impact despite the current economic conditions. Further to increasing the callable capital of the DBSA, which was approved by the Minister of Finance, it will also continue to implement plans for the revised capital structure. Furthermore, various initiatives are being pursued to lower the Bank's cost of funding to allow the projected disbursement growth. These initiatives stand in support of the Bank's objective of significantly increasing its investment in the region over the short to medium term, while maintaining its strong financial sustainability.

# Treasury overview


## Market conditions

The South African economy slipped into a recession in 2009, after enjoying five years of uninterrupted growth. In response, the monetary authorities lowered interest rates to levels that were last seen some 20 years ago.

In 2009, real GDP fell by 1,8%, owing to lower consumer spending and poor export performance. The overall growth in fixed capital investment was pedestrian, coming in at 2,3% (compared to 11,7% in the previous calendar year). Infrastructure-related fixed investment by the government and state-owned corporations, however, continued to grow robustly, even as planned new investments across the economy fell sharply with the onset of the recession.

CPI inflation gradually declined in the year under review, averaging around 6,5% (against 10,5% in the previous financial year). As a result, the South African Reserve Bank cut its repo rate by 300 basis points to 6,5%. By financial year-end, the central bank had eased monetary policy by a cumulative 500 basis points since December 2008.

On a trade-weighted basis, the rand gained 27% in 2009/10. This was a stark reversal of the currency's depreciation by 5% and 18% respectively in the previous two financial years. Various factors supported the rand, including the revival of investor risk appetite for emerging market assets, the so-called carry trade, and the exceptional weakness in the euro, a key trading currency.

The strengthening of the currency had a significant negative effect on the valuation of the Bank's equity investments that are denominated in foreign currency (US dollar and euro). The rand value of these investments fell, in contrast to previous years when the depreciation of the rand resulted in an increase in valuations.

The short end of the South African yield curve moved down during the year, while the long end gradually picked up. At the short end, this reflected the easing of monetary policy, while the higher supply of government bonds after a period of dormancy put pressure on yields at the long end.

The swap curve continued to trade through the government curve beyond the ten-year mark and bond/swap spreads remained locked at levels well below their long-term averages. The yield on the R157 benchmark government bond dipped by 23 basis points to just under 8% at the end of the financial year, while the yield on the longer-dated R186 bond increased by 14 basis points to 8,8%.

## Funding

Credit market conditions improved steadily throughout the year, helping to reinforce demand for the Bank's bonds issued in the domestic capital market. Issued spreads narrowed, as investor demand consistently exceeded the amount offered on auction on a monthly basis. Excluding the refinancing of money market paper, new debt raised amounted to R6,8 billion, of which R6,3 billion was issued in the domestic market, with the balance sourced from committed foreign credit lines and an offshore private placement denominated in Brazilian real.

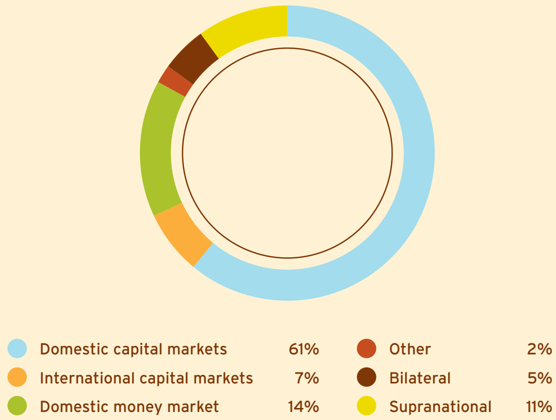
During 2009/10, the spread on the Bank's most actively tapped bond (the DV22 maturing in 2020) declined from a high of 173 basis points above its government benchmark to 127 basis points by financial year-end. At the same time, the bond's spread to swaps narrowed from 185 basis points to 127 basis points, resulting in a net negative unrealised revaluation impact on the Bank's portfolio of fixed-coupon bond liabilities swapped to floating.

A new three-year floating-rate note, the DVF12, was launched during the year, and by financial year-end was tapped to the amount of R1,1 billion. The DV07 bond maturing in September 2010 was partially redeemed through a switch to the Bank's longer-dated bonds. As a result, 60% of the outstanding issue was bought back, with the remainder to be redeemed at the maturity date. Total new bonds with a face value of R1,4 billion were issued to finance the DV07 redemption. This increased the total domestic market issuance for the year to R7,7 billion net of the refinancing of money market paper. The table below shows the Bank's outstanding domestic bond issues at the end of 2009/10, while the chart overleaf depicts the distribution of the Bank's debt portfolio by source.

**Domestic bonds in issue, 31 March 2010**

| Bond | Issue date | Maturity date | Years to maturity | Authorised amount (R billion) | Outstanding issued amount (R billion) | Spread to government benchmark (basis point) |
|---|---|---|---|---|---|---|
| DV07 | 18 May 1990 | 30 Sep 2010 | 0,5 | 2,0 | 0,7 | 54 |
| DV13 | 25 Aug 2008 | 25 Aug 2013 | 3,4 | 2,0 | 1,6 | 90 |
| DV21 | 31 May 2000 | 15 Jun 2016 | 6,2 | 4,0 | 1,0 | 100 |
| DV22 | 07 Feb 2008 | 07 Feb 2020 | 9,9 | 10,0 | 7,3 | 125 |
| DV23 | 21 Feb 2003 | 27 Feb 2023 | 12,9 | 6,0 | 4,0 | 124 |
| DVF12* | 13 Oct 2009 | 13 Oct 2012 | 2,5 | 4,0 | 1,1 | 100** |

*Sources: JSE, I-Net Bridge, DBSA*
** Floating-rate note*
*** Spread to 3-month JIBAR*




Distribution of funding sources, 31 March 2010

## Liquidity

The rapid decline in short-term interest rates impacted negatively on the yield earned on the Bank's cash liquidity holdings. The resultant negative carry cost contributed substantially to the year-on-year decline in the Bank's net interest income. Nevertheless, liquidity was conservatively managed, and at financial year-end total liquidity amounted to R5,6 billion (2008/09: R4,8 billion), invested primarily in government and municipal bonds, cash, commercial paper and, to a lesser extent, corporate bonds.

## Credit ratings

The Bank's rating by Moody's Investors Service was changed to A3 from A2 in September 2009, reflecting the rating agency's new methodology of assigning government-related entities a rating no higher than that of their sovereign shareholder. The outlook was maintained at "stable". Meanwhile, Fitch and Standard & Poor's retained their sovereign-equivalent investment-grade credit ratings of the Bank during the year under review. A summary of the ratings is shown in the table below.

**Credit ratings, 31 March 2010**

| Agency | Issuer rating type | Short term | Long term | Outlook |
|---|---|---|---|---|
| Fitch | National | F1+(zaf) | AAA(zaf) | Stable |
| Moody's | Foreign currency | Not rated | A3 | Stable |
| Standard & Poor's | Foreign currency | A-2 | BBB+ | Negative |
| | Local currency | A-1 | A+ | Negative |

# Operations overview


## South Africa Operations[1]

### Strategic overview

#### Nature of business

The DBSA maximises its contribution to sustainable development by mobilising financial, knowledge and human resources to improve the quality of life of people in the region. It funds infrastructure projects that accelerate the progressive reduction of poverty and inequity and promote broad-based economic growth. The South Africa Operations Division is the principal investment arm of the Bank in South Africa. The Division provides financial and non-financial support for the development of infrastructure. As development requires both finance and the institutional capacity to plan, implement and manage programmes for service delivery, the Division works closely with the DBSA Development Fund and the Development Planning Division to provide integrated and holistic solutions to the development challenges in the country.

The public sector focuses on infrastructure that forms the foundation of sustainable development and supplies basic services to communities. The private sector, in turn, increasingly supports infrastructure that stimulates employment creation. The DBSA works with both sectors, channelling its development support through provincial and local government, state-owned enterprises, development finance institutions, water boards, further education and training institutions, and private sector entities.

Given the gaps in the delivery chain, the Bank also plays a more direct role, proactively identifying and structuring infrastructure projects in collaboration with other role players. In addition to the typical loan funding, it provides products and services that are tailor-made for specific community needs, as well as specialised services related to public-private partnerships and equity investments.

#### Operating environment

During 2009/10, the DBSA continued to execute its mandate of addressing the challenges posed by the development landscape in South Africa. For example, an estimated 12 million people are still waiting for at least one basic service. Over 40% of people are poor, and

[1] This Division was split into South Africa Operations (Group Executive: Luther Mashaba) and Investment Banking (Group Executive: TP Nchocho) on 1 April 2010.

the rising unemployment following the global financial crisis has exacerbated this situation.

Institutional weaknesses are severe at the municipal level. Municipalities struggle to render services to their communities and absorb funding for infrastructure programmes. In several instances, service delivery protests have compounded the problems at this level. As municipalities are the main intermediaries for the Division, these capacity constraints posed significant challenges to the provision of affordable and sustainable support during the year.

The infrastructural base of the country remains under strain after nearly three decades of underinvestment and poor maintenance, particularly in the transport, electricity and water sectors. The neglect in these sectors has a direct bearing on the development of sustainable communities and the direction and level of economic growth. Backlogs in bulk infrastructure are still acute, and there is a growing demand for infrastructure to be provided and maintained in the education and health sectors.

The government has embarked on various programmes to deal with these challenges. It announced projects valued at more than R1,5 trillion in key infrastructure sectors over the next five years. It is estimated that more than 50% of these capital programmes will require debt financing. In the year under review, there was a lack of affordable funding and institutional capacity to plan and implement these programmes. The government's finances were under stress following the economic downturn, while commercial funding commanded higher spreads. Municipalities, especially at the middle to lower end of the market, found it increasingly difficult to secure affordable funding. As a result, fewer public institutions requested proposals for funding and several capital programmes were put on hold. Among financial institutions, competition for lower-risk clients was intense and price-based, often negating the Bank's ability to provide non-financial, value-adding services. These factors affected the Division's ability to reach certain components of the market.

### Strategic approach

Against the backdrop of the global slowdown, the DBSA played a significant counter-cyclical role by accelerating investment in support of the government's development strategy. The Bank helped to expedite service delivery by increasing access to basic services and contributed to the economy by financing infrastructure in targeted sectors. It adopted a balanced approach to providing investment support for social, bulk (enabling) and economic infrastructure.

## Operations review

Capacity constraints in intermediaries such as municipalities are a critical factor delaying the implementation of programmes aimed at providing a sound infrastructure base for the growing economy. The DBSA used technical assistance grants and Siyenza Manje deployees as specific support interventions to overcome these constraints. Despite the challenging environment, the Bank intensified its outreach to medium and small municipalities, utilities, educational institutions and private sector intermediaries. It used loan finance alongside technical assistance, advice and other non-financial services to strengthen the delivery capacity of these intermediaries and maximise the developmental impact of its interventions.

The DBSA also worked with partners in development to identify projects affected by institutional failure, and provided a R10 million Project Preparation Facility to support the planning and preparation of projects. It approved a total of R23,5 million in new technical assistance grants, including specific support for areas with limited capacity.

### Increasing service delivery and economic growth through investment loans

The tight economic conditions required the Bank to adopt a more focused approach during 2009/10, with an emphasis on education and secondary municipalities in line with national priorities. The Division approved projects and programmes to the value of R13,9 billion. Of this amount, more than R1,8 billion was allocated to educational infrastructure, mainly in the tertiary sector. Support to secondary municipalities, at R4,1 billion, was 55% higher than in the previous year. These approvals and subsequent disbursements of R7,3 billion resulted in a 26% growth in the South African portfolio to R29 billion. The 122 projects funded during 2009/10 brought the total number of projects funded since the inception of the DBSA to around 5 000.

Typically, it takes three to six months to convert project approvals into signed commitments and to implement the funded programmes themselves, and these phases therefore often occur after the end of the financial year. This delay is due to three main factors. First, most projects in the municipal market are put out on tender, which tends to prolong the decision-making process. Second, non-governmental institutions, private companies and state-owned enterprises generally follow protracted negotiation processes. Third, the depressed macroeconomic situation caused many institutions to delay the implementation of approved programmes. Nevertheless, in 2009/10 67% of project approvals were converted into commitments (2008/09: 62%), resulting in new commitments of R5,9 billion. At year-end, projects worth a further R6 billion were in negotiation, and when concluded these will yield a significant flow of disbursements in the new financial year.

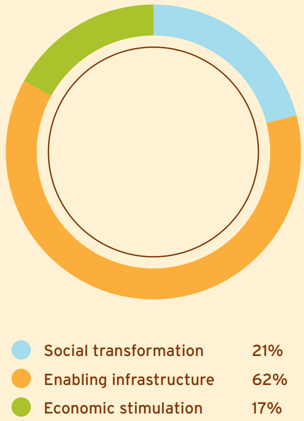
## Creating economic growth

Given the DBSA's objective of stimulating the economy, investments that generated economic growth and job creation remained a priority during the year. It is estimated that the projects approved for funding by the Bank and its co-funders in South Africa could create almost 96 000 additional employment opportunities (adding 0,7% to total employment) and contribute R23 billion (1%) to GDP during their lifespan. Based on actual investment in projects in South Africa (i.e. disbursements), an estimated 31 600 employment opportunities were created and R6,9 billion was added to GDP during the year.

## Investment focus on priority infrastructure categories and sectors

Development is multi-sectoral in nature and an integrated approach is required to maximise the development impact of investments. Investments in social infrastructure, such as municipal services, health and education, must be supported by corresponding investment in bulk enabling infrastructure such as energy, water and road networks, and must be aligned with investments that build the economic sustainability of an area. The DBSA aims to balance its support to these different categories of infrastructure, although the final mix is clearly influenced by the priorities of its clients. While there has been a relative decrease in investment in social infrastructure (from 31% in 2008/09 to 21% in 2009/10), investment in enabling bulk infrastructure rose from 54% to 62% and in economic infrastructure from 14% to 17%. The following graph shows total approvals by category of infrastructure.

The absolute value of funding increased in all three categories. In the economic category, the transport and energy sectors led the investments, followed by




Approvals by infrastructure category, 2009/10

housing facilitation. In the social infrastructure sector, housing, education and health led the investments, as municipalities funded transformational infrastructure to create sustainable living conditions for beneficiary communities.

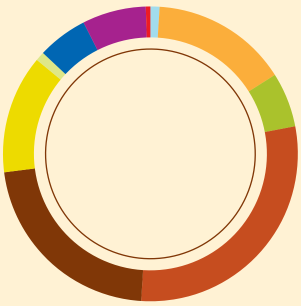
The Development Bank targeted priority economic sectors for investment, based on national infrastructure requirements. An investment of R3,3 billion in the expansion of the Medupi Power Station stimulated the economy in an integrated way by providing coal for energy generation and creating employment in a remote area. It is estimated that the project will contribute R1,8 billion to GDP annually. Of this amount, R812 million or 44% will be generated in Lephalale, providing much-needed support for this rural economy. The project will also facilitate the development of new large-scale infrastructure that will improve regional integration, thereby broadening the developmental impact of the investment.

Another priority for the year was education: the DBSA's support strengthened the infrastructure base of several universities and institutions of further education. For example, the Unizulu Richards Bay Campus project, valued at R16 million, helped to reposition Unizulu as a comprehensive institution offering programmes from both university and technikon curricula. The project involved the construction of a new campus for the Faculties of Commerce and Administration, Computer Science, Movement Science and Hospitality Services. The first phase, which has been completed, consists of a new building with lecture theatres, student conference facilities, administrative facilities, staff offices, parking and security facilities.

The DBSA also extended support to the housing sector, another national priority. The Bank made a major investment of R3 billion in the Housing Impact Fund, alongside the Old Mutual Life Assurance Company South Africa, the Public Investment Corporation and the Eskom Pension and Provident Fund. The aim is to increase the availability of affordable housing units in South Africa. The Housing Impact Fund will invest in:

- Developing new housing stock
- Renovating inner-city buildings to create affordable, quality rental accommodation
- Providing end-user finance to help middle- and low-income earners obtain housing finance

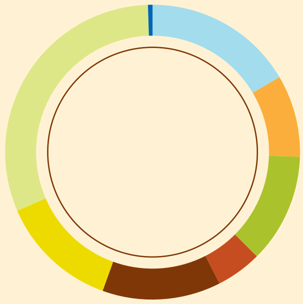
The graph below shows infrastructure investment by sector in 2009/10. The importance of social infrastructure is evident, with priority given to the municipal, housing and educational support sectors.



| | | | |
|---|---|---|---|
| Water | 1% | Education | 13% |
| Transport | 15% | Community facilities | 1% |
| ICT | 6% | Mining | 5% |
| Municipal | 29% | Entrepreneurial | 7% |
| Housing | 22% | Energy | 0,5% |

Value of approvals per sector, 2009/10

Investments in the municipal sector were also multifunctional, as shown in the following graph (2008/09 values are in brackets). The main areas of support were community facilities and energy.



| | | | | | |
|---|---|---|---|---|---|
| Energy | 17% | (8%) | Roads and drainage | 13% | (27%) |
| Water | 9% | (13%) | Sanitation | 13% | (4%) |
| Transport | 12% | (0%) | Community facilities | 31% | (37%) |
| Housing | 5% | (5%) | Institution building | 0,5% | (0,4%) |

Municipal approvals per sector, 2009/10

## Overcoming basic service delivery backlogs

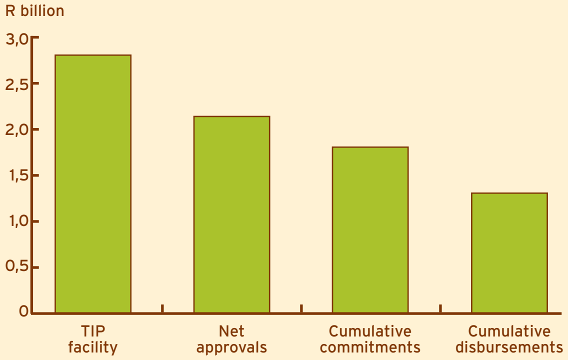
The DBSA's investments in municipal infrastructure allowed an estimated 728 000 households to receive at least one basic service, such as water, sanitation, electricity, roads, storm-water drainage or waste management. For example, the Bank supported the Msunduzi Municipality, which accounts for the following percentages of the total backlogs in KwaZulu-Natal: water (1,4%), sanitation (0,7%), electricity (1,9%) and refuse (3,5%). During the year, the Development Bank disbursed R226 million to the Municipality as part of its R579 million capital programme. The disbursements went to fund water and sanitation services (50%), electricity and street lighting (15%), roads and storm-water drainage (15%), building and equipment (12,5%) and waste management (7,5%).

## Extending the outreach to poor communities

One of the most daunting challenges facing South Africa is the creation of a sustainable living environment for all its communities. The hinterland areas, where more than 30% of South African households reside, are generally serviced by under-resourced municipalities. These areas lack an economic base and are characterised by a low absorption capacity, limited affordability and poor service delivery. It is estimated that they account for over 50% of the total backlogs in basic infrastructure. Underserviced communities are also found in metropolitan areas, in part because of the migration of poor people to places that are perceived to offer new opportunities.

Besides lacking financial resources, poor municipalities lack the capacity to implement projects. In order to provide them with meaningful support, South Africa Operations therefore works closely with other divisions in the Bank, and especially with the Siyenza Manje deployment initiative, to develop appropriate technical assistance programmes.

Now in its sixth year of implementation, the Targeted Infrastructure Programme (TIP) continued to be the DBSA's main financial instrument for supporting poor municipalities. The TIP is a concessional programme that builds financial sustainability through a combination of technical and investment support tailored to the needs of poorer municipalities. During 2009/10, 32 new projects worth R384 million were approved and R670 million was disbursed under this R2,8 billion programme, bringing the uptake level to 77% (see graph below). The bulk of the TIP funding was allocated to projects that increased access to clean water and electricity, such as those in the Ehlanzeni and West Coast District Municipalities. Other priorities, such as improved sanitation and roads, were also supported. The TIP facility will remain a priority instrument of support to poor communities for the next two to three years.




Targeted Infrastructure Programme, 2009/10

## Diversifying the delivery channels to increase socio-economic returns

The Bank employed a two-pronged developmental strategy during the year. First, it aimed to increase its development impact by using state-owned enterprises and private companies as intermediaries in the delivery of infrastructure to stimulate economic activity. Second, it aimed to accelerate the reduction of backlogs in social infrastructure and the rehabilitation of ageing infrastructure.

The economic downturn had a significant effect on the DBSA's potential clients, especially on low-capacity municipalities and smaller private sector entities. This made it more difficult to diversify the client base, although the Bank achieved some diversification among secondary municipalities and state-owned enterprises, as noted above.

The global financial crisis restricted the interest of commercial banks in municipal funding for the first nine months of the year, and the DBSA was highly successful in the municipal tender market during this period. In the last quarter, private banks re-entered the market, and were awarded most municipal tenders. The availability of private funding, particularly to metropolitan municipalities, enabled the DBSA to focus on the huge infrastructure backlogs in the informal settlements and on building an enabling environment to create employment. The projects funded by the Bank provided a range of services, such as electricity, water, solid-waste removal, sanitation, roads, storm-water drainage and urban development.

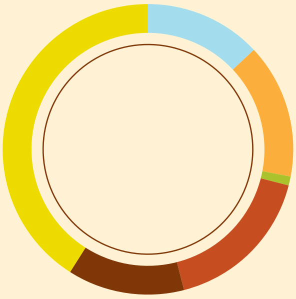
In 2009/10, the DBSA disbursed over R1,8 billion towards capital expenditure projects in eThekwini and Tshwane, among other metropolitan municipalities. In eThekwini, R900 million was allocated to improving service delivery and eradicating long-standing infrastructure backlogs among poor households. The improved service delivery includes the following:

- Water and sanitation services are being extended to 18 000 households per year.
- More than 30 pedestrian bridges, 32 km of new roads and 165 km of sidewalks are being constructed and 200 km of gravel roads tarred.
- Refuse removal services are being extended to 159 000 households per year.
- New electricity connections are being provided to 155 000 households, and 15 new major substations are being developed.
- Approximately 75 000 housing units are being delivered.

The Bank also disbursed R101,4 million to under-resourced municipalities, mainly for the provision of bulk water and electricity infrastructure. Examples include the West Coast District Municipality and the Merafong City Local Municipality.

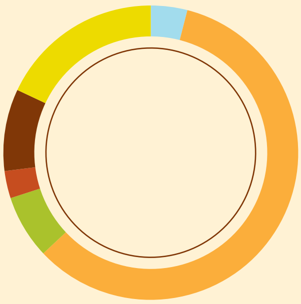
The first graph opposite shows the value of approvals per category of client. New approvals to municipalities accounted for 29,4% of the total value of approvals in the year. Educational facilities and non-municipal clients who provide enabling bulk infrastructure accounted for another 53,4%. The final 17,2% of approvals went to utilities and state-owned enterprises, reflecting the

rollout of large infrastructure programmes. The second graph shows the number of approvals per category of client.



| | | |
|---|---|---|
| Metropolitan municipalities | R1,8 billion | (13%) |
| Secondary cities | R2,1 billion | (15%) |
| Under-resourced municipalities | R179 million | (1%) |
| Public sector institutions and utilities | R2,4 billion | (17%) |
| Educational institutions | R1,7 billion | (13%) |
| Non-government companies and institutions | R5,7 billion | (41%) |

Value of approvals by client sector, 2009/10



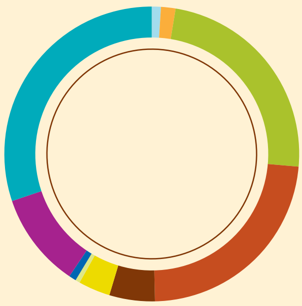
| | | |
|---|---|---|
| Metropolitan municipalities | 4% | (5 projects) |
| Secondary cities | 59% | (67 projects) |
| Under-resourced municipalities | 7% | (8 projects) |
| Public sector institutions and utilities | 3% | (3 projects) |
| Educational institutions | 9% | (11 projects) |
| Non-government companies and institutions | 18% | (22 projects) |

Number of approvals per client category, 2009/10

## Geographical focus of support

South Africa is a land of contrasts, with an uneven distribution of development needs and economic potential. The country's spatial framework consists of a number of centres of economic activity, which are linked by corridors and surrounded by vast, underdeveloped hinterlands. In these under-resourced areas, service delivery is limited and absorption capacity low, and offering support in such an environment presents particular challenges for the DBSA.

In respect of social infrastructure, provinces with metropolitan municipalities and larger urban centres, such as Gauteng, KwaZulu-Natal and the Western Cape, continued to display greater absorption capacity and a greater demand for support, given the concentration of poor communities in urban areas and the large infrastructure backlogs. The biggest demand for enabling bulk infrastructure came from areas with the highest economic growth, and investments in road and air transportation infrastructure were concentrated there. Support for economic infrastructure was also more evident in mining areas, such as Lephalale in Limpopo (as discussed in the next section). The graph below shows the geographical distribution of approvals by province.



| | | | |
|---|---|---|---|
| Eastern Cape | 1% | Mpumalanga | 3% |
| Free State | 2% | Northern Cape | 1% |
| Gauteng | 24% | North West | 1% |
| KwaZulu-Natal | 23% | Western Cape | 10% |
| Limpopo | 5% | National | 30% |

Value of approvals per province, 2009/10

## Other strategic initiatives

The DBSA implemented a number of strategic initiatives to increase its outreach to under-resourced areas and develop solutions to the country's infrastructure problems. The South Africa Operations Division worked closely with the DBSA Development Fund to review financial instruments for increasing the delivery capacity of under-resourced municipalities.

In Limpopo, the DBSA partners with the provincial Department of Local Government and Housing and the

Lephalale Local Municipality to support the development of bulk infrastructure services in Lephalale. As one of the fastest growing areas in the country, the town needs significant investment in supporting infrastructure. Detailed scoping work on the nature and extent of its infrastructure requirements will commence soon.

As the state of provincial roads is a national concern, the DBSA is working with provincial departments to explore various ways of mobilising funding in a sustainable business model. Significant progress has been made in developing a conceptual framework for funding in the North West and Limpopo provinces.

The provision of proper healthcare facilities is another priority area, and the DBSA works closely with the government to support national and provincial health initiatives. In Gauteng, for example, the Bank is helping the provincial Department of Health conduct a detailed assessment of infrastructure requirements to inform a business plan for the revitalisation of hospitals. This could lead to the funding of new capital programmes through public-private partnerships or the government's Hospital Revitalisation Programme.

## The year ahead

In 2010/11, the Division will continue to focus on accelerating development by providing comprehensive lending and non-lending support for infrastructure interventions. It will strengthen its efforts to alleviate backlogs and enable growth across all the sectors and market segments, especially in marginalised communities and areas with limited capacity. The Bank will follow a more proactive approach to identifying and originating projects in order to bridge capacity gaps in the delivery of services. However, it is aware that the current impediments to development will remain a challenge in 2010/11. These include the following:

- In the municipal sector, which also serves the poorest communities, limited implementation and absorption capacity continue to hamper delivery. Support must be packaged to address financial needs while also building sustainability in these institutions. Metropolitan municipalities will continue to be important for delivering meaningful volumes of support.
- The slow recovery from the economic downturn and its impact on the availability and affordability of funding will still challenge the Bank to find appropriate support mechanisms for channelling development resources.
- Towards the latter part of the year, decision-making and delivery at local level are likely to be affected by preparations for the 2011 local government elections.

As part of the DBSA's efforts to enhance its delivery capacity for infrastructure investment, the South Africa Operations Division split in two with effect from April 2010. This will allow more dedicated support both for major infrastructure programmes on a national level and for initiatives to promote economic development through project and investment banking support. In the new structure, the current South Africa Operations Division will focus on provincial and municipal support, while the new Investment Banking Division will serve the private sector, state-owned enterprises and public-private partnerships.

The new Divisions will have the following priorities for 2010/11:

- *Expanding the available support instruments:* The DBSA will develop alternative, tailor-made instruments for expanding financial support to under-resourced municipalities. These instruments will enable the provision of finance within acceptable risk parameters and without compromising the Bank's sustainability.
- *Developing alternative delivery channels:* This will be done in partnership with the government at national and provincial level, and will focus on the health, transport and education sectors.
- *Providing comprehensive development solutions:* The Bank will provide a coordinated and integrated package of support, including technical support, advice and investment, while expanding its roles as a facilitator and integrator.
- *Originating projects:* The DBSA will intensify its efforts to facilitate project origination by proactively engaging with key strategic partners to identify development needs and opportunities, and shape these into sustainable and bankable projects.
- *Accelerating of infrastructure development:* Working with the government at national and provincial level, the DBSA will explore appropriate mechanisms for leveraging grants to increase the borrowing capacity of municipalities and other entities, and thereby speed up the implementation of projects.

# Operations overview

Admassu Tadesse
*Group Executive*

## International Division

### Advancing infrastructure and economic development in the region

The International Division is responsible for the DBSA's operations outside South Africa and is the custodian of the Bank's regional development strategy. By providing a mix of financial, partnership and advisory services to a range of private and public sector clients and partners in the region, the Division champions the provision of bulk infrastructure, such as energy, water and transport, which serves the region as a whole.

In the year under review, the DBSA's international operations safely weathered the global financial crisis. The Division not only maintained its financial sustainability but even performed exceptionally well in a number of areas.

The DBSA achieved a record R4,9 billion of international lending and investment approvals, an increase of 26,7% over the R3,9 billion in 2008/09. Terminations, where projects were approved by the Bank but not taken up by clients, amounted to R826 million. While due consideration was given to projects that were ready for financing throughout the region, special emphasis was placed on reconstruction projects and viable projects in low-income countries.

This brought a strong focus on countries such as Angola, Zimbabwe and the Democratic Republic of Congo (DRC), where investment and turnaround efforts are crucial and development impact is high. The DBSA approved R2,0 billion for priority development projects in Angola, the highest ever level of Bank approvals for this rapidly growing economy. Most of the approvals were for priority sectors such as construction and economic diversification, and involve small and medium enterprises. The Bank also approved US$20 million for its first ever investment project in Zimbabwe, a credit scheme in the priority agribusiness sector (see box on the following page). This was soon followed by a second approval for Zimbabwe, involving a housing development project for the community attached to the Zimplats mining concern.

## Credit scheme for small farmers: The DBSA's first development loan approval in Zimbabwe

During the year, the DBSA approved a US$20 million loan for a revolving input credit programme for small-scale cotton farmers in Zimbabwe. The programme helps communal and other farmers to grow more cotton through a cooperative business partnership that provides both credit and capacity building.

The Zimbabwean economy is heavily dependent on agriculture, which contributes up to 17% of GDP, 60% of manufacturing inputs, 35% of foreign exchange earnings and 15% of formal employment. The major crops are tobacco, cotton, wheat and maize. Cotton lint is Zimbabwe's second largest agricultural export after tobacco. As a major subsector of the agriculture industry, cotton farming has a development footprint that covers most of the country, generating significant resource transfers, wealth creation and employment.

Under the credit scheme, financing is provided for tillage, weeding and harvesting, as well as for inputs such as diesel, seed, fertilisers and chemicals. The intermediary company, the Cotton Company of Zimbabwe (Cottco), provides special picking bags so that the product is not contaminated or damaged, as well as woolpacks and grain bags for packing the seed cotton prior to collection or delivery. In order to establish the input requirements of each farmer before the start of the season, Cottco's agronomists and fieldworkers, who are based in all major cotton growing areas in Zimbabwe, help the farmers to develop a support plan. The funding or input material is then provided to the farmers in three tranches at different stages of the crop cycle.

The participating cotton farmers are predominantly small-scale communal growers with fields ranging from 1 to 3 hectares each. Most depend almost entirely on income from the cotton they grow. The credit scheme currently supports 127 000 growers on a total of 242 000 hectares.

The scheme is not new, but it has been under severe pressure from hyperinflation in Zimbabwe and the recent dollarisation of the economy. Indigenous banks lost large values off their balance sheets, which led to a massive credit squeeze. The DBSA's funding of US$20 million will be used to revive the scheme.

The DBSA also approved two pioneering projects in Namibia: the country's first water desalination plant – the largest in the region – and its first cement plant. Located in the north of the country, the Ohorongo cement plant will also serve southern Angola, western Botswana and other landlocked African countries. Cement projects featured in both new approvals and disbursements this year, highlighting the growing demand for cement stemming from ongoing infrastructure development. In addition to the R196 million commitment for the Ohorongo plant, the Bank disbursed R86 million to the Maweni clinker and cement plant in Tanzania.

## Ohorongo cement plant: A pioneering project in Namibia

With an investment tag of US$1,5 billion, the Ohorongo cement plant is one of the largest single infrastructure investments in Namibia's recent history. Led by Germany's Schwenk Group at the invitation of the government of Namibia, this greenfield project entails a limestone quarry and a state-of-the-art plant that will generate 650 000 tonnes of cement per year. About half of the cement will be marketed in Namibia and the remainder in Angola and other neighbouring countries. Apart from creating some 2 300 jobs, the project will facilitate strategic power, water and human capital projects. It will also provide low-income housing, education and healthcare facilities in the Otavi region.

The plant uses modern technology that not only lowers fuel consumption and production costs, but also allows for the use of alternative fuel. The environmental benefits of the project are discussed in more detail in the environmental section of the Annual Report.

Another first for the Bank is the project to improve a border post between the DRC and Zambia. The Kasumbalesa border post project is not very large, but it is a strategic priority that paves the way for more efficient trade between the two countries. The project is discussed in the box below.

### Kasumbalesa border post: Promoting regional trade and integration

Zambia, which is landlocked and surrounded by eight countries, depends on its neighbours to import and export goods and services, especially since air transport has not been fully developed for regional trade purposes. One of the country's many border posts is Kasumbalesa in Chililabombwe, which provides a link to the DRC.

The situation at the border post was described by Vincent Matandiko in the *Times of Zambia* on 8 August 2009:

> The current prevailing peace in the DRC, one of Africa's largest countries, has resulted in increased business ties between the two countries evidenced by the increased flow of traffic across Kasumbalesa Border Post. The increased import and export of goods through Kasumbalesa can also be attributed to the many countries in the region that use the border to trade with Zambia and the DRC, whose Katanga province boasts of a population which is as much as Zambia.
>
> However, the increased business activities at Kasumbalesa have resulted in congestion characterised by long queues of trucks and people due to limited facilities to speed up the clearing process.

At that point, it was taking as long as two days to clear a vehicle, an unacceptable time in current trading environments.

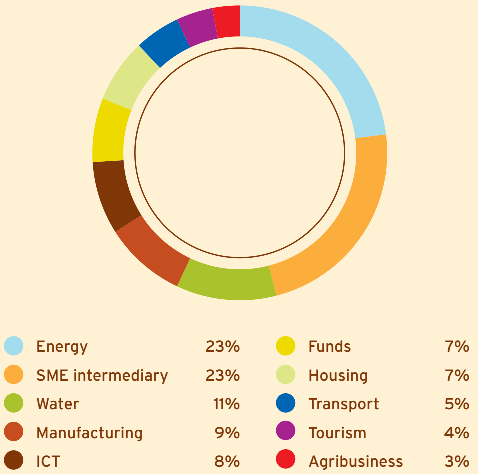
> This status quo has also negatively affected Government revenue as the amount of goods and services cleared is drastically reduced by the slow clearing process.
>
> Having realised the challenges posed by inadequate facilities at Kasumbalesa, the Government of Zambia decided to put up a border post with modern infrastructure and related facilities to ensure smooth operations of various departments that operate at the border.

During 2009/10, the DBSA supported a project to improve cross-border infrastructure facilities on the Zambian side of the border. The Bank joined forces with the Public-Private Partnership Programme of the Zambian government to provide the project with US$12 million in senior debt, alongside a private sector equity investor with extensive experience in the transport and toll collection business.

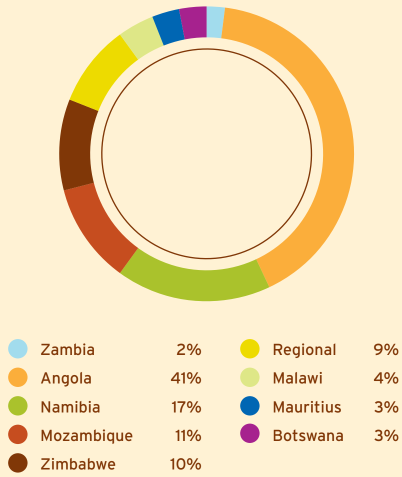
The facilities will provide for just-in-time delivery of goods to consumers and mining houses in Katanga province. They will also allow for storage and warehouse facilities, thus limiting the transit times of transporters from Katanga to the border, and from the border into southern Africa (the ports of Tanzania, Mozambique and South Africa). Trucks from southern Africa may not even be required to pass through to their final destination in Lubumbashi, as they can drop off deliveries in a duty-free zone at the border, limiting the transporter's costs in fuel, wages, insurance, wear and tear. Costs will also be saved in warehousing charges, which will be much lower than in sea ports.

The Bank continued to support investment funds as conduits for coordinated investment in regional infrastructure and other priority sectors. During the year, it invested a further R288 million in the Pan-African Infrastructure Development Fund and R49 million in the Emerging Africa Infrastructure Fund. It also made new commitments totalling US$80 million to the Pan-African Investment Partners II fund and the Africa Infrastructure Investment Fund 2.

On the whole, 2009/10 was an exceptional year; the Bank built up a robust pipeline of projects in key sectors and in countries with the greatest need for development financing. It secured lead arranging mandates for several high-priority transport projects, mostly in landlocked countries. Some of these, such as the Beitbridge-Chirundu toll road, are also priority regional transport projects under the North-South Corridor initiative.




Approvals by sector, 2009/10




Approvals by country, 2009/10

In terms of disbursements, the DBSA continued to channel funds to priority projects. A highlight of the year was a further disbursement of R167 million to the new Lesotho National Hospital and its district clinics (see box below), two of which were close to completion at the end of the year under review. This project, the Bank's first healthcare funding in the region, was developed on the basis of a unique, award-winning public-private partnership.

## New Lesotho National Hospital and feeder clinics

This unique greenfield project entails the design and construction of a new 390-bed hospital in a medical village near Maseru and the refurbishment of its filter clinics. The medical village also accommodates other health facilities, such as the Mohlomi Mental Hospital, a tuberculosis hospital and a home for orphaned and vulnerable children.

Lesotho faces significant health challenges. Its life expectancy declined from 60 years in 1996 to 43 years in 2007, and maternal mortality rose from 205 per 100 000 live births in 1986 to 1 200 in 2005. According to the Lesotho Health and Welfare Strategic Plan, the overcrowding of government health centres contributes to these poor health outcomes.

The project delivers essential social services, brings private sector investment and skills to the health sector, and generates employment and broad-based local economic development. It has strong economic empowerment effects, targeting healthcare personnel and women.

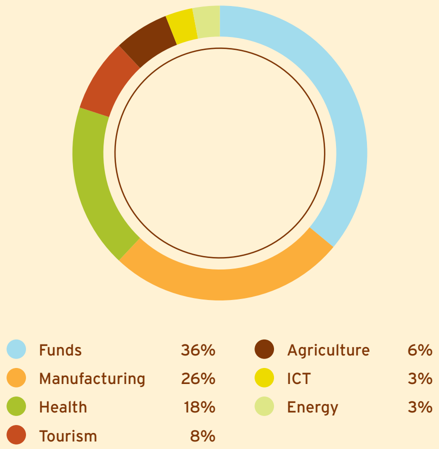
The DBSA acts as the lead arranger and underwriter for the project, and assumed the credit risk on behalf of local investors and empowerment parties. The project was undertaken on the basis of a public-private partnership at a total cost of R1,2 billion. The Bank contributed a senior loan of R680 million and mezzanine debt of R60 million. The government of Lesotho provided a R400 million grant, while the project sponsors invested R60 million in the form of equity. The project is the first public-private partnership in this sector in southern Africa (outside of South Africa) and represents an innovative, workable model for responding to the serious health challenges in the region.

# Operations overview continued

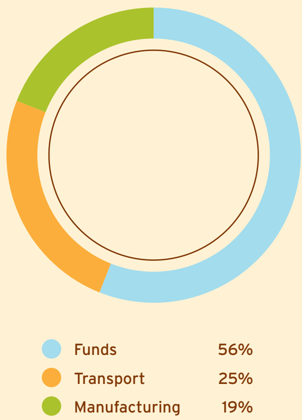
Another highlight was the completion of disbursements on the Development Bank's first investment in the DRC – a US$10 million construction project to rehabilitate one of the few business hotels in the province of Lubumbashi. Disbursements were also made towards a rural fishery agribusiness project in Madagascar.

The DBSA's disbursements have been strategically important, opening up investment in non-traditional sectors and fragile countries. However, the level of disbursements was substantially lower than expected before the recession. Disbursements on a number of projects were delayed or suspended owing to factors that were mostly beyond the control of the Bank. Total disbursements for the year amounted to R936 million (2008/09: R2,2 billion).

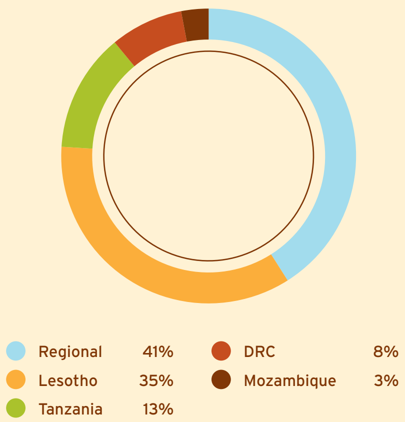
Likewise, new loan commitments were lower owing to delays in new investments. Total commitments for the year amounted to R1,0 billion (2008/09: R3,5 billion). It is expected that both commitments and disbursements will pick up sharply in the year ahead as suspended capital projects are resumed, new projects are launched and the record approvals of 2009/10 are converted into commitments and disbursements. The Bank has secured a strong pipeline of projects requiring commitment and disbursement in the new financial year. This pipeline and the more positive economic outlook for the region provide a sound foundation for growth in 2010/11.



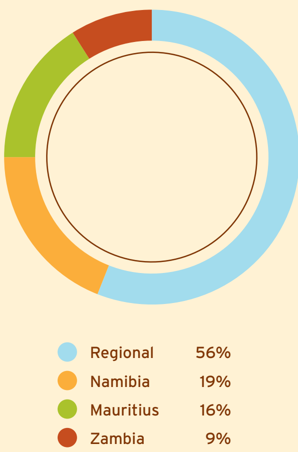

Disbursements by sector, 2009/10




Commitments by sector, 2009/10



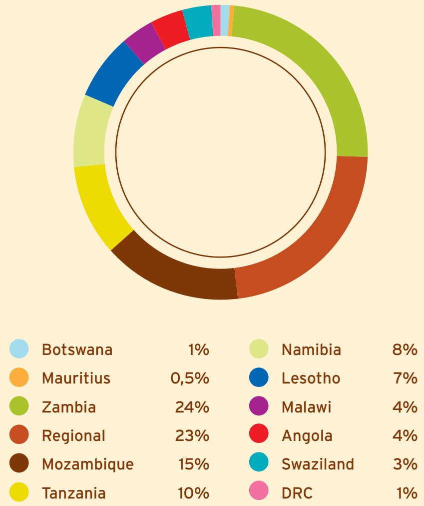

Disbursements by country, 2009/10



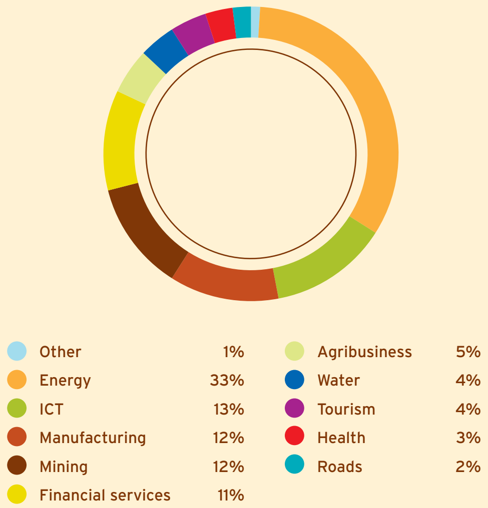

Commitments by country, 2009/10

## Portfolio distribution

Zambia and Mozambique continue to dominate the international loan portfolio on the back of significant investments, particularly in the power sector. Regional projects, which are cross-border investments that involve more than one country, also form a significant part of the loan portfolio, in line with the Bank's strategy to promote regional integration.




Loan portfolio distribution by country, 2009/10




Loan portfolio distribution by sector, 2009/10

The dramatic strengthening of the rand by over 30% during the reporting period resulted in a decrease in the nominal rand value of the international loan portfolio, as the bulk of these loans are denominated in US dollar. At the end of March 2010, the net loan portfolio stood at R5,95 billion, down from R7,31 billion in 2008/09. Despite the large swing in the currency, the value of the equity investment portfolio rose by 11,8% to R1,49 billion (2008/09: R1,33 billion).

## Regional partnerships, investment planning and project development

In addition to providing finance, the DBSA made major efforts to promote regional investment. The Bank provided technical assistance and grant funding to the Southern African Power Pool (SAPP) and the Regional Electricity Regulators Association of Southern Africa (RERA) for an investor's roundtable conference in Zambia, where several power projects were tabled. This strategic roundtable brought together various industry players to identify priority energy projects and ease bottlenecks hampering the implementation of crucial power programmes in the region.

The DBSA strengthened its existing partnerships and established new ones in support of infrastructure development and regional integration. It joined a unique partnership between the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC, which together formed the Tripartite Alliance. The Tripartite Alliance and the United Kingdom's Department for International Development (DFID) invited the Bank to manage a capital grant fund to catalyse infrastructure development along the North-South Corridor, which traverses the three regional economic communities. This fund marks a significant step in the increased cooperation between the regional economic communities in southern, central and eastern Africa. As a founding member of the fund, DFID committed £67 million in capital grants, while the DBSA made a small contribution to ensure that the fund had an African co-financier.

In another significant partnership, the DBSA entered into an agreement with the European Investment Bank (EIB). This will see each institution contributing €3 million over three years to a fund supporting preparatory work for regional, national and local infrastructure development in eastern and southern Africa. The EIB asked the Bank to manage the fund. The DBSA also entered into a partnership with the government of Finland to set up the Energy and Environment Partnership Programme. The government of Finland will provide the Bank with grant funding of €8,5 million over three years to drive the use of renewable energy by supporting feasibility studies and pilot and demonstration projects in this field (see the Environmental report elsewhere in this Annual Report).

The Bank secured these new funds on the back of the success of the Project Preparation and Feasibility Study (PPFS), which it has been operating with Agence Française de Développement (AFD) since 2003. The year under review saw the full commitment of phase 2 of this fund, with new commitments of R9,3 million bringing the fund to its R65 million limit. The total value of projects supported by the PPFS since its inception exceeds R15 billion.

The DBSA also strengthened two strategic partnerships involving the African Development Bank (AfDB) and other international development finance institutions. It joined the African Financing Partnership led by the AfDB, serving as the coordinator and convenor for southern Africa. The Bank also strengthened its participation in another AfDB initiative, the Infrastructure Consortium for Africa. The Consortium launched the flagship *Africa Infrastructure Country Diagnostic* study with the support of the DBSA (see box below).

### Landmark diagnostic study and database on African infrastructure

The *Africa Infrastructure Country Diagnostic,* a landmark study on Africa's infrastructure, was launched by the members of the Infrastructure Consortium for Africa at the DBSA premises in November 2009. The study was implemented and published by the World Bank, with funding and technical collaboration from various members of the Consortium.

The study showed how infrastructure has accounted for "a large share of Africa's recent growth performance", as a result of the increased attention and focus on "infrastructure as a priority area of development. However, it also served as a reminder of the long road that remains ahead to bring Africa's basic infrastructure in line with other developing regions. It clarified that infrastructure services in Africa are twice as expensive as elsewhere", and that US$93 billion per annum will be required "to raise Africa's infrastructure endowment to a reasonable level within the next decade", with two-thirds going to new investment and one-third to maintenance. It also showed that Africa already spends $45 billion, half the required amount. It pointed out that while efficiency gains could raise an additional $17 billion from within the existing envelope, "an annual funding gap of $31 billion would remain".

The study provides "a baseline against which future improvements in infrastructure services can be measured, making it possible to monitor the results achieved". It also provides "a more solid empirical foundation for prioritising investments and designing policy reforms in the infrastructure sectors in Africa".

Source: World Bank, *Africa Infrastructure Country Diagnostic,* 2009

# Development planning overview


## Introduction

The Development Planning Division combines knowledge and expertise to enhance the DBSA's investment decisions, and contributes to the policy discourse on development challenges in support of the Bank's mandate.

During 2009/10, the DBSA enhanced its external knowledge support significantly. The Division launched a high-level initiative that addressed the overall performance of the government in terms of its delivery on long-term development challenges. This and other initiatives achieved considerable traction, increasing the Bank's strategic linkages and laying the foundation for collaboration with other development role players.

The Division also supported the operational work of the DBSA by originating new investment and capacity building programmes. Ongoing efforts were made to enhance the Bank's investment portfolio in the health and education sectors, building on the foundation of policy work done in this regard the previous year. The Bank is well equipped to grasp opportunities in these sectors.

Finally, the DBSA also raised its profile as a knowledge bank and trusted advisor. In the difficult economic climate of the past year, it has been particularly responsive to guidance from the Board and the shareholder. In addition, the Bank helped to enhance the effectiveness of the state, as outlined below.

## Enhancing state performance

During the year under review, the Bank provided the space for constructive stakeholder engagement in support of both policy implementation and the possible origination of investment programmes. One highlight was the extent to which the 2008/09 Health and Education Roadmaps came to inform government policy:

- The Health Roadmap formed the core of the government's National Department of Health Strategic Plan for 2010/11 to 2012/13.
- The Education 10-Point Plan was adopted as the basis for the Gauteng government's five-year plan.
- The Minister of Basic Education acknowledged the influence of the Education Roadmap in shaping government policy and implementation.
- Cabinet used the Education Roadmap as a case study, and this contributed to the performance interventions by the Presidency.

- The Presidency's performance monitoring and evaluation agreement used key points from the Education Roadmap, which helped to shape the approach to basic education taken by the Ministry of Performance Monitoring and Evaluation.

After the success of the previous Roadmaps, the new Department of Higher Education and Training recently approached the DBSA to facilitate a Higher Education and Training 10-Point Plan. Six papers were commissioned as inputs to the expert group deliberations, and will be used to identify the priority actions needed to improve the higher education and training system in the medium to long run (i.e., 2020 to 2030).

Another highlight of the year was an assessment of the long-term development needs of the country in a range of sectors. As part of its broader support work on planning approaches and systems, the Bank produced a document entitled *A perspective on South Africa's long-term development*. The framework and its individual chapters were presented at the third DBSA Developmental State Conference in November 2009. The conference drew almost 200 national and international delegates, including representatives from key departments. It considered issues such as public transport, public administration, human settlements, energy, education and health, and highlighted areas that require further work. The forthcoming *DBSA Development Report* will deal with some of these issues, while others have been integrated into the planning and policy development processes of the government.

The DBSA has also expanded its work in the energy sector significantly. In February 2010, the Minister of Public Enterprises, in her capacity as Chair of the Inter-Ministerial Committee on Energy, asked the DBSA to provide technical and secretariat support to the Committee and the Interdepartmental Task Team on Energy. In the months after the formation of the Committee and the Task Team, the DBSA provided project management support, as well as technical assistance to a working group for a study on the impact of municipal electricity tariffs.

## Supporting investment and capacity building

### Advisory services

The Division continued to provide technical, advisory and programme management support to Bank-wide operations and strategic projects. Specialists provided advisory inputs on more than 70 infrastructure projects and undertook modular assessments of the technical, institutional, social and environmental implications of projects.

To generate lessons that will improve operations, the Division undertakes case studies. One example completed in 2009/10 was on mining and sustainable development. The case study examined the sustainable development approaches adopted by mining companies and municipalities, and the lessons learnt were used to enhance the Bank's investment in the mining sector. The DBSA has a growing portfolio of mining investments and the mining sector is expected to remain a critical element of infrastructure development in South Africa and the rest of the SADC region. The Bank has developed a risk identification and analysis tool which will help to assess the viability of mining investments, inform risk mitigation measures and the accurate pricing of loans, and improve the quality of reporting.

### Information resources

The information function is a Bank-wide resource that provides a range of data and information on the social and economic context of development initiatives; this information is provided to both internal and external users, such as municipalities.

One of the primary achievements of the year was the development of profiles of 26 regional priority areas, in support of the municipal recapitalisation programme. Each profile includes a macro-profile of the district, profiles of all the local municipalities in the area, geographic information system (GIS) maps and an overview chart of development indicators. The detailed profiles cover five metropolitan, 21 district and 112 local municipalities, and provide data on population, economics, employment and unemployment, poverty, income, ICT, health, education and literacy, urbanisation, crime, and backlogs in the delivery of water, sanitation, electricity, roads, housing and refuse removal. An electronic information indicator system has been designed to generate tables and graphs with a GIS interface for all the indicators. These profiles have quickly become among the most widely used of the Bank's information resources.

Other information resources include profiles of the SADC countries and risk perspectives that are used as background information in the Bank's robust project appraisal processes. The profiles are updated periodically, as required; seven profiles were updated in 2009/10.

### Research

The research function of the Bank conducts research and analysis that supports investment decision-making, improves business processes and performance, and provides thought leadership on priority development issues. During the year, the function supported the Bank's procurement processes by compiling an international vendor checklist and guidelines for engaging international vendors. It also completed a comprehensive study on strengthening development impact, provided modelling support to measure the development effectiveness of the Bank's projects, and conducted research on investment opportunities in aviation infrastructure to inform the Bank's investment choices in the region.

One of the highlights of 2009/10 was a study on project finance in post-conflict and fragile situations. This study examined the role that international and development finance institutions play in post-conflict financing, the involvement of the private sector in post-conflict countries, and a potential role for the DBSA in such countries in the region. Further research focused on the involvement of South African state-owned enterprises in southern Africa. Case studies of Eskom, Transnet, the Airports Company South Africa (ACSA), the South African Roads Agency Limited (SANRAL), the Petroleum, Oil and Gas Corporation of South Africa (PetroSA) and the Industrial Development Corporation were completed in the first phase of the research.

### Sector strategies

In the past year, the Bank developed strategies for investment in the water, environment and health sectors. The *Water Sector Strategy* reviews the challenges in the sector and finds that water should be central to the Bank's planning decisions. It assesses water-related risks and best-practice approaches, and underscores the need for institutional capacity to enable an effective response. An operational plan has been developed to direct the implementation of the strategy in the Bank.

The *Environmental Sustainability Strategy* advocates the mainstreaming of environmental sustainability in the Bank's operations, coupled with stronger support for environmentally sustainable development in the region. The strategy commits the DBSA to integrating environment-related governance into all its operations in a proactive manner. It underscores the need for strategic partnerships and highlights their contribution towards increasing development impact. Finally, it recommends significant support for initiatives that seek to protect global public goods.

On the basis of the Health Roadmap, the Bank developed a *Health Sector Strategy* that advocates a developmental pipeline for the sector. The primary driver will be greater DBSA participation throughout the health value chain, as an advisor, financier, partner, implementer and integrator. Growing understanding of health challenges has led to significant growth in the health investment portfolio, as the Bank has proactively explored opportunities for addressing the state of public health infrastructure and considered investment in the private health sector.

### Originating new development programmes

The DBSA is committed to ensuring that the recommendations of the Roadmaps are implemented. It has undertaken several initiatives that contribute to the transformation of the health system, such as investing in programmes to improve public healthcare management, facilitating the Hospital Revitalisation Programme, and supporting public-private partnerships in the health sector. The Bank has also strengthened its strategic partnerships with national and provincial departments of health and finance.

With regard to investment, the DBSA's education portfolio has shown consistent growth. The Bank is now examining the possibility of innovative funding models, in particular to help the Department of Basic Education speed up infrastructure development.

Responding proactively to the development challenges facing the transport sector, the Bank recently initiated work on public transport. This strategic engagement culminated in a formal request from the national Department of Transport for the Bank to support further initiatives in the sector.

## Creating and maintaining strategic networks

Enhanced development impact requires improved coordination. To this end, the DBSA reconvened the DFI Forum early in 2009, bringing together a range of national and provincial development finance institutions and stakeholders. The DFI Forum has been catalytic in establishing a joint programme of action, which includes initiatives such as the Infrastructure Inputs Monitoring Project (discussed below) and "greening the economy".

Local government is an important focal point of the DBSA's strategic partnerships. The Bank undertook a number of initiatives around the challenges facing this sector and the strategies required to overcome them, including stocktaking sessions, roundtables, and engagement with the Presidency and departments such as Cooperative Governance and Traditional Affairs (CoGTA), National Treasury and Water Affairs. It held a special joint working session with CoGTA to concretise cooperation around the Local Government Turnaround Strategy. Critical issues in the local government sector came under the spotlight at the DBSA's Knowledge Week in November 2009, which attracted senior political leaders, officials and sector experts. Many of the points raised at both the joint working session and the Knowledge Week (e.g. a single point of coordination, review of political deployments, recategorisation of municipalities, differentiated support, professionalisation and appropriate skills) were captured in CoGTA's Local Government Turnaround Strategy, which was ratified by Cabinet at the end of 2009.

Another focus area is capacity for development planning. The Bank maintains a range of models developed internally, including the Municipal Infrastructure Investment Framework (MIIF), the Municipal Services Finance Model (MSFM) and the Municipal Prioritisation Model. Municipalities, the National Treasury and the Departments of Water and Environmental Affairs, Human Settlements, and Sport and Recreation use these important tools for development and infrastructure planning. In the past year, the DBSA trained staff from these departments in the use of the models. The National Treasury in turn used MSFM models to assess the infrastructure needs and costs of metropolitan areas and bigger cities.

Finally, an agreement was reached on the transfer of the resources of the Infrastructure Inputs Monitoring Project from the Presidency and the Business Trust to the DBSA. The project provides an ongoing assessment of strategic inputs associated with the national public sector infrastructure programme, particularly the R787 billion allocated in the medium-term budget for 2009/10 to 2010/12. It will assist in mitigating some of the risks and constraints associated with the demand and supply dynamics of large-scale infrastructure investments. The availability of reliable national infrastructure data will also make it possible to identify growth and investment opportunities arising from the infrastructure programme. Both the private and the public sector will benefit from the project's information on capacity and supply constraints, the local sourcing of inputs, competitiveness, pricing and funding requirements.

## Profiling the DBSA as a knowledge bank and advisor

Concerted efforts to profile the DBSA as a knowledge bank increased its visibility significantly during 2009/10. Growing confidence in its knowledge work has seen the DBSA referenced in the State of the Nation address and the budget vote speeches of departments such as Health, Basic Education, Higher Education and Training, Public Service and Administration, and the National Treasury. The Bank also received extensive media coverage, particularly in relation to its health, education and local government work, and its support to the government.

The DBSA continues to publish the peer-reviewed academic journal, *Development Southern Africa*. The journal's readership grew substantially during the year, with over 42 000 full-text articles downloaded via different web-based platforms. This significant increase, over 30% from the previous year, reflects well on the quality and scope of the articles published in the journal. The Bank is also making a growing set of research and policy *Working Papers* available as downloadable texts on its website.

## The year ahead

In the year ahead, the Division will focus on policy development and programme origination in four major centres of excellence: development planning, infrastructure planning, local government and regional development. It will also publish one of the Bank's flagship publications, the *DBSA Development Report,* focusing on South Africa's long-term development trajectory. The *Development Report* provides a DBSA perspective on what needs to be done in the short, medium and long run to meet priority developmental objectives in South Africa, taking into account the regional and global context.

In the period to 2014, the Division will continue to promote the DBSA mandate through enhancing state performance and supporting programme origination in priority sectors.

# Governance and management overview

Bathobile Sowazi[1]
*Corporate Secretary*

## Corporate governance

### Governance principles

The Board of Directors assessed the governance landscape of the Bank comprehensively during the year under review and is satisfied that it has discharged its responsibilities satisfactorily with regard to the recommendations of the King II Report and the Protocol on Corporate Governance in the Public Sector. The Directors are committed to full compliance with the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice. The Bank endeavours to maintain the highest standards of integrity and ethical conduct and to keep abreast of new developments in the field of governance. The Board is on course to implement important recommendations of the King III Report on Corporate Governance. During 2009/10, the Board performed its activities and discharged its responsibilities in accordance with the approved annual programme.

### Shareholder linkages

The DBSA is a state-owned entity with the South African government as its sole shareholder. The Minister of Finance, in his capacity as Governor and shareholder representative, determines the Bank's mandate and holds the Board of Directors accountable for managing the Bank to deliver on this mandate. The DBSA is regulated in terms of the Public Finance Management Act (PFMA) and accompanying Treasury Regulations, and is classified as a Schedule 2 public entity under the Act.

### Strategic objectives and performance management

In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in February 2009. This serves as an agreement between the Bank and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed.

The Board reports performance and related matters to the shareholder by way of annual and interim reports. Regular meetings are held between the Chairperson, the Chief Executive Officer and the Governor.

On the basis of the Corporate Plan, the Board sets the strategic objectives and determines performance

[1] As from 3 May 2010; formerly Mr Bernard Mhango (deceased).

criteria for the Bank. Management is charged with the detailed planning and implementation of those objectives, within appropriate risk parameters.

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators in line with the development agenda and the results of this evaluation are shown in the Directors' report from page 96. The Finance Committee of the Board evaluated the performance of the organisation, while its Human Resources Committee provided oversight in the assessment of the performance of the Managing Director and the executive management team.

## Governance structure

### Board of Directors

The constitution and business of the Board of Directors are governed by the DBSA Act and its Regulations, and the relevant provisions of the PFMA and the Companies Act. The constitution of the DBSA Board was reviewed during the year as the tenure of four members expired on 31 December 2009. In line with the commitment to introducing new and innovative decision-making, the shareholder appointed three new members to the Board, with effect from 1 January 2010.

The Board currently consists of 15 members, of whom 14 are non-executive and 12 are independent. The Chief Executive Officer is the sole executive Director. Representatives from the National Treasury serve on the Board on behalf of the shareholder. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and non-executive Directors.

The current composition of the Board and brief résumés of the Board members can be found on pages 8 to 12.

### Directors' appointment and induction

The appointment of Directors to the DBSA Board is regulated by the DBSA Act, in terms of which the shareholder is charged with appointing the Directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources Committee of the Board invites nominations for appointments, produces shortlists and makes recommendations to the Minister of Finance for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

The DBSA Board is committed to the advancement of new and existing Directors and accordingly organises periodic induction and orientation sessions for their benefit, in addition to training courses related to the business of the Bank. The newly appointed Board members received information relevant to the Bank in January 2010 and subsequently went through a formal induction process.

### Board Charter

The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. In line with best practice, the Board Charter was reviewed during the past year. The procedure for the appointment of Board members was streamlined according to the recommendations of the Handbook for the appointment of persons to boards of state and state controlled institutions (Department of Public Service and Administration, 2008). Issues of succession planning at Board level, the retirement of Board members and the performance assessment of the Board were also reviewed. The Board regards the Charter as a living document that will be updated periodically to align with the requirements of the King III Report on Corporate Governance and the Companies Act of 2008.

### Board Committees

The Development Bank Board has five committees, namely the Board Credit and Investment, Audit, Finance, Development Planning and Human Resources and Nominations committees. The DBSA Act gives the Board a mandate to appoint subcommittees necessary for carrying out its fiduciary responsibilities. Establishing and delegating some of the technical work to specialist subcommittees does not relieve the Board of its legal responsibilities, however, and the Board has therefore sought to strengthen its monitoring mechanisms. Reporting by the chairpersons of the various subcommittees at Board meetings has been enhanced so that feedback on their work can be provided timeously. The subcommittees also table any resolutions taken at their meetings for ratification by the subsequent Board meeting.

In line with principles of the King II and King III Reports, all Board committees have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees. The Board committees are discussed individually below and the Development Bank's committee decision-making structure is shown on the opposite page.

*Board Credit and Investment Committee*

The Board Credit and Investment Committee has seven members and is chaired by Mrs Wendy Lucas-Bull, an independent non-executive Director. The Committee is responsible for the consideration and approval of credit and investment proposals. In addition, it reviews the Bank's credit strategy; credit risk management programme; trends in portfolio quality; the adequacy of provision for credit losses; new products and financial instruments; and the credit risk management policies approved by the Board.

*Audit Committee*

The functions of the Audit Committee are regulated by the PFMA and codified in the King II Report. Currently, the Audit Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, compliance with laws and regulations, risk management processes, and ethics management. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

The Audit Committee has five members. The Chief Executive is the only executive Director; all the remaining members are non-executive independent Directors. The tenure of the chair, Dr Len Konar, ended in December 2009. The new chair of the Committee is Prof. Omar Latiff. The Bank's executive management and external auditors are invited members of the Committee.

The Committee is supported by four management committees: Risk and Compliance, Asset and Liability Management, Ethics and Governance, and Financial Management.

*Finance Committee*

The Finance Committee was also chaired by Dr Konar until December 2009; the new chair is Mrs Thembisa Dingaan. The Committee has five members, four of whom are independent non-executive Directors. The DBSA Chief Executive Officer is the sole executive Director on the Committee. The Committee is supported by the Financial Management and Asset and Liability Management committees. The Finance Committee oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank's overall financial health and sustainability. The Committee provides strategic direction on the Bank's asset and liability management activities, within the defined risk appetite, so as to strengthen the Bank's financial position in pursuance of its development mandate. The Committee also reviews performance targets recommended by management.

*Development Planning Committee*

The constitution of this Committee was reviewed during the year following the retirement of one Director and two co-opted members. The Committee currently consists of four Directors and one co-opted member; another two co-opted members are to be appointed during 2010/11. The Committee is chaired by Dr Lulu Gwagwa, an independent non-executive Director, and is supported by the Corporate Knowledge Management Committee.

The Committee oversees the implementation of the knowledge management strategy approved in 2001 to ensure that knowledge management products are integrated within the Bank. It serves as a sounding board for key corporate knowledge publications, and development policy and research products. To assist it in this function, the Committee has appointed a review board of specialists in the different sectors to review and provide guidance on the DBSA's flagship publications.

*Human Resources and Nominations Committee*

The Human Resources and Nominations Committee has three main responsibilities, namely overseeing the implementation of the Bank's human capital strategy, approving its remuneration practices and vetting key appointments and nominations, including those of Directors. The membership of the Committee changed during the year with the retirement of one Director and appointment of two new Directors. The Committee now has six members, five of whom are independent non-executive Directors. It is chaired by Mr Ivan Mzimela, an independent non-executive Director, and the Chief Executive Officer is an invited member.

## DBSA decision-making structure


** As from 24 June 2010; previously Knowledge Strategy Committee.*
*† As from 24 February 2010; previously Human Resources Committee.*

### Corporate Secretary

All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act. The DBSA has lodged with the National Treasury all such returns as are required of public entities in terms of the PFMA, and gives assurance that such returns are accurate, correct and up to date.

### Directors' remuneration policy

The new remuneration policy for the Board, which was approved by the shareholder in March 2009, was implemented during the year. It introduces a combination of an annual retainer and attendance fees for members of the Board and its subcommittees.

The remuneration policy of the Bank, as prescribed by the DBSA Act, dictates that Board members be remunerated for the strategic guidance they provide to management both in formal Board and committee meetings and outside them. They are also compensated for expenses actually incurred on account of the Bank's business.

Details of all the fees and expenses paid to Board members during the year are shown on page 154.

## Ethics management

The DBSA attaches the greatest importance to the ethical behaviour of individual employees and the organisation as a whole. During 2009/10, the Bank appointed a dedicated ethics officer to promote its ethical standards and ensure that its policies, procedures and practices reinforce these standards. The ethics officer also advises staff members on request to ensure that ethical principles are clearly understood. A dedicated ethics helpline is being set up and will be launched in 2010/11.

The Bank will continue to review its ethics policies, including procedures on conflict of interest, to ensure that it follows best practice and complies with the PFMA, the DBSA Act and other relevant legislation.

Apart from declarations in the register, the Bank did not undertake any transactions in which the Directors had a financial or significant interest. A list of related-party transactions involving Board members is provided on page 151.

## Board and committee composition and record of attendance

The DBSA Board met five times during 2009/10. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown in the table below.

**DBSA Board and Committee composition and record of attendance at meetings, 2009/10**

| | DBSA Board | | Audit Committee | | Finance Committee | | Credit and Investment Committee | | Knowledge Strategy Committee | | Human Resources Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of meetings | 5 | | 4 | | 4 | | 11 | | 3 | | 3 | |
| Mr J Naidoo | Chair | 5 | | | | | | | | | ✓ | 1 |
| Mr J Moleketi[1] | Deputy Chair | 1 | | | | | | | | | | |
| Mr P Baloyi | ✓ | 5 | ✓ | 4 | ✓ | 4 | ✓ | 8 | ✓ | 2 | ✓ | 3 |
| Mr F Baleni[1] | ✓ | 1 | | | | | | | | | | |
| Mr A Boraine | ✓ | 5 | | | | | | | ✓ | 3 | | |
| Mr K Brown[1] | ✓ | - | | | | | | | | | | |
| Mrs T Dingaan[8] | ✓ | 5 | ✓ | 4 | Chair | 4 | ✓ | 11 | | | | 1 |
| Prof. B Figaji[2] | ✓ | 2 | | | | | ✓ | 9 | | | ✓ | 1 |
| Mr T Fowler[3] | ✓ | 2 | | | | | | | | | | |
| Ms N Gasa[2] | ✓ | 3 | | | | | | | ✓ | 2 | | |
| Dr L Gwagwa | ✓ | 5 | | | | | | | Chair | 3 | | |
| Dr D Konar[4] | ✓ | 2 | | 3 | | 3 | | | | | ✓ | 2 |
| Prof. O Latiff[5] | ✓ | 4 | Chair | 4 | ✓ | 4 | ✓ | 9 | | | | |
| Mrs W Lucas-Bull | ✓ | 4 | | | | | Chair | 11 | | | | |
| Dr C Manning | ✓ | 5 | | | | | ✓ | 11 | | | | 1 |
| Mr I Mzimela | ✓ | 5 | | | | | | | | | Chair | 3 |
| Mrs M Ngqaleni | ✓ | 2 | | | | | | | | | | |
| Ms T Ramano | ✓ | 4 | ✓ | 4 | ✓ | 4 | ✓ | 5 | | | | |
| Prof. E Webster | ✓ | 3 | | | | | | | ✓ | 3 | | |
| Members co-opted to Board Committees[6] | | | | | | | | | | | | |
| Dr R Kfir | | | | | | | | | ✓ | 1 | | |
| Mr O Mlaba[7] | | | | | | | | | ✓ | 1 | | |
| Mr M Silinga[7] | | | | | | | | | ✓ | 2 | | |

✓ *Depicts membership of the Board and relevant Committee*

1. *Appointed to the DBSA Board on 1 January 2010.*
2. *Retired from the DBSA Board on 31 December 2009.*
3. *Shareholder representative – resigned from the Board on 11 November 2009.*
4. *Retired from the DBSA Board and as Chairperson of the Finance and Audit Committees on 31 December 2009.*
5. *Appointed as Chairperson of the Audit Committee on 3 February 2010.*
6. *The DBSA Act allows for the Board to co-opt any person with expert knowledge or expertise to any of its Committees.*
7. *Retired as co-opted members of the Knowledge Strategy Committee on 22 October 2009.*
8. *Appointed as Chairperson of the Finance Committee on 3 February 2010.*

## Internal control environment

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit Committee. The Bank's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The Internal Audit function conducts periodic reviews of any functional area to provide independent assurance to the Board and management on the effectiveness of the internal control system. The work of Internal Audit is reviewed by members of the Audit Committee, and the Head of Internal Audit has unfettered access to the Chairpersons of the Audit Committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention. During the year, the Internal Audit function performed its work in accordance with the approved Internal Audit Plan.

## Fraud prevention and whistle-blowing

In accordance with the requirements of the PFMA, the DBSA developed a fraud prevention plan, which, among other things, encourages employees to report any suspected corrupt, fraudulent, criminal or unethical practices. During the year, the fraud prevention plan was reviewed, and the revised plan will be approved in 2010/11.

The Bank has also endeavoured to create an environment in which it is safe for employees to report impropriety, in accordance with the requirements of the Protected Disclosures Act, No. 26 of 2000. Whistle-blowing procedures have been implemented, and the toll-free hotline is fully operational.

## Expenditure on World Cup tickets

The DBSA reached agreement with the Board and the Governor to support the 2010 FIFA World Cup as a national initiative. Tickets were purchased only for key stakeholders and champions of infrastructure and social development in the region. Executives and senior staff were individually selected to host the invited stakeholders.

### Expenditure on World Cup tickets after 31 March 2010

| Allocation of tickets | Quantity | Cost (R) |
|---|---|---|
| Clients/Stakeholders | 139 | 1 000 500 |
| Accounting Authority | | |
| Executive | 2 | 15 375 |
| Non-executive (Board members) | 17 | 184 125 |
| Accounting Officer (Chief Executive Officer) | 1 | 11 250 |
| Group and Divisional Executives | 62 | 455 625 |
| Other employees | 21 | 124 875 |
| Family members and officials | - | - |
| Other government entities | 36 | 286 500 |
| Audit committee members | - | - |
| Other | | |
| Community leaders | 12 | 119 625 |
| Journalists | 5 | 26 625 |
| SADC state officials | 5 | 48 000 |
| **Total** | **300** | **2 272 500** |

## Human capital and technology[1]

The Human Capital and Technology Division supports the development of organisational capability, systems and facilities. During the year, it focused on strengthening the following critical areas: human capital, information technology and physical infrastructure.

## Enhancing human capital

### Integrated reward and recognition

The Integrated Reward and Recognition System, introduced in 2002, has become the backbone of the Bank's human capital management practices, whether related to career, capability, performance, reward or recognition management. Following the transformation of the Bank over the last two years, the system is being reviewed, as shown in the diagram opposite. The following activities were undertaken during the past year:

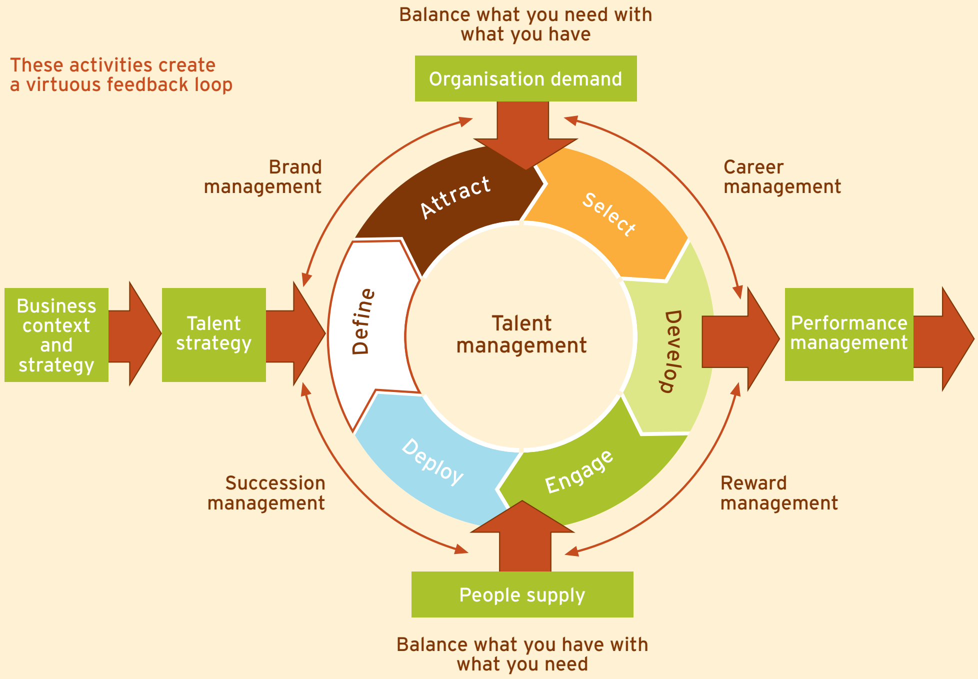
- *Value chain analysis:* Assessed the alignment of the model to the value chain of the DBSA.
- *Work stream review:* Refined all work streams across the organisation.
- *Job evaluation review:* Evaluated all roles within work streams across the DBSA.
- *Capability and talent management system:* Incorporated a revised capability and talent system, conducted talent reviews, and finalised a succession management plan for the next two years.

### Enhancing internal capacity and competencies

Enhancing organisational capability is integral to ensuring that the Bank has the right mix of skills and capacity to deliver on its strategic goals. This is accomplished by building skills internally (staff training) and acquiring external human capital (management of vacancy levels).

The Bank invests in increasing its internal competency levels through appropriate training interventions, as well as further educational opportunities. During the year, 79,5% of staff attended 1 707 training interventions.

Vacancy levels are indicative of the Bank's ability to deliver on its strategic commitments. The BSC target for vacancy levels is 10% of the total headcount. This includes replacement positions and new positions approved during the year, and relates to the permanent employees, fixed-term contractors and executives of the DBSA. At year-end, the vacancy level was only 8,1%.




Refined Integrated Reward and Recognition model

[1] The Division was split into Human Resources and Business Technologies and Facilities on 1 April 2010.

## Enhancing information technology

Information technology underpins the implementation of the Bank's business strategy by providing effective and efficient systems and business processes. The Bank is implementing a new enterprise-wide business applications solution. The possibility of replacing the current business operations system was considered initially, but it soon became clear that an integrated systems platform was strategically preferable. The initiative was therefore extended to cover the financials and procurement system, the human capital management system and the payroll system, all of which would have needed upgrading in the near future. In February 2009, the Board approved the purchase and implementation of the SAP system for these business areas.

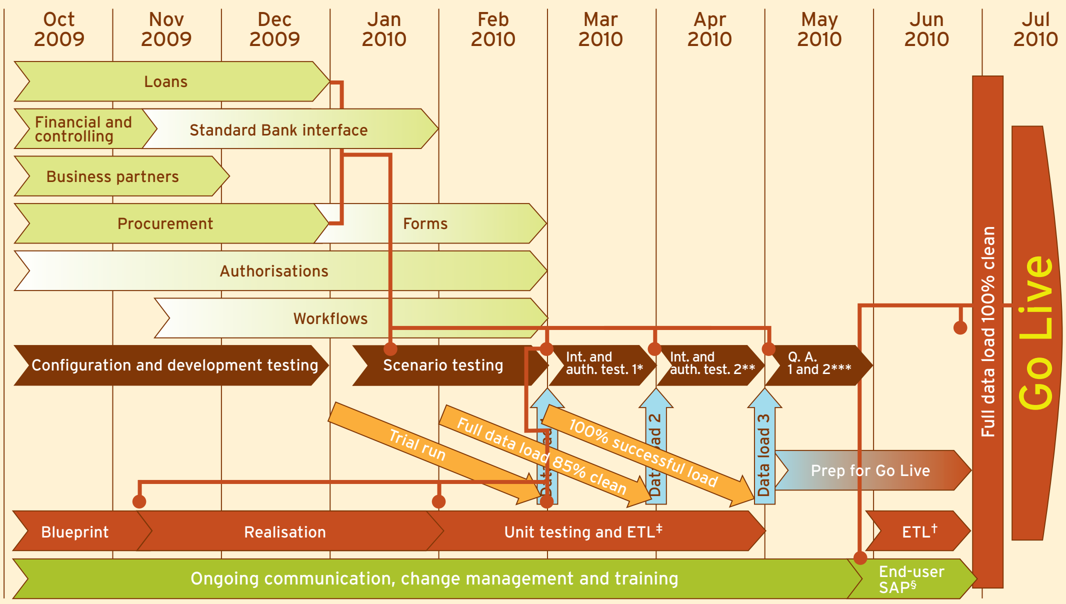
The preparation phase of the project, which is known as "Sapsiza", commenced in March 2009, and was followed by the specification of user requirements and the configuration of the SAP system, data migration, training and an extensive change management and communication programme. Operations staff have contributed extensively in relation to specifications, design and testing, among other things. Phase 1 of the project, covering banking operations, financials and procurement, should be completed by mid-2010, as shown in the diagram overleaf. Phase 2, covering human capital management and payroll, commenced early in 2010, with implementation planned for the first half of 2011.

## Re-engineering the physical environment

The Bank aims to create a favourable working environment for its staff, while reducing its carbon footprint over time. This year, the Division focused on four main projects:

- The construction of a new visitors' entrance was completed in November 2009. The building, which is fully "green" from an energy perspective, is the first step towards improving the DBSA's carbon footprint and achieving sustainable energy self-sufficiency.

*The new visitors' entrance at the DBSA.*




* Integration and authorisation testing 1
** Integration and authorisation testing 2
*** Quality assurance 1 and 2
† Extract, transform and load data
§ End-user SAP product training

Sapsiza project overview

- A new back-up generator with a digital changeover panel was installed to replace the obsolete mechanical system. The primary purpose of the generator is to provide back-up energy to the Bank, but it will also serve as a demand management device for the provisioning of energy during peak hours. Through this and various other measures, the Bank reduced its energy consumption by 36% in the past year. A follow-up carbon footprint survey showed that the Bank has made significant progress towards reducing its carbon footprint and establishing a sustainable energy supply.
- The building that houses the DBSA Vulindlela Academy is being extended. The current building is fully occupied and the Boards of the DBSA and DBSA Development Fund approved its extension to accommodate an additional 50 people. Construction commenced during the last quarter of 2009 and is following the same environmentally friendly design principles as the visitors' reception. The size of the structure allows for water recycling: rainwater will be harvested from the roof and stored underground for use in irrigation and as grey water for ablution facilities.
- The DBSA is considering the addition of a new wing as the current building is fully occupied. A decision on this will be taken after further discussions with the Board and important stakeholders.

## The year ahead

The Bank will continue to focus on extending, enriching and enabling human capital. The strategy of the Human Resources Division will be reviewed in line with the recent changes in the Bank's strategy. The Division will continue to provide the operational support necessary for the Bank to deliver on the objectives set for 2010/11.

*Extension of the Vulindlela Academy building.*

# Risk management overview

Paul Currie[1]
*Group Chief Risk Officer*

In the past year, the Bank was able to play a stabilising role during a period of challenging economic conditions by steadfastly pursuing its mandate of infrastructure development. The Bank expanded its business model to include capacity building at local government level, and saw substantial growth in its investment volume. This expansion placed pressure on the Bank's capacity, but its risk management and governance structures, processes and systems withstood the pressure well.

## Overview of risk management

The DBSA uses the enterprise-wide risk management framework, which has changed the risk culture in the organisation significantly. Risk management is receiving stronger backing from the operational and supporting functions, because the risk management governance structures and systems are embedded in decision-making processes.

The primary risk categories in the Bank, which are credit risk, operational risk (including strategic, legal, business continuity and reputational risk) and compliance risk, are discussed in turn below. Capital management, liquidity and market risk are managed by the Treasury function and are discussed in the notes to the financial statements.

## Achievements and objectives

In 2009/10, the Bank undertook a comprehensive examination of its risk portfolio and appetite. It prepared for a deeper integration of risk management by strengthening the risk management and governance structures, policies and systems. The operating divisions accepted portfolio risk as being within their domain. The year ahead will see the full integration of risk management into all facets of the business.

In line with good governance practices and in view of the economic and political changes in its environment, the Bank also reviewed its top risks. The process for identifying and mitigating risks, monitoring appropriate indicators, assessing inherent and residual risk, and reporting on these risks has become more rigorous and now involves optimal feedback.

In addition, credit risk models were modernised in line with global benchmarks to provide a better match with the increased credit activity of the Bank's current and projected investment profile.

[1] As from 17 May 2010; formerly Leonie van Lelyveld.

## Credit risk management

### Credit risk governance

The granting of credit is the major source of the Bank's income, and the management of credit risk is therefore fundamental to its business activities and its planning and decision-making processes. The Board of Directors has delegated the operational responsibility for managing credit to its Credit and Investment Committee, which is supported by the management-level Corporate Credit Committee. The Group Risk Officer has functional responsibility for managing credit risk across the Bank through various committees (Risk and Compliance, Audit, Corporate Credit and Portfolio Management), along with EXCO and the Business Review Forums. These structures provide management and the Board with the appropriate forums to evaluate credit risk and how effectively it is being managed.

### Credit risk management strategy

As part of its ongoing strategy to manage credit risk, the Bank seeks to:

- Identify its material credit risk and ensure that its business profile and plans are consistent with its risk appetite
- Optimise decisions on risk, returns and development impact by devolving them as closely as possible to the business, while establishing strong and independent review structures
- Ensure that business growth plans are properly supported by effective credit risk infrastructure
- Manage the credit risk profile to ensure that specific financial goals can be achieved under a range of adverse business conditions
- Help management to improve the control and coordination of risk-taking across the business
- Ensure the integration of credit risk management into the business of the organisation

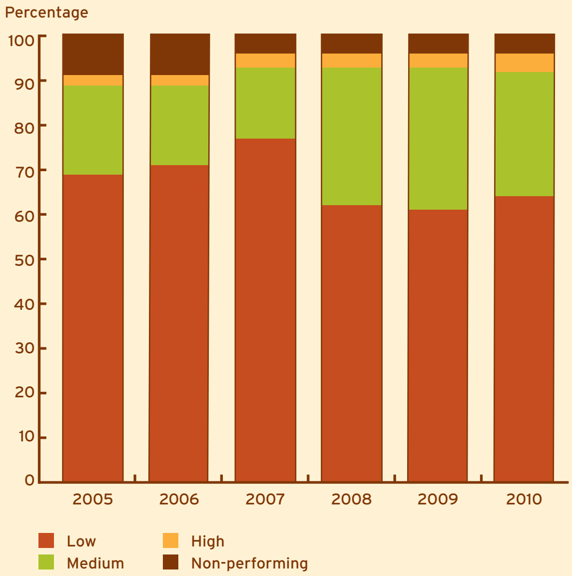
Credit risk management is embedded in the day-to-day business, and responsibility for such management resides at all levels. The credit risk capacity of the Bank was further improved this year through training and targeted support from the Group Risk Assurance Division.

Details of the Bank's credit risk management are provided in the notes to the financial statements. Note 46 on page 155 outlines the framework and governance of credit risk, the calculation and application of internal ratings, mitigation measures, stress testing and country risk.

### Risk within the loan portfolio

The economic downturn reduced the credit quality of the Bank's portfolio, especially in sectors and areas where credit positions are sensitive to lower economic activity. Such volatility may adversely affect the probability of default in the portfolio, as a higher proportion of the Bank's clients may be unable to meet their obligations in future.

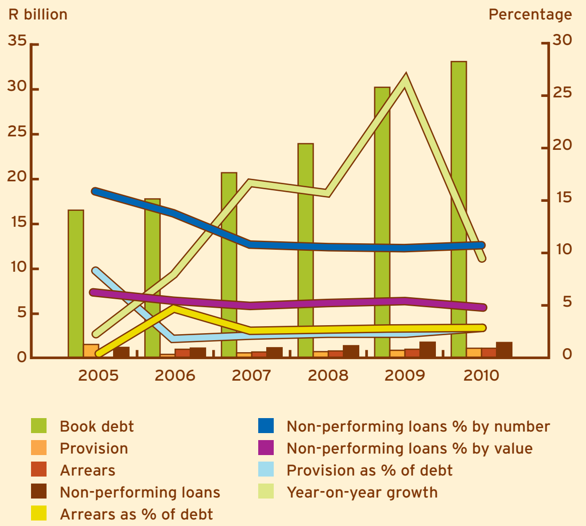
The risk profile of the loan book has nevertheless remained stable and there have been no significant migrations in terms of the mix of the book, as shown in the graph below.




**Risk classification of total loan book by value, 2004/05 to 2009/10**

The loan portfolio grew strongly in 2009/10, reaching R34 billion from a base of R18,1 billion three and a half years ago. As shown in the graph overleaf, the value of non-performing loans as a percentage of total loan book value has remained stable at 4,8%. Although the total number of non-performing loans increased year-on-year, the number of non-performing loans as a percentage of the total number of loans improved to 10,8%. This was partly due to the economic recession, and also to more rigorous monitoring of the Bank's portfolio.

# Risk management overview continued




**Credit performance of total loan book, 2004/05 to 2009/10**

### Mitigation

In order to deal effectively with any delayed effects of the economic downturn, the Bank has been strengthening its capability to measure, monitor and manage its credit risk exposures more proactively. It continues to modernise its management tools to quantify credit risk consistently and reliably. Management reports have been strengthened, and the significant portfolios were subjected to scenario analysis and stress tests to identify possible events or changes in economic conditions that could have an unfavourable impact on the Bank. More rigour was brought to identifying and managing early signs of distress in the portfolio. The Bank's workout and recovery capacity was strengthened and the related policies and procedures reviewed and benchmarked. This helped the Bank to monitor clients in distress, so that it could intervene earlier and respond actively to the increase in defaulting clients.

## Operational risk management

### Governance

The operational risk related to documents, policies, frameworks and strategies was reviewed as part of a continuous improvement programme to ensure that the DBSA's approach in this regard accords with best practice. The Bank also undertook an operational risk assessment on key strategic and partnership projects, to ensure that inherent risk is identified and managed.

### Top risks

The Bank regularly examines its top strategic risks through rigorous reporting structures, culminating in the Audit Committee and the Board. This year, key risk indicators were developed and quarterly reports instituted to signpost trends and risk movements; this enables management to monitor and mitigate risks proactively. The most significant risks (apart from the economic downturn), their mitigation and residual status are outlined in the table opposite.

*Driekoppies Dam.*

| Risk | Mitigation | Residual risk |
|---|---|---|
| Business disruptions | Plans for succession and talent management are in place to reduce the potential negative effect of business disruptions. Systems back-up and disaster recovery plans are being reviewed to ensure business continuity. *Appropriate controls are in place and are reviewed on a regular basis.* | Medium |
| Fraud and corruption | The Bank has a zero-tolerance policy towards fraud and corruption. Policies, procedures and internal control systems have been put in place to eliminate any breakdown in the control processes. Improved awareness of fraud and greater forensic review capacity, coupled with internal audit reviews, helped to increase consistency and reduce fraud. *Appropriate controls are in place and are reviewed on a continuous basis.* | Medium |
| Non-compliance with applicable legislation, regulation and statutory or supervisory requirements | A compliance risk management capacity has been established to develop compliance policy and processes. Systems are in place to track new legislation. The Compliance Risk function monitors and reports on non-compliance to reduce the risk of fines and penalties, and prevent the reputational damage that could result from non-compliance. *Appropriate controls are in place and are reviewed on a regular basis.* | Low |
| Reputational risk | A media engagement policy has been developed and a spokesperson appointed to deal with media issues. Proactive media monitoring and environmental scanning will help to reduce adverse publicity. Confidentiality clauses in employment contracts will help to reduce confidential information leaks. *Appropriate controls are in place and are reviewed on a continuous basis.* | Low |
| Stakeholder management | The Bank has improved its ongoing engagement with the shareholder and other stakeholders. National strategies are reviewed in order to anticipate national trends and changes. This will put the Bank in a better position to manage unrealistic changes in its mandate as a result of political changes. Internally, risk management is increasingly taking a consultative and aligned approach to strategy development. Resources are allocated appropriately to achieve strategic outcomes. The execution of strategy is also monitored continuously to improve the Bank's delivery on its mandate and strategy. *Appropriate controls are in place and are reviewed on a continuous basis.* | Low |

## Business continuity management

During the year, the Business Continuity Programme and Business Impact Assessments were reviewed to reflect business changes and ensure business continuity. One of the achievements of the year was the review of the Information Technology Continuity Plan and the Disaster Recovery Plan, including the policy for back-ups and system mirroring. The Occupational Health and Safety Programme was also strengthened.

## Legal risk management

The Bank operates on the basis of sound legal principles and practices, with a particular focus on specific areas of governance. Investment activities follow strict principles of legal and regulatory compliance. All investment contracts use the latest market-related and standardised agreements. The Legal Services function is fully staffed with experienced lawyers, who are specialists in commercial, banking and labour law.

The legal environment is monitored continuously and the Board and management are apprised of the latest developments in case law and legislation.

## Compliance risk management

The DBSA's *governance framework* for compliance risk management is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. The Bank also uses a combined assurance model, derived from the King III Report. According to this framework, compliance with the applicable regulatory requirements is maintained centrally within the Bank, and is subject to legal review and audit. Management representations, using sound monitoring principles, provide the "first line" of assurance. The internal assurance providers, specifically the Compliance and Internal Audit functions, provide objective and independent compliance reporting. External assurance providers, specifically the external auditors, provide the "last line of defence" assurance. The Bank's compliance governance policy and charter, as well as a procedure manual are available on the intranet.

The Bank's *compliance framework* supports the active management of compliance risk. It uses a four-phase cyclical approach to identify, assess, manage and monitor compliance risk. The compliance risk management plan assists in the management of regulatory requirements, identifies applicable sections of the requirements and serves as a basis for specifying processes and controls to manage the relevant risk. All divisions and clusters report on compliance-related matters quarterly, as part of the ongoing compliance reporting to internal and external stakeholders. Regular communication reinforces the importance of compliance control measures.

In view of the increasing complexity of the regulatory environment, the *regulatory requirements* of all the relevant Acts were assessed during the year, so as to focus attention on the higher-risk items. The Compliance Risk function provided management with timely information relating to new regulatory developments and adoption practices. It also implemented a document and records management programme to improve governance and accountability throughout the investment cycle. In compliance with the National Archives and Records Service of South Africa Act (No. 43 of 1996 as amended), the Bank submitted its File Plan to the National Archives and Records Service of South Africa; the Plan was approved.

## Independent assurance

The Group Risk Assurance Division is subject to audit in the same way as the Bank's operational areas.

## The year ahead

In 2010/11, the Bank will pursue the following risk management objectives:

- Increased integration of risk management through embedding the risk culture in the organisation, clarifying the role of risk management, providing comprehensive training in credit risk management, and reviewing performance measures to reflect accountability and manageable interest
- Ongoing enhancement and monitoring of the framework for credit risk appetite
- Further modernisation of credit risk models, in particular the adoption of best practices and key building blocks of Basel II (Pillar 1) for risk and capital management
- Continued enhancement of the Bank's stress-testing framework and methodologies, and alignment with best practices
- Continued proactive identification and management of credit impairments, and enhancement of the DBSA Group's recovery and collection processes
- Continued assessments, at corporate and divisional level, of the primary strategic risks facing the organisation
- Improved consolidated risk reporting
- Targeted Bank-wide training in risk management

# Annual financial statements

# Directors' responsibility for financial reporting

for the year ended 31 March 2010

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.
- International Financial Reporting Standards have been adhered to.

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 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 96 to 166 were approved by the Board of Directors on 24 June 2010 and signed on its behalf by:

**Jayaseelan Naidoo**
Chairman of the Board

**Paul Cambo Baloyi**
Managing Director

**Omar Aboobaker Latiff**
Chairman of the Audit Committee

# Report of the Audit Committee

for the year ended 31 March 2010

We are pleased to present our report for the financial year ended 31 March 2010.

The Audit Committee members and attendance are reflected in the governance and management overview on page 80 in the corporate governance statement.

## Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

Section 51(1)(a)(ii) of the PFMA states the following:

(a) The Accounting Authority must ensure that the public entity has and maintains:

- (i) effective, efficient and transparent systems of financial and risk management and internal control
- (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77, and
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

## The effectiveness of internal control

The Audit Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

## The quality of in-year management and monthly and quarterly reports submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board of Directors and the management of the Bank during the year under review.

## Evaluation of financial statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the independent external auditors and the Accounting Authority
- Reviewed the independent external auditors' management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

**Omar Aboobaker Latiff**
Chairman of the Audit Committee

# Independent auditors' report to Parliament

for the year ended 31 March 2010

## Report on the financial statements

We have audited the accompanying annual financial statements of the Development Bank of Southern Africa Limited, which comprise the statement of financial position as at 31 March 2010, the income statement and the statements of comprehensive income, changes in equity and cashflows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies, and other explanatory notes and the Directors' Report as set out on pages 96 to 166, excluding the performance information on pages 97 to 99.

### Accounting Authority's responsibility for the financial statements

The Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act, the Companies Act of South Africa, sections 284 to 303 and the Development Bank of Southern Africa Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act of South Africa, the Companies Act of South Africa, sections 284 to 303 as specified in the Development Bank of Southern Africa Act.

## Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, we include below our findings on the report on performance against predetermined objectives, compliance with laws and regulations and internal control.

### Responsibilities on performance against predetermined objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the 'Performance against the shareholder compact', as set out on pages 97 to 99 of the Annual Financial Statements in the section headed Performance information, in which the actual performance of the Bank for the year ended 31 March 2010 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance. In this report we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be not useful or reliable. We report that we have no significant findings.

### Compliance with laws and regulations

Our audit of the financial statements, described in our report on the financial statements, did not reveal any material non-compliance with laws and regulations relating to financial matters, financial management and related matters, as required by the Public Finance Management Act of South Africa (which includes the relevant National Treasury Regulations) and the Development Bank of Southern Africa Act.

### Internal control

We considered internal control relevant to our audit of the financial statements, and the report on performance against predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our opinion on the financial statements, as expressed in our report on the financial statements, is unmodified.

KPMG Inc.
Registered Auditor

Per: S van den Boogaard
Chartered Accountant (SA)
Registered Auditor
Director
24 June 2010

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

Gobodo Inc.
Registered Auditor

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
24 June 2010

41 West Street
Houghton
Johannesburg

# Directors' report

for the year ended 31 March 2010

The Directors have pleasure in presenting this report as part of the annual financial statements of the Development Bank of Southern Africa (DBSA), for the year ended 31 March 2010.

## Nature of business

The DBSA is a development finance institution wholly owned by the South African government. The Bank aims to deepen its development impact in South Africa and the rest of the Southern African Development Community (SADC) by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its roles to serve as financier, advisor, partner, implementer and integrator to the benefit of its clients.

### Financial results and activities

The financial results of the Bank are fully disclosed on pages 101 to 166. The key financial indicators for the year under review are:

- Net interest income decreased by 7,1% (2008/09: 16% increase) and realised operating income of R2,0 billion (2008/09: R2,6 billion).
- Cost-to-income ratio increased from 36% to 40,5%.
- The Bank earned a profit from operations of R963 million in the year under review (2008/09: R1,6 billion).
- During the year under review, the Bank disbursed development loans amounting to R8,3 billion (2008/09: R9,3 billion).
- The quality of the loan book remains within acceptable parameters, with non-performing loans at 4,9% of the total loan book (2008/09: 5,4%), while the provision for loan impairment is R732 million (2008/09: R753 million).
- Long-term debt-to-equity ratio increased to 148,5% (2008/09: 131,3%).

## High-level performance overview

The DBSA's strategy stresses the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is used to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table opposite compares the targets set and the actual results achieved during 2009/10 in relation to the high-level corporate strategic objectives.

The Bank achieved satisfactory results during the financial year, meeting a large majority of its strategic objectives. This is indicative of the Bank's commitment to delivering on its vision of an "integrated region progressively free of poverty and dependence".

## Performance information

### Balanced Scorecard perspective: Development impact

| Strategic goal | Strategic objective | Key performance indicator | Target | Results |
|---|---|---|---|---|
| Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity | Provide assistance for clients' social and economic infrastructure projects | DBSA Development Fund: | | |
| | | • Total grants disbursed | R90 million | R101 million |
| | | • Municipal Infrastructure Grant: total value implemented into projects as a result of DBSA intervention | R7 billion | R8,9 billion |
| | | • Funds crowded in | R150 million | R179 million |
| | | • Sustainable Communities: % of milestones achieved | 70% | 94% |
| | | Level of customer and partner satisfaction with the value, quality and relevance of the expertise offered by the DBSA | Rating of 4 out of 5 | Rating of 4,1 out of 5 |
| | | Disbursements: Total rand value of lending and investment activities<br>*The target was not achieved because planned investments were negatively affected by the economic environment* | R9,5 billion | R8,3 billion |
| | | Commitments:<br>Co-funding ratio on lending and investment activities (DBSA: co-funding)<br>*The participation of other funders in infrastructure projects was lower than expected due to global financial conditions* | 1:3 | 1:1,4 |
| | | Share of total commitments to identified market segments (sector specific) | 50% | 80% |
| Build human and institutional capacity | Provide the following to enhance our clients' institutional capacity: development grants; project management and implementation expertise; planning, financial management and asset management expertise; training, mentoring, coaching and skills transfer | DBSA Development Fund: | | |
| | | • Number of external learners trained | 7 000 | 11 366 |
| | | • Number of people trained on the job | 2 000 | 2 421 |
| | | • Number of projects completed | 700 | 1 237 |

## Performance information (continued)

### Balanced Scorecard perspective: Sustainability

| Strategic goal | Strategic objective | Key performance indicator | Target | Results |
|---|---|---|---|---|
| Serve as a centre of excellence for effective development finance, knowledge and governance | Be a leading model in the African development finance scene, in the areas of development expertise, effectiveness and sustainability; effective corporate governance; and financial sustainability | Quality of policy engagement and research focusing on:<br>• Municipal profiles for planning priorities<br>• DFI Forum<br>• Water Investment Strategy | Rating of 4 out of 5 | Rating of 4,3 out of 5 |
| Engender internal financial sustainability | Secure financial sustainability by managing income and its direct costs | Sustainable earnings (defined as earnings before adjustments for foreign exchange, revaluations, technical assistance grants and grants to the DBSA Development Fund)<br>*Sustainable earnings were lower than expected due to the impact of the sharp decline in interest rates and the strength of the South African currency* | R1 137 million | R823 million |
| | | Cost-to-income ratio | 38% | 40,5% |
| | Maintain financial health | Corporate credit rating | Maintain rating | Rating maintained (see page 54) |
| | Apply integrated risk management to mitigate business risks | Non-performing book debt as a % of total book debt | Below 6% | 4,9% |

## Balanced Scorecard perspective: Organisational capability

| Strategic goal | Strategic objective | Key performance indicator | Target | Results |
|---|---|---|---|---|
| Serve as a centre of excellence for effective development finance, knowledge and governance | Be a leading model in the African development finance scene, in the areas of development expertise, effectiveness and sustainability; effective corporate governance; and financial sustainability | Market perception of the DBSA's image in the development finance scene | Rating of 4,3 out of 5 | Rating of 4,3 out of 5 |
| Engender internal financial sustainability | Appropriate levels of competent, motivated and empowered staff to achieve strategic objectives | Staff training | 75% of staff trained | 80% of staff trained |
| | Optimise and leverage knowledge and intellectual capital to add value to clients, partners and stakeholders | Staff satisfaction with internal knowledge management | Satisfaction level of 3,9 out of 5 | Satisfaction level of 3,9 out of 5 |
| | | % of acceptable vacancy levels | 10% | 8,1% |

### Dividend

No dividend has been declared for the current and previous financial year.

### Share capital

No changes were introduced to the authorised and issued share capital of the Bank. It should be noted that the Governor of the Bank has approved increasing its callable capital from the current R4,8 billion to R20 billion, and has undertaken to submit this proposal to Parliament.

### Going concern

The Directors have no reason to believe that the DBSA will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

### Borrowing power

The borrowing power of the Bank is limited to 2,5 times the permanent capital and accumulated reserves. It should be noted that the regulated leverage ratio has been amended to include the callable capital as equity.

### Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear on page 100.

Non-executive Directors are subject to retirement by rotation. They hold office for a period of three years, but are eligible for reappointment. The Chief Executive Officer may be appointed for a period not exceeding five years.

### Details of the Directors' service contracts are as follows:

| Name | Position | Period | |
|---|---|---|---|
| | | From | To |
| Mr J Naidoo | Independent non-executive Chairperson | 1 August 2008 | 31 July 2011 |
| Mr J Moleketi* | Independent non-executive Deputy Chairperson | 1 January 2010 | 31 December 2012 |
| Mr P Baloyi | Chief Executive Officer and Managing Director | 1 July 2006 | 31 July 2011 |
| Mr F Baleni* | Independent non-executive Director | 1 January 2010 | 31 December 2012 |
| Mr A Boraine | Independent non-executive Director | 1 August 2008 | 31 July 2011 |
| Mr K Brown* | Non-executive Director | 1 January 2010 | 31 December 2012 |
| Mrs T Dingaan | Independent non-executive Director | 1 August 2007 | 31 July 2010 |
| Prof. B Figaji** | Independent non-executive Director | 1 August 2007 | 31 December 2009 |
| Mr T Fowler*** | Non-executive Director | 1 August 2007 | 11 November 2009 |
| Ms N Gasa** | Independent non-executive Director | 1 August 2006 | 31 December 2009 |
| Dr L Gwagwa | Independent non-executive Director | 1 August 2007 | 31 July 2010 |
| Dr D Konar** | Independent non-executive Director | 1 August 2007 | 31 December 2009 |
| Prof. O Latiff | Independent non-executive Director | 1 August 2007 | 31 July 2010 |
| Mrs W Lucas-Bull | Independent non-executive Director | 1 August 2008 | 31 July 2011 |
| Dr C Manning | Independent non-executive Director | 1 August 2008 | 31 July 2011 |
| Mr I Mzimela | Independent non-executive Director | 1 August 2007 | 31 July 2010 |
| Mrs M Nqqaleni | Non-executive Director | 1 February 2009 | 31 January 2012 |
| Ms T Ramano | Independent non-executive Director | 1 August 2007 | 31 July 2010 |
| Prof. E Webster | Independent non-executive Director | 1 August 2007 | 31 July 2010 |

** New appointment*
*** Contract ended*
**** Resigned*

*The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 41 and 45 respectively of the financial statements.*

### Business and registered address

The Bank's business and registered address details appear on page 167.

#### Events subsequent to balance sheet date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in the annual financial statements, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank.

### Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Bank sustained material losses.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Bank sustained material losses.

III. Particulars of any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business.

IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the DBSA: no such financial assistance was received.

# Statement of financial position

as at 31 March 2010

| in thousands of rand | Notes | 2010 | 2009 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 17 | **2 706 788** | 2 475 095 |
| Other receivables | 18 | **139 043** | 120 498 |
| Investment securities | 19 | **3 090 286** | 2 555 283 |
| Investments under resale agreements | 20 | **1 167 750** | 1 361 561 |
| Derivative assets held for risk management | 21.1 | **1 263 236** | 1 403 762 |
| Post-retirement medical benefits investment | 22 | **68 724** | 63 246 |
| Home ownership scheme loans | 23 | **15 517** | 16 697 |
| Equity investments | 24 | **3 252 813** | 2 547 778 |
| Development loans | 26 | **32 968 542** | 29 448 757 |
| Property and equipment | 27 | **412 139** | 370 769 |
| Intangible assets | 28 | **59 083** | 18 192 |
| Total assets | | **45 143 921** | 40 381 638 |
| **Liabilities** | | | |
| Other payables | 29 | **689 051** | 510 481 |
| Liability for funeral benefits | 30.1 | **4 036** | 3 630 |
| Liability for post-retirement medical benefits | 30.2 | **233 913** | 226 648 |
| Medium- to long-term funding debt securities | 31 | **21 334 430** | 14 886 856 |
| Medium- to long-term funding lines of credit | 32 | **4 539 441** | 5 938 264 |
| Funding under repurchase agreements | 33 | **370 674** | 1 160 144 |
| Derivative liabilities held for risk management | 21.2 | **82 093** | 420 112 |
| Total liabilities | | **27 253 638** | 23 146 135 |
| **Equity** | | | |
| Share capital | 34 | **200 000** | 200 000 |
| Retained earnings | | **12 652 543** | 12 117 311 |
| Permanent government funding | 35 | **3 792 344** | 3 792 344 |
| Revaluation reserve on land and buildings | 36 | **206 145** | 198 401 |
| Hedging reserve | 37 | **32 249** | 17 529 |
| Reserve for general loan risks | 38 | **1 022 146** | 935 083 |
| Fair value reserve | 39 | **(15 144)** | (25 165) |
| Total equity | | **17 890 283** | 17 235 503 |
| Total liabilities and equity | | **45 143 921** | 40 381 638 |

# Income statement

for the year ended 31 March 2010

| in thousands of rand | Notes | 2010 | 2009 |
|---|---|---|---|
| Interest income | 5 | **3 602 473** | 3 461 399 |
| Interest expense | 6 | **(1 971 314)** | (1 705 378) |
| **Net interest income** | | **1 631 159** | 1 756 021 |
| Net fee income | 7 | **88 644** | 84 144 |
| Net foreign exchange (loss)/gain | 8 | **(260 649)** | 223 914 |
| Net gain from financial assets and liabilities | 9 | **468 539** | 494 839 |
| Other operating income | 10 | **46 919** | 17 329 |
| | | **343 453** | 820 226 |
| **Operating income** | | **1 974 612** | 2 576 247 |
| Grants | | **(67 452)** | (82 468) |
| Net impairment loss on financial assets | 11 | **(228 436)** | (238 249) |
| Personnel expenses | 12 | **(493 037)** | (424 545) |
| Other expenses | 13 | **(205 502)** | (237 943) |
| Depreciation and amortisation | 15 | **(16 990)** | (6 921) |
| Profit from operations | | **963 195** | 1 586 121 |
| Grant to Development Fund | | **(340 900)** | (120 000) |
| Capacity development and deployment | 16 | **–** | (39 805) |
| **Profit for the year** | | **622 295** | 1 426 316 |

# Statement of comprehensive income

for the year ended 31 March 2010

| in thousands of rand | Notes | 2010 | 2009 |
|---|---|---|---|
| **Profit for the year** | | **622 295** | 1 426 316 |
| Fair value movement of cash flow hedges | | **14 720** | 7 615 |
| Fair value adjustment of available-for-sale financial market instruments | | **10 021** | 19 856 |
| Transfer to revaluation reserve on land and buildings | | **7 744** | 1 843 |
| Other comprehensive income | | **32 485** | 29 314 |
| Total comprehensive income for the year | | **654 780** | 1 455 630 |

# Statement of changes in equity

for the year ended 31 March 2010

| in thousands of rand | Share capital | Permanent government funding | Revaluation reserve on land and buildings | Hedging reserve | Reserve for general loan risks | Fair value reserve | Retained earnings | Total capital and reserves at the end of the year |
|---|---|---|---|---|---|---|---|---|
| **Balance at 01 April 2008** | **200 000** | **3 792 344** | **196 558** | **9 914** | **721 102** | **(45 021)** | **10 904 976** | **15 779 873** |
| Profit for the year | – | – | – | – | – | – | 1 426 316 | 1 426 316 |
| **Other comprehensive income** | | | | | | | | |
| Fair value movements of cash flow hedges | – | – | – | 7 615 | – | – | – | 7 615 |
| Fair value adjustment of available-for-sale financial market instruments | – | – | – | – | – | 19 856 | – | 19 856 |
| Transfer to revaluation reserve on land and buildings | – | – | 1 843 | – | – | – | – | 1 843 |
| Transfer to reserve for general loan risks | – | – | – | – | 213 981 | – | (213 981) | – |
| Total changes | – | – | 1 843 | 7 615 | 213 981 | 19 856 | 1 212 335 | 1 455 630 |
| **Balance at 01 April 2009** | **200 000** | **3 792 344** | **198 401** | **17 529** | **935 083** | **(25 165)** | **12 117 311** | **17 235 503** |
| Profit for the year | – | – | – | – | – | – | 622 295 | 622 295 |
| **Other comprehensive income** | | | | | | | | |
| Fair value movements of cash flow hedges | – | – | – | 14 720 | – | – | – | 14 720 |
| Fair value adjustment of available-for-sale financial market instruments | – | – | – | – | – | 10 021 | – | 10 021 |
| Transfer to revaluation reserve on land and buildings | – | – | 7 744 | – | – | – | – | 7 744 |
| Transfer to reserve for general loan risks | – | – | – | – | 87 063 | – | (87 063) | – |
| Total changes | – | – | 7 744 | 14 720 | 87 063 | 10 021 | 535 232 | 654 780 |
| **Balance at 31 March 2010** | **200 000** | **3 792 344** | **206 145** | **32 249** | **1 022 146** | **(15 144)** | **12 652 543** | **17 890 283** |
| Notes | 34 | 35 | 36 | 37 | 38 | 39 | | |

# Statement of cash flows

for the year ended 31 March 2010

| in thousands of rand | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **622 295** | 1 426 316 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | | **16 990** | 6 921 |
| Grants paid | | **67 452** | 82 468 |
| Dividends received | | **(23 911)** | (9 887) |
| Realised capital gain on equity investment | | **(16 802)** | – |
| Profit on sale of property and equipment | | **(117)** | – |
| Net foreign exchange loss/(gain) | | **260 649** | (223 914) |
| Net gain from financial assets and liabilities | | **(468 539)** | (573 452) |
| Net impairment loss on financial assets | | **228 436** | 238 249 |
| Net interest income | | **(1 631 159)** | (1 677 408) |
| | | **(944 706)** | (730 707) |
| (Increase)/decrease in other receivables | | **(20 678)** | 12 676 |
| Decrease in home ownership scheme loans | | **1 180** | 2 511 |
| Increase/(decrease) in other payables | | **17 801** | (60 789) |
| Change in liability for funeral benefits and post-retirement medical benefits | | **7 671** | 31 000 |
| | | **(938 732)** | (745 309) |
| Interest and dividends received | | **3 344 700** | 3 140 295 |
| Interest paid | | **(1 954 829)** | (1 611 614) |
| **Net cash from operating activities** | | **451 139** | 783 372 |
| **Cash flows used in development activities** | | | |
| Development loan disbursements | | **(7 838 807)** | (8 792 436) |
| Development loan principal repayments | | **3 152 166** | 3 068 376 |
| Increase in equity investments | | **(394 395)** | (308 931) |
| Grants paid | | **(44 243)** | (82 468) |
| **Net cash used in development activities** | | **(5 125 279)** | (6 115 459) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 27 | **(42 616)** | (57 160) |
| Proceeds from the sale of property and equipment | 27 | **187** | – |
| Purchase of intangible assets | 28 | **(48 951)** | (18 409) |
| Movement in financial market assets | | **116 469** | 498 773 |
| **Net cash generated from investing activities** | | **25 089** | 423 204 |
| **Cash flows from financing activities** | | | |
| Financial market liabilities repaid | | **(1 461 000)** | (1 991 880) |
| Financial market liabilities raised | | **6 411 337** | 6 898 418 |
| **Net cash generated from financing activities** | | **4 950 337** | 4 906 538 |
| **Net increase/(decrease) in cash and cash equivalents** | | **301 286** | (2 345) |
| Effect of exchange rate movement on cash balances | | **(69 593)** | 163 637 |
| Movement in cash and cash equivalents | | **231 693** | 161 292 |
| Cash and cash equivalents at the beginning of the year | | **2 475 095** | 2 313 803 |
| **Cash and cash equivalents at the end of the year** | 17 | **2 706 788** | 2 475 095 |

# Accounting policies

for the year ended 31 March 2010

## 1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Board of Directors on 24 June 2010.

### 1.1 Reporting entity

The Development Bank of Southern Africa Limited ("the Bank") is a development finance institution domiciled in South Africa.

### 1.2 Basis of preparation

#### 1.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Land and buildings are measured at fair value
- Post-retirement medical benefit and funeral benefit obligations are measured at actuarial values
- Equity investments are measured at fair value

The methods used to measure fair values are discussed further in note 1.10.

#### 1.2.2 Functional and presentation currency

These financial statements are presented in South African rands, which is the Bank's functional currency. All financial information presented in rands has been rounded to the nearest thousand, unless otherwise stated.

#### 1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

- Note 1.3.5 – Hedge accounting
- Note 1.5.3 – Depreciation and the useful lives of property and equipment
- Notes 19, 20, 21, 31, 32 and 33 – Valuation of financial instruments
- Note 24 – Valuation of equity investments
- Note 26 – Measurement of the recoverable amounts of development loans
- Note 27 – Valuation of land and buildings
- Note 30 – Measurement of funeral benefit obligations and post-retirement medical benefit

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (refer to note 46).

## 1.3 Financial instruments

### 1.3.1 Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition and re-evaluates this classification at every reporting date.

All financial assets are initially recognised at fair value plus transaction costs except those measured at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include data from observable markets.

All financial assets are initially recognised on the trade date at which the Bank commits to buy or sell the instruments, except for loans, advances and the regular way purchases and sales transactions that require delivery within the timeframe established by market convention, which are recorded at settlement date.

Financial assets are initially measured at fair value plus, in the case of all financial assets not measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, the fair values of financial assets are measured as below, excluding transaction costs (refer to note 1.10.3).

*Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held-for-trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking or if so designated by management. Derivatives are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank, there are no financial assets classified as held-for-trading.

A financial asset is designated as at fair value through profit or loss because it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated by the Bank are equity investments and debt securities.

Subsequent to initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised under net gains from financial assets in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. This category does not include those loans and receivables that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Origination transaction costs and origination fees are capitalised to the value of the loan and amortised through interest income. The Bank does not believe that there is a comparable market for its targeted infrastructure programme loans.

This category comprises development loans, cash and cash equivalents, other receivables and collateralised advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment as per note 1.3.8.

Short-term trade receivables and other receivables are measured at original invoice amount less an estimate made for impairment based on a review of all outstanding amounts at year-end.

*Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. Where the Bank sells more than an insignificant amount of held-to-maturity financial assets in a period, the entire category would be tainted and reclassified as available-for-sale and the difference between amortised cost and fair value would be accounted for in equity.

Financial assets classified as held-to-maturity include equity investments and investments in municipal and government bonds.

Subsequent to initial recognition, held-to-maturity financial assets are carried at amortised cost using the effective interest method, less any allowance for impairment.

*Available-for-sale financial assets*

Available-for-sale financial assets are those intended to be held for an indefinite period of time and may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. Financial assets that are either designated in this category or not classified in any of the other categories are classified as available-for-sale financial assets. The main classes of financial assets classified as available-for-sale are money market placements and certain debt and equity investments, as well as government and corporate bonds.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses arising from the changes in fair value are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest and dividend income received on available-for-sale financial assets are recognised in the income statement.

### 1.3.2 Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities on initial recognition and re-evaluates this classification at every reporting date.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds, net of transaction costs incurred. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

*Financial liabilities at fair value through profit or loss*

This category has two sub-categories: financial liabilities held-for-trading and those designated at fair value through profit or loss at inception.

A financial liability is classified as held-for-trading if the linked financial asset associated with this liability is acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking or if so designated by management. Derivative liabilities are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank there are no financial liabilities classified as held-for-trading.

A financial liability is designated as at fair value through profit or loss because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the liability or recognising the gains or losses on it on a different basis, or a portfolio of financial liabilities is linked to a portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under this criterion, the main class of financial liabilities designated by the Bank are debt securities.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the income statement. Changes in the fair value of derivatives used to hedge the interest rate risk are recognised in net interest income in the income statement. Changes in cross-currency derivatives are split between net interest income and net gain from financial assets and liabilities.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments and fixed maturities.

Financial liabilities classified as other financial liabilities comprise debt securities, lines of credit, funding under repurchase agreements and trade and other payables.

Loans that are payable within twelve months are classified as short term and are included under other payables.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost and any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest rate method.

### 1.3.3 Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policies, the Bank does not hold or issue derivative financial instruments for trading purposes.

All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at fair value. The treatment of changes in their fair value depends on their classification into the following categories:

*Qualifying derivatives*

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (refer to note 1.3.5).

*Non-qualifying derivatives*

Derivatives that do not qualify for hedge accounting are accounted for as a component of financial instruments held at fair value through profit or loss with all changes in fair values recognised in profit and loss.

*Embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is measured at fair value through profit or loss.

### 1.3.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continued involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

### 1.3.5 Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either:

- A hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge)

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge

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

Hedge accounting requires that the hedging instrument be measured at fair value.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to note 1.10).

The treatment of any resultant gains and losses is set out below.

The Bank utilises various derivative instruments like cross-currency swaps, interest rate swaps and credit default swaps as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, as well as exposures to variability in cash flows attributable to a particular risk associated with a recognised asset or liability.

The Bank applies either fair value or cash flow hedge accounting to transactions that comply with the hedge accounting criteria and are classified as hedging instruments. The hedging instruments are carried at fair value on the statement of financial position and are reported as either positive or negative fair values.

*Fair value hedge*

When a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses relating to the hedged risk on remeasurement of both the hedging instrument and the hedged item are recognised in profit or loss.

If the hedge no longer meets the criteria for fair value hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until disposal of the equity security.

*Cash flow hedge*

When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, or a highly probable forecast transaction, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective part of any gain or loss is recognised in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is reclassified from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

*Hedge of monetary assets and liabilities*

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

### 1.3.6 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 in funding under repurchase agreements.

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 in investments under resale agreements.

### 1.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and there is an intention to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

### 1.3.8 Impairment of financial instruments

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

*Available-for-sale financial assets*

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

*Loans and advances, receivables and held-to-maturity investments*

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

*Calculation of recoverable amount*

The recoverable amount of the held-to-maturity investments and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Receivables with a short duration are not discounted, as the effect of discounting is not significant.

*Reversals of impairment*

An impairment loss in respect of a held-to-maturity financial asset or loans and receivables measured at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss as far as the impairment was previously recognised in profit or loss.

*Impairment of development loans*

Non-performing loans are impaired for losses identified during periodic evaluations of loan advances. The classification of a loan as non-performing is the loss event that triggers impairment testing on an individual loan basis. The impairment to non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between the loss estimates and actual loss experience. Development loans are considered non-performing when two consecutive repayments have not been honoured by the borrower, or when there are other indicators that the loan may be impaired.

The non-performing book is split into two classes, namely municipalities and other. This is done because the characteristics of the classes differ. For municipalities the recovery rate is based on the historical success rate of rescheduled loans. For the other loans each non-performing borrower is individually assessed to determine its recovery rate.

The performing book is impaired in order to provide for latent losses in the portfolio that have not yet been individually identified as impaired. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system. (Refer to note 1.7.5.)

### 1.3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, callable on demand and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

### 1.3.10 Loans to shareholders, directors, managers and employees

These financial assets are initially recognised at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts.

## 1.4 Impairment of non-financial assets

The company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase to the extent that it exceeds the amount of impairment previously recognised in profit or loss.

Intangible assets that have an indefinite useful life, are not subject to amortisation, or intangible assets that are not yet available for use, are tested annually for impairment at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. Value in use is the present value of projected cash flows covering the remaining useful life of the asset.

## 1.5 Property and equipment

### 1.5.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings which are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued on an annual basis.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment and depreciated accordingly.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss. When revalued land and buildings are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

### 1.5.2 Subsequent costs

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in profit or loss as incurred.

#### 1.5.3 Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| Item | Estimated useful life |
|---|---|
| Buildings | 40 years |
| Furniture and fittings | 10 years |
| Office equipment | 5-10 years |
| Motor vehicles | 4-5 years |
| Computer equipment | 3 years |

The current residual values, depreciation methods and useful lives of assets are reviewed at each reporting date and adjusted if appropriate.

### 1.6 Intangible assets

#### 1.6.1 Recognition and measurement

Intangible assets that are acquired by the Bank which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software and the direct costs associated with the customisation and installation thereof, are capitalised and amortised over the estimated useful lives of the assets from the date that they are available for use.

#### 1.6.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### 1.6.3 Amortisation

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use.

| Item | Estimated useful life |
|---|---|
| Software | 3-7 years |

### 1.7 Share capital and reserves

#### 1.7.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

#### 1.7.2 Permanent government funding

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

#### 1.7.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not occurred or not yet affected profit or loss.

#### 1.7.4 Fair value reserve

The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments, excluding impairment losses.

#### 1.7.5 Reserve for general loan risks

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. A risk review process for all clients is conducted twice per annum. The reserve for each risk category is calculated as follows:

| | |
|---|---|
| • Low risk | 3% |
| • Medium risk | 5% |
| • High risk | 7% |

Any adjustment to the reserve is recognised as a movement directly between retained earnings and the reserve for general loan risks.

#### 1.7.6 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings.

### 1.8 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Revenue is derived substantially from the business of development activities and comprises interest income.

#### 1.8.1 Interest income

Interest income is recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis
- Interest on available-for-sale investment securities on an effective interest basis
- The effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income/expense

Interest includes the effect of hedges, which are used by the Bank to hedge the interest rate risk.

Where non-performing financial assets have been impaired, interest income continues to be recognised to the extent that the asset is not impaired on the original effective interest rate.

#### 1.8.2 Fees and commission

Fees and other income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

### 1.9 Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

### 1.10 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

#### 1.10.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed by an independent quantity surveyor using the income capitalisation approach, which is calculated using an average market-related rental per square metre, discounted by a capitalisation rate.

#### 1.10.2 Post-retirement medical benefits investment

The fair value of the post-retirement medical benefits investment is based on the listed market price.

#### 1.10.3 Financial instruments

Some of the Bank's financial instruments are carried at fair value, such as those that are designated by management under the fair value option, available-for-sale option and derivative financial instruments.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Level 1: Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2: Valuation techniques using market observable inputs. Such techniques may include:
- Using recent arm's length market transactions
- Reference to the current fair value of similar instruments
- Discounted cash flow analysis, pricing models or other techniques commonly used by market participants

(c) Level 3: Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available.

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, as reflected in the table under notes 3 and 4.

*Equity investments*

After initial recognition, the Bank measures equity financial assets at fair value through profit or loss as follows:

Unquoted equity instruments whose fair values cannot be reliably measured are held at cost. If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The Bank uses valuation techniques in measuring equity instruments, including price of recent investment, if available; discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates; price earnings growth (PEG) or option pricing models.

The Bank ensures that these valuation techniques:

- Make maximum use of market inputs and rely as little as possible on entity-specific inputs
- Incorporate all factors that market participants would consider in setting a price
- Are consistent with accepted economic methodologies for pricing financial instruments

*Capital market securities*

In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at reporting date, without any deduction for transaction costs. Where actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

*Derivatives*

The fair value of forward exchange contracts is determined through discounting the contractual future cash flows at the relevant market curves and netting off at the rand spot exchange rate as at the reporting date.

The fair value of interest rate and cross-currency swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and foreign exchange rates and the creditworthiness of the respective swap counterparties. The fair value of derivatives that are not exchange traded is estimated using discounted cash flow valuation methods with inputs limited, to the extent possible, to market observable data.

Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions.

*Interest bearing loans and borrowings*

The fair value of interest bearing loans is determined through discounted cash flow analyses using market-derived discount rates as at reporting date.

*Interest rates used for determining fair value*

The Bank uses market-derived discount curves as at the reporting date. Future cash flows are based on contractual cash flows, and where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply.

## 1.11 Provisions

Provisions are recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are recognised for onerous contracts when the expected benefits to be derived by the Bank from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

## 1.12 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

## 1.13 Employee benefits

### 1.13.1 Defined contribution plan

Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

### 1.13.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of a defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in profit and loss immediately.

#### 1.13.3 Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### 1.13.4 Short-term employee benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### 1.13.5 Home ownership scheme

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to the Bank employees at reduced interest rates. The Bank and Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank. The loans are measured at amortised cost less any impairment losses.

### 1.14 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control. Items are classified as commitments when the Bank commits itself to future transactions with external parties.

### 1.15 Other operating income

Fees that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee income (appraisal, commitment, guarantee and penalty fees) is recognised as the related services are performed.

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

### 1.16 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 requirements of IAS 27 have not been met.

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

### 1.17 Events after reporting date

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

Those events that are indicative of conditions that came into existence subsequent to reporting date, have not been adjusted for.

### 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 statement of financial position of the Bank.

### 1.19 Related parties

The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Bank.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Bank.

Other related-party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

### 1.20 IFRS 7 Financial instruments

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by observability and significance of source of inputs using a three-level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and the ending balance for level 3 fair value measurements is now required, as well as significant transfers between level 1 and level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in note 46, and the liquidity risk disclosures are not significantly impacted by the amendments.

### 1.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

### 1.22 Change in accounting policy

The Bank is increasingly using derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its financing and investing activities. All derivatives are initially recognised at fair value and subsequently remeasured at fair value.

To ensure that the accounting treatment of derivatives matches the Bank's risk management strategies, the Bank has changed its accounting policy from recognising the whole movement of interest rate and economic hedges in net gain from financial assets and liabilities to splitting the fair value movement between interest accrual and fair value, hence reporting the interest accrual in net interest income and the movement in fair value in net gain from financial assets and liabilities. This change in accounting policy results in enhanced disclosure of the Bank's interest income and interest expense.

The change in accounting policy resulted in a revised net interest income and net gain from financial assets and liabilities of:

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **Interest Income** | | |
| Previously stated | **3 533 622** | 3 373 663 |
| Swap interest: previously reported in net gain from financial assets and liabilities | **68 851** | 87 736 |
| | **3 602 473** | 3 461 399 |
| **Interest expense** | | |
| Previously stated | **(2 092 388)** | (1 696 255) |
| Swap interest: previously reported in net gain from financial assets and liabilities | **121 074** | (9 123) |
| | **(1 971 314)** | (1 705 378) |
| **Net gain from financial assets and liabilities** | | |
| Previously stated | **658 464** | 573 452 |
| Swap interest: previously reported in net gain from financial assets and liabilities | **(189 925)** | (78 613) |
| | **468 539** | 494 83 |

## 1. New standards and interpretations not yet effective

The following new standards, some of which are not yet effective, have been issued by the IASB, and their applicability to the Bank must still be assessed:

- Amendments to IFRIC 19 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (Annual periods on or after 30 June 2009)
- IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment (1 April 2009)
- IFRS 3 Business Combinations (revised 2008) (Acquisitions with a date of acquisition on or after the beginning of the first annual period on or after 1 July 2009)
- IAS 27 Consolidated and Separate Financial Statements (amended 2008) (1 July 2009)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (revised 2008) (1 July 2009)
- Amendments to IAS 39 Eligible Hedged Items (1 July 2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners (1 July 2009)
- Improvements to IFRS's 2008 Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (1 July 2009)
- Improvements to IFRS's 2009 various standards (1 July 2009)
- Improvements to IFRS's 2009 various standards (1 January 2010)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (1 January 2010)
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (1 January 2010)
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)
- IAS 24 Related Party Disclosures (revised 2009) (1 January 2011)
- Amendments to IFRIC 14 and IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction dealing with prepayments of minimum funding requirements (1 January 2011)
- IFRS 9 Financial Instruments (1 January 2013)

## 2. Segment reporting

The Bank has four reportable segments, which are its strategic business units. These business units are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Bank's Management Committee reviews internal management reports on at least a quarterly basis. The reportable segments are:

- South Africa
- SADC countries
- Treasury
- Corporate Services

Information regarding the results of each reportable segment is included below. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

## Operating reportable segments

| in thousands of rand | South Africa | | SADC (excl. South Africa) | | Treasury | | Corporate services* | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Interest income on development loans | **2 615 756** | 2 109 159 | **461 740** | 675 007 | **–** | – | **–** | – | **3 077 496** | 2 784 166 |
| Interest income on investments | **639** | 29 021 | **–** | 1 312 | **522 785** | 644 508 | **1 553** | 2 392 | **524 977** | 677 233 |
| **Total interest income** | **2 616 395** | 2 138 180 | **461 740** | 676 319 | **522 785** | 644 508 | **1 553** | 2 392 | **3 602 473** | 3 461 399 |
| Interest expense | **(1 493 216)** | (1 330 659) | **(191 078)** | (334 759) | **(286 997)** | (39 960) | **(23)** | – | **(1 971 314)** | (1 705 378) |
| **Net interest income** | **1 123 179** | 807 521 | **270 662** | 341 560 | **235 788** | 604 548 | **1 530** | 2 392 | **1 631 159** | 1 756 021 |
| **Non-interest income** | **61 140** | 51 208 | **45 768** | 40 660 | **(7 119)** | (4 003) | **35 774** | 13 608 | **135 563** | 101 473 |
| Net fee income | **42 915** | 43 992 | **21 836** | 37 989 | **(9 919)** | (4 003) | **33 812** | 6 166 | **88 644** | 84 144 |
| Dividends | **15 678** | 7 216 | **8 233** | 2 671 | **–** | – | **–** | – | **23 911** | 9 887 |
| Sundry income | **2 547** | – | **15 699** | – | **2 800** | – | **1 962** | 7 442 | **23 008** | 7 442 |
| **Other income** | **428 565** | (109 718) | **(122 054)** | 315 428 | **(104 098)** | 520 442 | **5 477** | (7 399) | **207 890** | 718 753 |
| Net foreign exchange gain/(loss) | **–** | (5 008) | **(336 259)** | 153 393 | **75 610** | 75 529 | **–** | – | **(260 649)** | 223 914 |
| Net gain/(loss) from financial assets and liabilities | **428 565** | (104 710) | **214 205** | 162 035 | **(179 708)** | 444 913 | **5 477** | (7 399) | **468 539** | 494 839 |
| **Operating income** | **1 612 884** | 749 011 | **194 376** | 697 648 | **124 571** | 1 120 987 | **42 781** | 8 601 | **1 974 612** | 2 576 247 |
| **Grants** | **(20 080)** | (59 515) | **(31 699)** | (11 614) | **–** | – | **(15 673)** | (11 339) | **(67 452)** | (82 468) |
| **Expenses** | **(305 958)** | (171 893) | **(95 828)** | (218 896) | **(23 444)** | (24 456) | **(518 735)** | (492 413) | **(943 965)** | (907 658) |
| Operating expenses | **(130 011)** | (115 193) | **(46 332)** | (35 898) | **(23 444)** | (24 456) | **(498 752)** | (486 941) | **(698 539)** | (662 488) |
| Depreciation and amortisation | **–** | – | **–** | – | **–** | – | **(16 990)** | (6 921) | **(16 990)** | (6 921) |
| Net impairment loss on financial assets | **(175 947)** | (56 700) | **(49 496)** | (182 998) | **–** | – | **(2 993)** | 1 449 | **(228 436)** | (238 249) |
| **Profit from operations** | **1 286 846** | 517 603 | **66 849** | 467 138 | **101 127** | 1 096 531 | **(491 627)** | (495 151) | **963 195** | 1 586 121 |
| **Grants to Development Fund** | **–** | – | **–** | – | **–** | – | **(340 900)** | (120 000) | **(340 900)** | (120 000) |
| **Capacity, development and deployment** | **–** | – | **–** | – | **–** | – | **–** | (39 805) | **–** | (39 805) |
| **Profit for the year** | **1 286 846** | 517 603 | **66 849** | 467 138 | **101 127** | 1 096 531 | **(832 527)** | (654 956) | **622 295** | 1 426 316 |
| **Capital expenditure** | – | – | – | – | – | – | 91 567 | 75 569 | 91 567 | 75 569 |
| **Total assets** | **29 430 301** | 23 371 016 | **8 845 231** | 8 968 213 | **6 239 156** | 7 516 256 | **629 233** | 526 153 | **45 143 921** | 40 381 638 |
| **Total liabilities** | **18 081 855** | 14 761 574 | **4 764 571** | 5 006 862 | **3 898 128** | 2 937 047 | **509 084** | 440 651 | **27 253 638** | 23 146 135 |
| **Key ratios by segment** | | | | | | | | | | |
| Cost to income % | **11** | 13 | **15** | 9 | **10** | 4 | | | **41** | 36 |
| Debt to assets ratio % | **61** | 63 | **54** | 56 | **62** | 39 | | | **60** | 57 |
| Net interest income % | **43** | 38 | **59** | 51 | **45** | 94 | | | **45** | 51 |
| Return on assets % | **4** | 2 | **1** | 5 | **2** | 15 | | | **1** | 4 |

** Corporate services include Human Resources, Business Technologies and Facilities, Finance, Group Risk Assurance, Development Planning, the Office of the Chief Executive and Corporate Strategy and Communication.*

## 3. Financial assets by category

The table below sets out the Bank's classification of financial assets, and their fair values.

| in thousands of rand | Notes | Loans and receivables | Designated at fair value through profit or loss* | Held-to-maturity | Available-for-sale | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Cash and cash equivalents | 17 | 2 706 788 | – | – | – | 2 706 788 | 2 706 788 |
| Other receivables | 18 | 139 043 | – | – | – | 139 043 | 139 043 |
| Investment securities | 19 | – | 1 683 623 | 249 965 | 1 156 698 | 3 090 286 | 3 102 453 |
| Investments under resale agreements | 20 | 1 167 750 | – | – | – | 1 167 750 | 1 167 750 |
| Derivative assets held for risk management | 21.1 | – | 1 263 236 | – | – | 1 263 236 | 1 263 236 |
| Home ownership scheme loans | 23 | 15 517 | – | – | – | 15 517 | 15 517 |
| Equity investments | 24 | – | 2 820 933 | 431 880 | – | 3 252 813 | 3 252 813 |
| Development loans | 26 | 32 968 542 | – | – | – | 32 968 542 | 34 056 968 |
| | | **36 997 640** | **5 767 792** | **681 845** | **1 156 698** | **44 603 975** | **45 704 568** |
| **2009** | | | | | | | |
| Cash and cash equivalents | 17 | 2 475 095 | – | – | – | 2 475 095 | 2 475 095 |
| Other receivables | 18 | 120 498 | – | – | – | 120 498 | 120 498 |
| Investment securities | 19 | – | 1 641 945 | 249 968 | 663 370 | 2 555 283 | 2 584 235 |
| Investments under resale agreements | 20 | 1 361 561 | – | – | – | 1 361 561 | 1 361 561 |
| Derivative assets held for risk management | 21.1 | – | 1 403 762 | – | – | 1 403 762 | 1 403 762 |
| Home ownership scheme loans | 23 | 16 697 | – | – | – | 16 697 | 16 697 |
| Equity investments | 24 | – | 2 132 202 | 415 576 | – | 2 547 778 | 2 547 778 |
| Development loans | 26 | 29 448 757 | – | – | – | 29 448 757 | 30 227 542 |
| | | **33 422 608** | **5 177 909** | **665 544** | **663 370** | **39 929 431** | **40 737 168** |

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

## 4. Financial liabilities by category

The table below sets out the Bank's classification of financial liabilities, and their fair values.

| in thousands of rand | Notes | At amortised cost | Designated at fair value through profit or loss* | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Other payables | 29 | 689 051 | – | 689 051 | 689 051 |
| Medium- to long-term funding debt securities | 31 | 13 869 577 | 7 464 853 | 21 334 430 | 19 354 043 |
| Medium- to long-term funding lines of credit | 32 | 4 539 441 | – | 4 539 441 | 4 526 797 |
| Funding under repurchase agreements | 33 | 370 674 | – | 370 674 | 370 674 |
| Derivative liabilities held for risk management | 21.2 | – | 82 093 | 82 093 | 82 093 |
| | | **19 468 743** | **7 546 946** | **27 015 689** | **25 022 658** |
| **2009** | | | | | |
| Other payables | 29 | 510 481 | – | 510 481 | 510 481 |
| Medium- to long-term funding debt securities | 31 | 9 378 107 | 5 508 749 | 14 886 856 | 14 200 039 |
| Medium- to long-term funding lines of credit | 32 | 5 938 264 | – | 5 938 264 | 5 915 264 |
| Funding under repurchase agreements | 33 | 1 160 144 | – | 1 160 144 | 1 160 144 |
| Derivative liabilities held for risk management | 21.2 | – | 420 112 | 420 112 | 420 112 |
| | | **16 986 996** | **5 928 861** | **22 915 857** | **22 206 040** |

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **5. Interest income** | | |
| Interest income | **3 602 473** | 3 461 399 |
| **Interest income received on:** | | |
| Cash and cash equivalents | **158 635** | 165 027 |
| Investment securities | **220 959** | 278 238 |
| Held at fair value through profit and loss | **184 999** | 211 165 |
| Held-to-maturity | **29 981** | 52 292 |
| Available-for-sale | **5 979** | 14 781 |
| Repurchase agreements | **74 341** | 113 508 |
| Development loans (performing and non-performing) refer to note 5.1 | **3 077 496** | 2 784 166 |
| Equity investments | **639** | 30 312 |
| Home ownership scheme | **1 552** | 2 412 |
| Derivatives | **68 851** | 87 736 |
| **Total interest income** | **3 602 473** | 3 461 399 |
| **5.1 Development loans** | | |
| Performing | **2 968 069** | 2 658 996 |
| Non-performing | **109 427** | 125 170 |
| | **3 077 496** | 2 784 166 |
| **5.2 Client classification for development loans** | | |
| Development finance institutions | **21 061** | 36 747 |
| Educational institutions | **56 061** | 57 028 |
| Local government | **1 573 484** | 1 300 711 |
| National and provincial government | **97 110** | 41 121 |
| Private sector intermediaries | **702 184** | 725 459 |
| Public utilities | **627 596** | 623 100 |
| | **3 077 496** | 2 784 166 |
| **6. Interest expense** | | |
| Medium- to long-term funding debt securities | **1 881 052** | 1 337 962 |
| Medium- to long-term funding lines of credit | **153 273** | 218 601 |
| Resale agreements | **58 039** | 139 692 |
| Other interest expense | **24** | – |
| Derivatives | **(121 074)** | 9 123 |
| **Total interest expense** | **1 971 314** | 1 705 378 |
| **Net interest income** | **1 631 159** | 1 756 021 |

Included within interest income on investment securities for the year ended 31 March 2010 is R30 million (2009: R52 million) relating to investment securities held-to-maturity.

| in thousands of rand | 2010 | 2009 |
|---|---|---|

Included within interest income on investment securities for the year ended 31 March 2010 is R185 million (2009: R211 million) relating to investment securities designated at fair value through profit or loss.

Interest income is increased by derivative interest income for the year ended 31 March 2010 of R69 million (2009: R88 million) earned as a result of hedging interest-earning assets. (Refer to change in accounting policy note 1.22.)

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2010 is R617 million (2009: R446 million) relating to debt securities designated at fair value through profit or loss.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2010 is R1,264 million (2009: R892 million) relating to debt securities held at amortised cost.

Included within interest expense on medium- to long-term funding lines of credit for the year ended 31 March 2010 is R154 million (2009: R219 million) relating to credit lines held at amortised cost.

Interest expense is reduced by derivative interest income for the year ended 31 March 2010 of R121 million (2009: R9 million increase in interest expense) earned as a result of hedging interest expense from funding liabilities. (Refer to change in accounting policy note 1.22.)

## 7. Net fee income

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **Fee income** | | |
| Guarantee fees | **7 689** | 8 172 |
| Management fees | **31 112** | 28 712 |
| Commitment fees on funding | **17 082** | 13 789 |
| Upfront fees | **35 058** | 38 886 |
| Appraisal fees | **35** | 676 |
| Other | **10 077** | 2 813 |
| **Total fee and commission income** | **101 053** | 93 048 |
| **Fee expense** | | |
| Guarantee fees | **8 386** | 6 508 |
| Brokerage fees | **105** | 234 |
| Commitment fees on funding | **1 834** | 1 400 |
| Appraisal fees | **2 084** | 762 |
| **Total fee and commission expense** | **12 409** | 8 904 |
| **Net fee income** | **88 644** | 84 144 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **8. Net foreign exchange (loss)/gain** | | |
| **Unrealised** | | |
| Foreign exchange (loss)/gain: Development loans and sundry | **(1 038 802)** | 400 722 |
| Foreign exchange gain/(loss): Hedging derivatives development loans (FEC) | **549 040** | (92 377) |
| Foreign exchange (loss)/gain: Cash and cash equivalents (CFCs) | **(69 593)** | 163 637 |
| Foreign exchange (loss)/gain: Equity investments | **(337 666)** | 148 253 |
| Foreign exchange gain/(loss): Funding | **1 205 431** | (399 398) |
| Foreign exchange (loss): Hedging derivatives funding | **(481 166)** | (97 573) |
| | **(172 756)** | 123 264 |
| **Realised** | | |
| Foreign exchange (loss)/gain: Development loans | **(122 941)** | 40 181 |
| Foreign exchange gain: Equity investments | **1 395** | – |
| Foreign exchange gain: Funding and hedging | **33 653** | 60 469 |
| | **(87 893)** | 100 650 |
| | **(260 649)** | 223 914 |
| **9. Net gain from financial assets and liabilities** | | |
| **Net gain/(loss) on derivatives held for risk management** | | |
| **Interest rate** | | |
| Unrealised | **55 227** | 214 031 |
| Realised | **22 505** | 24 906 |
| | **77 732** | 238 937 |
| **Foreign exchange** | | |
| Unrealised | **11 272** | 62 520 |
| Realised | **(1 197)** | (38 877) |
| | **10 075** | 23 643 |
| **Investment securities designated at fair value through profit or loss:** | | |
| **Government bonds** | | |
| Unrealised | **8 988** | 61 786 |
| Realised | **–** | 21 581 |
| | **8 988** | 83 367 |
| Corporate bonds – unrealised | **6 225** | 3 049 |
| Municipal bonds – unrealised | **(24)** | 31 755 |
| | **15 189** | 118 171 |
| **Debt securities** | | |
| Designated at fair value through profit or loss – unrealised | **(220 182)** | 78 295 |
| Early settlement – realised | **(66 034)** | – |
| | **(286 216)** | 78 295 |
| **Equity investments** | | |
| Designated at fair value through profit or loss – unrealised | **636 559** | 52 941 |
| Held-to-maturity – unrealised | **6 211** | 5 743 |
| | **642 770** | 58 684 |
| Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised | **5 478** | (8 756) |
| Qualifying hedged funding designated at fair value through profit or loss – unrealised | **3 511** | (14 135) |
| **Total net gain from financial assets and liabilities** | **468 539** | 494 839 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **10. Other operating income** | | |
| **Non-interest income:** | | |
| Dividend income | **23 911** | 9 887 |
| Profit on sale of property and equipment | **117** | – |
| Sundry income | **22 891** | 7 442 |
| | **46 919** | 17 329 |
| **11. Net impairment loss on financial assets** | | |
| Other receivables written off | **–** | 47 |
| Impairment on development loans | **213 497** | 229 981 |
| Impairment on equity investments | **11 265** | 9 518 |
| Impairment on other receivables | **3 674** | (1 297) |
| | **228 436** | 238 249 |
| **12. Personnel expenses** | | |
| Post-retirement medical benefits liability movement (refer to note 30.2) | **13 224** | 35 835 |
| Other personnel expenses | **479 813** | 388 710 |
| | **493 037** | 424 545 |
| Included in other personnel expenses are Directors' emoluments and Executive management remuneration as detailed below: | | |
| Directors' emoluments | **8 195** | 6 688 |
| Executive managers' remuneration | **14 661** | 21 387 |
| | **22 856** | 28 075 |
| Full details are provided in the Schedule of Directors' emoluments (refer to note 45). | | |
| **13. Other expenses** | | |
| Auditors' remuneration | **7 474** | 10 607 |
| Technical services | **21 268** | 43 732 |
| Communication costs | **13 682** | 5 497 |
| Information technology | **45 958** | 49 411 |
| Legal expenses | **7 946** | 11 585 |
| Public relations activities | **12 469** | 36 329 |
| Subsistence and travel | **28 850** | 42 657 |
| Assets acquired below R1 000 expensed | **429** | 2 667 |
| Other | **67 426** | 35 458 |
| | **205 502** | 237 943 |
| **14. Auditors' remuneration** | | |
| Audit fees | **7 474** | 7 912 |
| Fees for other services | **–** | 2 695 |
| | **7 474** | 10 607 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|

## 15. Depreciation and amortisation

| | | |
|---|---|---|
| Revalued buildings | **1 317** | 699 |
| Computer equipment | **4 377** | 1 235 |
| Furniture and fittings | **1 445** | 862 |
| Motor vehicles | **38** | 315 |
| Office equipment | **1 753** | 1 547 |
| Intangible assets | **8 060** | 2 263 |
| | **16 990** | 6 921 |

## 16. Capacity, development and deployment

| | | |
|---|---|---|
| Other income | **–** | (8 030) |
| Personnel expenses | **–** | 24 876 |
| Other expenses | **–** | 22 959 |
| | **–** | 39 805 |

The results of the capacity development and deployment units are reported in the Development Fund annual financial statements for the year ended 31 March 2010 in accordance with the strategy to ring-fence the capacity building programmes within the Development Fund.

## 17. Cash and cash equivalents

| | | |
|---|---|---|
| Fixed deposits | **100 000** | 98 |
| Call deposits | **2 025 187** | 1 378 750 |
| Cash at bank | **581 601** | 1 096 247 |
| | **2 706 788** | 2 475 095 |

The average annual interest rate earned on fixed and call deposits detailed above was 7,00% (2009: 9,80%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 46.

## 18. Other receivables

| | | |
|---|---|---|
| Other trade receivables | **74 708** | 60 208 |
| Accrued interest income | **65 452** | 60 570 |
| Staff loans | **794** | 523 |
| Prepayments | **3 789** | 2 275 |
| Impairment provision | **(5 700)** | (3 078) |
| | **139 043** | 120 498 |

The Bank's exposure to credit and currency risks related to other receivables is disclosed in note 46.

| Impairment provision reconciliation | | |
|---|---|---|
| Balance at 1 April | **(3 078)** | (4 375) |
| Increase in provision | **(3 674)** | – |
| Amounts written off | **1 052** | 1 297 |
| Balance at 31 March | **(5 700)** | (3 078) |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **19. Investment securities** | | |
| **Investment securities consist of the following:** | | |
| Investment securities at fair value through profit or loss | **1 683 623** | 1 641 945 |
| Held-to-maturity investment securities | **249 965** | 249 968 |
| Available-for-sale investment securities | **1 156 698** | 663 370 |
| | **3 090 286** | 2 555 283 |
| **Investment securities at fair value through profit or loss** | | |
| Government bonds | **995 500** | 1 009 371 |
| Municipal bonds | **515 731** | 465 755 |
| Corporate bonds | **172 392** | 166 819 |
| | **1 683 623** | 1 641 945 |

Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.

| | 2010 | 2009 |
|---|---|---|
| **Held-to-maturity investment securities** | | |
| Municipal bonds | **249 965** | 249 968 |
| **Available-for-sale investment securities** | | |
| Government bonds | **267 438** | 271 233 |
| Corporate bonds | **127 769** | 135 292 |
| Money market instruments | **761 491** | 256 845 |
| | **1 156 698** | 663 370 |
| **20. Investments under resale agreements** | | |
| Investments under resale agreements | **1 167 750** | 1 361 561 |

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The assets that are received as collateral include government and corporate bonds. The Bank does not retain the risks and rewards associated with the transferred assets, hence such assets are not recognised, whereas corresponding financial asset considerations are recognised in investments under resale agreements.

At 31 March 2010, the fair value of assets received as collateral was R1,2 billion (2009: R1,4 billion).

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **21. Derivative assets and liabilities held for risk management** | | |
| **21.1 Derivative assets held for risk management** | | |
| **Instrument type:** | | |
| Interest rate | **614 179** | 532 034 |
| Foreign exchange | **649 057** | 871 728 |
| | **1 263 236** | 1 403 762 |
| **21.2 Derivative liabilities held for risk management** | | |
| **Instrument type:** | | |
| Interest rate | **30 090** | 38 352 |
| Foreign exchange | **52 003** | 381 760 |
| | **82 093** | 420 112 |
| **21.3 Net derivatives held for risk management** | | |
| Fair value hedges of interest rate risk | **584 089** | 493 681 |
| Cash flow hedges of foreign exchange risk | **117 246** | 371 844 |
| Economic hedges | **479 808** | 118 125 |
| | **1 181 143** | 983 650 |

*Fair value hedges of interest rate risk*

This category consists of interest rate swaps used to hedge the exposure to fair value changes of financial instruments, which are due to changes in market interest rates. This category consists of both qualifying and non-qualifying hedges.

*Cash flow hedges of foreign currency debt securities issued*

The Bank uses cross-currency interest rate swaps to hedge both the foreign currency and interest rate risks arising from the euro and US dollar funding raised to finance operational activities. All cash flow hedges were effective for the year under review (refer to note 21.4).

*Economic hedges*

This category consists of forward foreign exchange contracts and cross-currency swaps that are designated as derivative components of the held at fair value through profit or loss classification. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

### 21.4 Timing of cash flows for designated cash flow hedges

in thousands of rand

| Class | Currency | Description | Cash <1 month | Cash 1-3 months | Cash 3-12 months | Cash 1-2 years | Cash 2-3 years | Cash 3-4 years | Cash 4-5 years | Cash >5 years |
|---|---|---|---|---|---|---|---|---|---|---|
| Cross-currency swaps | EUR | Principal | 5 763 | 35 401 | 41 165 | 82 330 | 82 330 | 82 330 | 85 335 | 414 285 |
| | | Interest | 1 420 | 8 372 | 9 313 | 16 984 | 14 904 | 12 729 | 10 617 | 58 262 |
| | | | **7 183** | **43 773** | **50 478** | **99 314** | **97 234** | **95 059** | **95 952** | **472 547** |
| Cross-currency swaps | USD | Principal | – | – | 5 033 | 4 898 | 4 760 | 4 624 | – | – |
| | | Interest | – | – | – | – | – | – | – | – |
| | | | **–** | **–** | **5 033** | **4 898** | **4 760** | **4 624** | **–** | **–** |
| Cross-currency swaps | ZAR | Principal | – | (34 998) | (36 908) | (71 747) | (71 586) | (71 425) | (73 294) | (353 035) |
| | | Interest | – | (25 945) | (24 713) | (45 110) | (39 753) | (33 974) | (28 482) | (167 198) |
| | | | **–** | **(60 943)** | **(61 621)** | **(116 857)** | **(111 339)** | **(105 399)** | **(101 776)** | **(520 233)** |

| in thousands of rand | 2010 | 2009 |
|---|---|---|

## 22. Post-retirement medical benefits investment

| | | |
|---|---|---|
| Market value of plan assets | **68 724** | 63 246 |

This asset represents the market value of the Bank's contribution to Medipref Management Ltd to fund the post-retirement medical benefits for eligible employees and pensioners.

Details of the post-retirement medical benefit liability are contained in note 30.2. This investment does not meet the definition of a "Plan Asset" and is therefore not offset against the liability.

## 23. Home ownership scheme loans

| | | |
|---|---|---|
| Home ownership scheme loans | **15 517** | 16 697 |

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 Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank.

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

At 31 March 2010 the effective interest rate was 8,5% per year (2009: 11,5%).

## 24. Equity investments

| | | |
|---|---|---|
| Equity investments at fair value through profit or loss | **2 820 933** | 2 132 202 |
| Equity investments held-to-maturity | **431 880** | 415 576 |
| | **3 252 813** | 2 547 778 |

Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained in terms of paragraph 27 of Schedule 4 of the South African Companies Act. The register is available for inspection at the registered office of the Development Bank of Southern Africa Limited.

### 24.1 Equity investments at fair value through profit or loss

| | | |
|---|---|---|
| **Cost** | | |
| Balance at 1 April | **1 234 284** | 777 149 |
| Acquisitions | **400 772** | 515 550 |
| Capital return | **(9 186)** | (58 415) |
| **Balance at 31 March** | **1 625 870** | 1 234 284 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **Fair value adjustment and impairment** | | |
| Balance at 1 April | **659 077** | 689 036 |
| Current year fair value adjustment | **653 361** | 52 941 |
| Realised gain | **(16 802)** | (82 900) |
| Impairment loss | **(4 000)** | – |
| **Balance at 31 March** | **1 291 636** | 659 077 |
| **Foreign exchange adjustments** | | |
| Balance at 1 April | **238 841** | 101 167 |
| Unrealised (loss)/gain | **(334 019)** | 145 508 |
| Realised gain | **(1 395)** | (7 834) |
| **Balance at 31 March** | **(96 573)** | 238 841 |
| **Fair value at the end of the year** | **2 820 933** | 2 132 202 |

Equity investments at fair value through profit and loss consist of direct equity in ordinary shares, embedded derivatives and third party managed private equity.

**Direct equity in ordinary shares:**
If the market for a financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exchange motivated by normal business considerations.

The Bank uses valuation techniques that include price of recent investments, if available, discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rate, long-term evaluation (rule of thumb price earnings growth (PEG)), and option pricing models.

The Bank ensures that these valuation techniques make maximum use of market inputs and rely as little as possible on entity-specific inputs, that they incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

In accordance with the best investment and valuation practice, the DBSA takes a further marketability discount in its direct equity investments. For South African listed equity investments, a 5% marketability discount is taken, and on the foreign listed equity investments a 10% discount is taken. For all unquoted equity instruments, a 10 to 30% discount is taken, depending on what additional marketability discounts were taken into account in determining valuation parameters.

**Third party managed private equity:**
Private equity funds are valued by fund managers from time to time in accordance with international private equity and venture capital valuation guidelines. These guidelines have taken consideration of IFRS and US GAAP, and set out recommendations that represent current best practice on the valuation of a private equity and venture capital investment.

| in thousands of rand | 2010 | 2009 |
| --- | --- | --- |

The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in the case of unquoted equity investments, marketability discounts in the range of 10 to 30% should be factored into the valuation. Different factors are considered in setting the marketability discounts and it is possible for the marketability discount for a particular instrument to fall outside the guideline range.

### 24.2 Equity investments held-to-maturity

| | 2010 | 2009 |
| --- | --- | --- |
| **Amortised cost** | | |
| Balance at 1 April | **415 576** | 474 075 |
| Amortised interest on effective interest method | **6 211** | 5 743 |
| Foreign exchange adjustment | **(2 254)** | 2 746 |
| Additions/(repayments) | **19 612** | (57 470) |
| Impairment loss | **(7 265)** | (9 518) |
| **Balance at 31 March** | **431 880** | 415 576 |

These equity investments have fixed or determinable payments and fixed maturity, and the Bank has the positive intent to hold them to maturity. The Bank has not, during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

## 25. Fair value hierarchy disclosures

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out underneath the table below.

| | Valuations with reference to observable prices Level 1 | Valuations based on observable input Level 2 | Valuations based on unobservable input Level 3 | Total |
|---|---|---|---|---|
| **Available-for-sale financial assets** | | | | |
| Investment securities | 395 207 | 761 491 | – | 1 156 698 |
| **Financial market assets designated at fair value through profit and loss** | | | | |
| Investment securities | 1 683 623 | – | – | 1 683 623 |
| Derivative assets held for risk management | – | 1 263 236 | – | 1 263 236 |
| Equity investments | 586 556 | 1 793 964 | 440 413 | 2 820 933 |
| **Total financial market assets** | 2 665 386 | 3 818 691 | 440 413 | 6 924 490 |
| **Financial market liabilities designated at fair value through profit and loss** | | | | |
| Medium to long term funding debt securities | 7 200 955 | 263 897 | – | 7 464 852 |
| Derivative liabilities held for risk management | – | 82 093 | – | 82 093 |
| **Total financial market liabilities** | 7 200 955 | 345 990 | – | 7 546 945 |

Level 1
Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes bond investments, equity investments and debt securities.

Level 2
Financial instruments valued using inputs other than quoted prices as described above for level 1 but that are observable for the asset or liability, either directly or indirectly, such as:
- Quoted price for similar assets or liabilities in inactive markets
- Quoted price for identical or similar assets or liabilities in inactive markets
- Valuation model using observable inputs
- Valuation model using inputs derived from or corroborated by observable market data

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| This category includes deposits, derivatives, equity investments and debt securities. | | |

Level 3
Financial instruments valued using discounted cash flow analysis.
This category includes only equity investments.

### 25.1 Equity investments

Beginning balance of equity portfolio investments at fair value.

For investments within level 3 of the fair value hierarchy, valued at R440,4 million at 31 March 2010, the methods described previously may produce a fair value measurement that may not be indicative of ultimate realisable value. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

## 26. Development loans

### 26.1 Analysis of development loans

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **30 202 192** | 23 877 071 |
| Movements during the year | **3 497 916** | 6 325 121 |
| Gross development loans | **33 700 108** | 30 202 192 |
| Impairment against development loans (refer to note 26.9) | **(731 566)** | (753 435) |
| **Net development loans at 31 March** | **32 968 542** | 29 448 757 |
| | | |
| **Movements during the year** | | |
| Loans disbursed | **7 838 807** | 8 792 436 |
| Interest accrued – income statement | **3 077 496** | 2 784 166 |
| Interest accrued – impairment | **46 072** | 57 502 |
| Development loans written off | **(281 438)** | (122 791) |
| Foreign exchange adjustment | **(1 165 706)** | 440 042 |
| Gross repayments | **(6 017 315)** | (5 626 234) |
| | **3 497 916** | 6 325 121 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **26.2 Maturity analysis of development loans** | | |
| 2010 | – | 3 471 232 |
| 2011 | **4 103 842** | 2 521 704 |
| 2012 | **2 282 642** | 2 245 508 |
| 2013 | **2 899 107** | 2 842 016 |
| 2014 | **3 615 667** | 3 695 897 |
| 2015–2019 | **11 547 153** | 9 334 872 |
| 2020–2024 | **5 794 867** | 4 276 499 |
| 2025 and thereafter | **3 456 830** | 1 814 464 |
| | **33 700 108** | 30 202 192 |
| **26.3 Sectoral analysis** | | |
| Commercial infrastructure | **5 432 436** | 5 374 552 |
| Communication and transport infrastructure | **3 892 408** | 3 833 063 |
| Energy | **4 718 217** | 4 344 942 |
| Human resources development | **805 570** | 760 959 |
| Institutional infrastructure | **31 895** | 25 220 |
| Residential facilities | **2 444 265** | 2 188 378 |
| Roads and drainage | **6 803 328** | 4 974 773 |
| Sanitation | **1 016 593** | 1 079 254 |
| Social infrastructure | **4 164 790** | 2 987 599 |
| Water | **4 390 606** | 4 633 452 |
| | **33 700 108** | 30 202 192 |
| **26.4 Geographical analysis** | | |
| Eastern Cape | **1 367 170** | 988 837 |
| Free State | **618 525** | 658 531 |
| Gauteng | **10 169 702** | 7 423 032 |
| KwaZulu-Natal | **8 292 358** | 7 345 880 |
| Limpopo | **716 360** | 716 837 |
| Mpumalanga | **1 543 738** | 1 336 151 |
| North West | **657 021** | 624 814 |
| Northern Cape | **396 458** | 382 671 |
| Western Cape | **3 571 681** | 2 822 762 |
| Multi-regional – South Africa | **175 038** | 181 864 |
| SADC (excluding South Africa) and multinationals* | **6 192 057** | 7 720 813 |
| | **33 700 108** | 30 202 192 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **SADC (excluding South Africa) and multinationals*** | | |
| Angola | **221 951** | 295 480 |
| Botswana | **65 897** | 83 952 |
| Democratic Republic of Congo | **73 428** | – |
| Lesotho | **443 476** | 323 049 |
| Malawi | **223 530** | 265 020 |
| Mauritius | **28 677** | 327 349 |
| Mozambique | **945 955** | 1 360 642 |
| Namibia | **496 923** | 532 015 |
| Swaziland | **192 108** | 242 586 |
| Tanzania | **619 587** | 712 848 |
| Zambia | **1 483 262** | 2 022 872 |
| Multinationals | **1 397 263** | 1 555 000 |
| | **6 192 057** | 7 720 813 |
| *Amount in US$ included in the above SADC loans | **461 095** | 493 194 |

## 26.5 Client classification

| | | |
|---|---|---|
| Development finance institutions | **392 343** | 636 654 |
| Educational institutions | **767 964** | 616 613 |
| Local government | **16 998 658** | 12 978 714 |
| National and provincial government | **872 410** | 280 788 |
| Private sector intermediaries | **8 135 893** | 9 259 696 |
| Public utilities | **6 532 840** | 6 429 727 |
| | **33 700 108** | 30 202 192 |

## 26.6 Fixed and variable interest rate loans

| | | |
|---|---|---|
| Fixed interest rate loans | **19 632 729** | 17 275 215 |
| Variable interest rate loans | **14 067 379** | 12 926 977 |
| | **33 700 108** | 30 202 192 |

## 26.7 Non-performing loans (included in total development loans)

### 26.7.1 Sectoral analysis

| | | |
|---|---|---|
| Commercial infrastructure | **769 687** | 1 015 827 |
| Communication and transport infrastructure | **151 702** | 3 376 |
| Energy | **264 602** | 204 381 |
| Human resources development | **18 473** | 4 730 |
| Institutional infrastructure | **17 812** | 11 837 |
| Residential facilities | **46 381** | 17 528 |
| Roads and drainage | **46 112** | 39 638 |
| Sanitation | **95 433** | 89 986 |
| Social infrastructure | **112 960** | 115 930 |
| Water | **132 883** | 118 031 |
| | **1 656 045** | 1 621 264 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **26.7.2 Geographical analysis** | | |
| Eastern Cape | **47 226** | 48 377 |
| Free State | **238 373** | 162 280 |
| Gauteng | **105 384** | 103 133 |
| KwaZulu-Natal | **39 586** | 6 795 |
| Limpopo | **138 033** | 132 502 |
| Mpumalanga | **62 334** | 71 501 |
| North West | **293 586** | 278 614 |
| Northern Cape | **27 191** | 40 537 |
| Western Cape | **83 953** | 67 306 |
| SADC (excluding South Africa) | **620 379** | 710 219 |
| | **1 656 045** | 1 621 264 |
| **SADC (excluding South Africa)** | | |
| Botswana | **65 897** | – |
| Lesotho | **1 336** | 1 575 |
| Malawi | **135 645** | 118 473 |
| Mauritius | **–** | 274 752 |
| Mozambique | **37 371** | 35 397 |
| Swaziland | **111 780** | 97 751 |
| Zambia | **143 006** | 182 271 |
| Multi-regional | **125 344** | – |
| | **620 379** | 710 219 |
| **26.7.3 Client classification** | | |
| Development finance institutions | **110 449** | 122 609 |
| Educational institutions | **22 862** | 1 678 |
| Local government | **331 829** | 254 651 |
| Private sector intermediaries | **870 200** | 958 142 |
| Public utilities | **320 705** | 284 184 |
| | **1 656 045** | 1 621 264 |
| **26.8 Client concentration of total development loans** | | |
| One client as percentage of total loan portfolio (%) | **15,8** | 15,3 |
| Seven clients as percentage of total loan portfolio (%) | **40,3** | 35,5 |
| **26.9 Impairment against development loans** | | |
| Balance at 1 April | **753 435** | 588 742 |
| Impairment of current year interest | **46 072** | 57 502 |
| Loans written off during the year | **(281 438)** | (122 791) |
| **Impairment charge** | **213 497** | 229 982 |
| Non-performing book | **204 841** | 219 421 |
| Performing book | **8 656** | 10 561 |
| **Balance at 31 March** | **731 566** | 753 435 |

## 27. Property and equipment

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost/ valuation | Accumulated depreciation and impairment losses | Carrying value | Cost/ valuation | Accumulated depreciation and impairment losses | Carrying value |
| Revalued land | 60 000 | – | 60 000 | 60 000 | – | 60 000 |
| Revalued buildings | 328 973 | (3 738) | 325 235 | 287 000 | (2 421) | 284 579 |
| Computer equipment | 22 184 | (15 293) | 6 891 | 19 242 | (10 916) | 8 326 |
| Furniture and fittings | 16 278 | (4 987) | 11 291 | 13 116 | (3 542) | 9 574 |
| Motor vehicles | 1 606 | (455) | 1 151 | 1 645 | (777) | 868 |
| Office equipment | 12 294 | (4 723) | 7 571 | 10 392 | (2 970) | 7 422 |
| **Total** | **441 335** | **(29 196)** | **412 139** | **391 395** | **(20 626)** | **370 769** |

### Reconciliation of property and equipment – 2010

| | Opening balance | Additions | Disposals | Revaluations | Depreciation | Closing balance |
|---|---|---|---|---|---|---|
| Revalued land | 60 000 | – | – | – | – | 60 000 |
| Revalued buildings | 284 579 | 34 229 | – | 7 744 | (1 317) | 325 235 |
| Computer equipment | 8 326 | 2 942 | – | – | (4 377) | 6 891 |
| Furniture and fittings | 9 574 | 3 162 | – | – | (1 445) | 11 291 |
| Motor vehicles | 868 | 381 | (60) | – | (38) | 1 151 |
| Office equipment | 7 422 | 1 902 | – | – | (1 753) | 7 571 |
| **Net carrying value** | **370 769** | **42 616** | **(60)** | **7 744** | **(8 930)** | **412 139** |

### Reconciliation of property and equipment – 2009

| | Opening balance | Additions | Revaluations | Depreciation | Closing balance |
|---|---|---|---|---|---|
| Revalued land | 26 000 | – | 34 000 | – | 60 000 |
| Revalued buildings | 275 278 | 42 157 | (32 157) | (699) | 284 579 |
| Computer equipment | 1 925 | 7 636 | – | (1 235) | 8 326 |
| Furniture and fittings | 6 838 | 3 598 | – | (862) | 9 574 |
| Motor vehicles | 1 038 | 145 | – | (315) | 868 |
| Office equipment | 5 345 | 3 624 | – | (1 547) | 7 422 |
| **Net carrying value** | **316 424** | **57 160** | **1 843** | **(4 658)** | **370 769** |

### Valuations

**Land**

The land constitutes Portion 465 (of Portion 442) of the farm Randjesfontein 405 measuring 25,066 hectares, donated by the South African government in 1985.

The land was valued at a fair value of R60,0 million by De Leeuw Group, independent quantity surveyors, on 31 March 2010, using the income capitalisation approach (March 2009: R60,0 million). The land is carried at the revalued amount, in accordance with the Bank's revaluation accounting policy for land.

**Buildings**

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R34,2 million were effected during the 2010 financial year (2009: R42,2 million).

The buildings were valued at a fair value of R312,0 million by De Leeuw Group, independent quantity surveyors, on 31 March 2010, using the income capitalisation approach (March 2009: R287 million).

The historical book value of the existing buildings is R173,7 million (2009: R146,3 million).

## 28. Intangible assets

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortisation and impairment losses | Carrying value | Cost | Accumulated amortisation and impairment losses | Carrying value |
| Computer software | 75 164 | (16 081) | 59 083 | 26 213 | (8 021) | 18 192 |

**Reconciliation of intangible assets – 2010**

| | Opening balance | Additions | Amortisation | Closing balance |
|---|---|---|---|---|
| Computer software | 18 192 | 48 951 | (8 060) | 59 083 |

**Reconciliation of intangible assets – 2009**

| | Opening balance | Additions | Amortisation | Closing balance |
|---|---|---|---|---|
| Computer software | 2 046 | 18 409 | (2 263) | 18 192 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|

## 29. Other payables

| | | |
|---|---|---|
| Sundry payables | **231 253** | 219 460 |
| DBSA Development Fund | **16 125** | 5 366 |
| Sundry accruals | **22 731** | 4 273 |
| Accrued interest | **418 942** | 281 382 |
| | **689 051** | 510 481 |

The Bank's exposure to currency and liquidity risk related to other payables is disclosed in note 46.

## 30. Employee benefits

### 30.1 Liability for funeral benefits

This benefit is for all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of the employee or retired employee. The obligation was actuarially valued on 31 March 2010.

The principal assumptions in determining the funeral benefits obligation are as follows:

| | | |
|---|---|---|
| Discount rate (before taxation) % | 9,00 | 9,00 |
| Inflation rate % | 5,50 | 5,25 |

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

| **Movement in liability for funeral benefits recognised in the statement of financial position** | | |
|---|---|---|
| Balance at 1 April | **3 630** | 3 509 |
| Increase in the liability | **538** | 253 |
| Company contributions | **(132)** | (132) |
| **Balance at 31 March** | **4 036** | 3 630 |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **30.2 Liability for post-retirement medical benefits** | | |
| The Bank operates an unfunded defined benefit plan for qualifying employees. Under the plan, the Bank pays 100% of the medical aid contributions of pensioners who qualify. | | |
| Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement. | | |
| The investment in Medipref, as specified in note 22, has been set aside to fund this obligation. | | |
| The amount recognised in the balance sheet in respect of the Bank's post-retirement medical benefit is detailed below: | | |
| **Present value of unfunded obligation** | | |
| Present value of unfunded obligation at 1 April | **226 648** | 195 769 |
| Interest cost | **20 118** | 16 991 |
| Current service cost (Includes interest to year-end) | **9 897** | 9 187 |
| Expected employer benefit payments | **(5 959)** | (4 956) |
| Actuarial (gain)/loss for the year | **(16 791)** | 9 657 |
| **Present value of unfunded obligation at 31 March** | **233 913** | 226 648 |
| The amount recognised as an expense in the profit or loss in respect of the defined benefit plan is as follows: | | |
| Interest cost | **20 118** | 16 991 |
| Current service cost | **9 897** | 9 187 |
| Actuarial (gain)/loss for the year | **(16 791)** | 9 657 |
| **Total charge for the year (included in personnel expenses in the income statement)** | **13 224** | 35 835 |
| **Market value of post-retirement medical benefit investment** | | |
| Market value of Medipref at 1 April | **63 246** | 72 002 |
| Increase/(decrease) in market value for the year | **5 478** | (8 756) |
| **Market value of Medipref at 31 March** | **68 724** | 63 246 |
| The principal assumptions in determining the post-retirement medical benefits obligation are as follows: | | |
| Discount rate (before taxation) % | 9,00 | 9,00 |
| Medical aid inflation rate % | 7,25 | 7,75 |

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

**Sensitivity analysis**

The valuation results set out above are based on a number of assumptions. The value of the liability could be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

The liability was recalculated to show the effect of a one percentage point decrease or increase in the rate of medical aid inflation.

| | Central assumption | % point decrease | % point increase |
|---|---|---|---|
| Medical aid inflation rate (%) | 7,25 | (1,00) | 1,00 |
| Accrued liability 31 March 2010 (R 000) | 233 913 | 200 397 | 276 047 |
| % change | | (14,30) | 18,00 |
| Current service cost + interest cost 2010/11 (R 000) | 29 515 | 24 711 | 35 684 |
| % change | | (16,30) | 20,90 |
| Sensitivity results from previous valuation: | | | |
| Medical aid inflation rate 2009 (%) | 7,75 | (1,00) | 1,00 |
| Current service cost and interest cost 2009/10 (R 000) | 30 015 | 24 807 | 36 791 |
| % change | | (17,40) | 22,60 |
| **The obligation for the three years prior to March 2009 is as follows: R 000** | | | |
| March 2008 | | 195 769 | – |
| March 2007 | | 172 204 | – |
| March 2006 | | 130 902 | – |

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **30.3 Defined contribution plan** | | |
| Total amount expensed during the year (including group life assurance and income continuity benefits) | **44 331** | 41 265 |

The Development Bank of Southern Africa Provident Fund (The Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The Fund, which is governed by the Pension Funds Act, No. 24 of 1956, is a defined contribution plan for permanent employees of the Bank.

The number of employees covered by the plan: 730 (2009: 684)

## 31. Medium- to long-term funding debt securities

| | 2010 | 2009 |
|---|---|---|
| **31.1 At fair value through profit or loss** | | |
| Debt securities | **7 464 853** | 5 508 749 |
| **31.2 Held at amortised cost** | | |
| Debt securities | **13 869 577** | 9 378 107 |
| | **21 334 430** | 14 886 856 |

Debt securities designated at fair value through profit or loss consists of DV bonds and Private Placements listed and unlisted.

Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market Issuance (bridging bonds) and DV bonds.

Other debt is held at amortised cost.

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **32. Medium- to long-term funding lines of credit** | | |
| **32.1 Held at amortised cost** | | |
| Other funding | 4 539 441 | 5 938 264 |

Other funding held at fair value through profit or loss represents the hedged funding that forms part of effective qualifying hedge relationships.

## 33. Funding under repurchase agreements

| | | |
|---|---|---|
| Funding under repurchase agreements | 370 674 | 1 160 144 |

Refer to note 20, investments under resale agreements.

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The stock thus transferred includes government bonds and the Bank's own stock. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets, and continues to recognise this stock within investment and debt securities, whilst the corresponding financial liability considerations are recognised in funding under repurchase agreements.

At 31 March 2010, the fair value of these financial assets was R371 million (2009: R1,2 billion).

## 34. Share capital

| | | |
|---|---|---|
| **Authorised** | | |
| 500 000 ordinary shares (2009: 500 000) at a par value of R10 000 each | **5 000 000** | 5 000 000 |
| **Issued capital** | | |
| 20 000 ordinary shares (2008: 20 000) at a par value of R10 000 each | **200 000** | 200 000 |

All issued capital is fully paid for.

| | | |
|---|---|---|
| **Callable capital** | | |
| 480 000 ordinary shares (2009: 480 000) at a par value of R10 000 each | **4 800 000** | 4 800 000 |

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

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

It should be noted that the Minister of Finance has agreed to recommend to Parliament an amendment to the DBSA Act No. 13 of 1997 to increase the callable capital of the Bank from the current R4,8 billion to R20 billion.

| in thousands of rand | 2010 | 2009 |
|---|---|---|

The Minister of Finance has also agreed to issue an interim Letter of Undertaking amounting to R15,2 billion in favour of the DBSA of which R10 billion may be accessed with immediate effect and the remaining R5,2 billion in the 2010/11 financial year. The Letter of Undertaking will lapse on promulgation of the DBSA Amendment Act.

## 35. Permanent government funding

| | 2010 | 2009 |
|---|---|---|
| Received to date | **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.

There are no repayment terms and this funding is interest-free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

## 36. Revaluation reserve on land and buildings

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **198 401** | 196 558 |
| Transfer to revaluation reserve on land and buildings | **7 744** | 1 843 |
| **Balance at 31 March** | **206 145** | 198 401 |

This reserve represents the valuation surplus recognised on the revaluation of the land and buildings.

## 37. Hedging reserve

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **17 529** | 9 914 |
| Fair value adjustments of cash flow hedges | **14 720** | 7 615 |
| **Balance at 31 March** | **32 249** | 17 529 |

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not yet occurred.

## 38. Reserve for general loan risks

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **935 083** | 721 102 |
| Transfer to general loan reserve | **87 063** | 213 981 |
| **Balance at 31 March** | **1 022 146** | 935 083 |

The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.7.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.

## 39. Fair value reserve

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **(25 165)** | (45 021) |
| Fair value adjustments of available-for-sale financial instruments | **10 021** | 19 856 |
| **Balance at 31 March** | **(15 144)** | (25 165) |

The reserve comprises all fair value adjustments for available-for-sale financial market instruments.

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **40. Contingencies** | | |
| **40.1 Employee loans** | | |
| Loan balances secured | **258** | 258 |
| The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees. | | |
| **40.2 Guarantees** | | |
| **40.2.1** The Bank has approved and issued guarantees on behalf of borrowers amounting to | **330 187** | 467 255 |
| It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the statement of financial position as a liability. | | |
| The total book debt to the credit provider is: | **330 187** | 457 255 |

**40.2.2** The Bank has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

## 41. Related parties

The DBSA is one of 21 schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that fall within the national sphere of government.

In addition, the Bank has a related party relationship with the Development Fund, Directors and Executive Management. Unless specifically disclosed, these transactions are concluded on an arm's length basis and the Bank is able to transact with any entity.

The South African government, through the Ministry of Finance, is the parent of the Bank and exercises ultimate control.

### 41.1 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at year-end:

### 41.2 Major public entities

**41.2.1 National public entities**

The total book debt for loans extended to national public entities amounts to R3 296 979 844 (2009: R3 440 822 980). None of these loans are non-performing.

**41.2.2 Development Fund**

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market rate of 4% of operating costs of the Fund. At year-end, the net balance owed by the DBSA Development Fund was R5,1 million (2009: R6,5 million).

The transaction costs for management fee income were R21,8 million (2009: R14,5 million).

The grant paid to the DBSA Development Fund was R340,9 million (2009: R120 million).

## 41.3 There were no related party transactions for the year 2009/10

### 41.3.1 Related party transactions with key management personnel, funded by the DBSA for 2008/09

| Name of Director | Name of project | Borrower | Amount | Declared at meeting | Interest rate | Nature of interest |
|---|---|---|---|---|---|---|
| Prof. Brian Figaji | One & Only V&A Hotel Project | One & Only V&A Hotel Project | R40 million | Board Credit and Investment Committee 5/02/2009 | Prime plus 100 bp | Holds a 0,3% shareholding in the broad-based empowerment vehicle |
| Mrs Wendy Lucas-Bull | Coronation Peotona Fund | Coronation Peotona Fund | R100 million | Board Credit and Investment Committee 5/02/2009 | Required IRR 30% | Holds 15% shareholding in Peotona Group Holdings (Pty) Ltd, which in turn has a 25% share of the fund manager |
| Dr Lulu Gwagwa | On Digital Media (ODM) - Project No. 103187 | On Digital Media (ODM) - Project No. 103187 | R200 million | Corporate Credit Committee 13/08/2008<br>Board Credit and Investment Committee 15/10/2008 | JIBAR plus 350 bp | Shareholder of Lereko Investment Holdings, which is a shareholder of Lereko Media. Lereko Media owns 30% of On Digital Media |
| **DBSA Nominee Directors** | | | | | | |
| Mr Emile du Toit | One & Only V&A Hotel Project | One & Only V&A Hotel Project | R40 million | Board Credit and Investment Committee 5/02/2009 | Prime plus 100 bp | DBSA Nominee Director |

*Notes: All transactions were approved at arm's length and the normal DBSA terms and conditions applied.*
*None of these transactions had any disbursements at 31 March 2009.*

| in thousands of rand | 2010 | 2009 |
|---|---|---|
| **42. Commitments** | | |
| At the date of the balance sheet, the Bank had the following commitments: | | |
| • Loan commitments | **4 775 494** | 8 472 651 |
| • Grants | **76 359** | 62 204 |
| • Capital commitments | **169 400** | 180 897 |
| | **5 021 253** | 8 715 752 |

### 42.1 Loan commitments

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

### 42.2 Grants

Grant commitments signed but not yet disbursed are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

### 42.3 Capital commitments

Capital expenditure is in respect of property and equipment authorised but not contracted for.

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

## 43. Funds administered on behalf of third parties

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 April | **469 217** | 381 397 |
| Funds received | **603 420** | 3 324 749 |
| Funds disbursed | **(315 667)** | (3 236 929) |
| **Balance at 31 March** | **756 970** | 469 217 |

## 44. Taxation

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

## 45. Schedule of Directors' emoluments

### Executive members' remuneration

| | Basic salaries/ fees R | Medical aid, group life and provident fund contribution R | Other allowances and benefits R | **Total 2010 R** | Total 2009 R |
|---|---|---|---|---|---|
| **Chief Executive Officer and Managing Director** | | | | | |
| Mr P Baloyi | 2 232 123 | 202 377 | 110 059 | **2 544 559** | 2 300 000 |
| **Executive managers** | | | | | |
| Mr P de la Rey | 1 245 341 | 212 508 | 186 017 | **1 643 866** | 1 486 800 |
| Mr E Dietrich | 1 101 739 | 260 711 | 72 000 | **1 434 450** | 1 317 789 |
| Dr SJ Khoza | 1 353 819 | 267 719 | 202 590 | **1 824 128** | 1 650 193 |
| Mr L Mashaba | 1 330 769 | 257 919 | 200 535 | **1 789 223** | 1 614 354 |
| Mr R Naidoo | 1 368 750 | – | 45 210 | **1 413 960** | 1 070 833 |
| Mrs L Ndlovu | 1 069 630 | 204 169 | 84 000 | **1 357 799** | 1 239 201 |
| Mr A Tadesse[1] | 1 491 047 | – | – | **1 491 047** | 1 252 670 |
| Mrs L van Lelyveld | 1 263 828 | 212 772 | 56 680 | **1 533 280** | 1 371 722 |
| Mr H Weilert[1] | 2 174 094 | – | – | **2 174 094** | 1 614 363 |
| **Total** | 14 631 140 | 1 618 175 | 957 091 | **17 206 406** | 14 917 925 |

### Performance incentives[2]

| | **Total 2010** | Total 2009 |
|---|---|---|
| **Chief Executive Officer and Managing Director** | | |
| Mr P Baloyi | **–** | 2 000 000 |
| **Executive managers** | | |
| Mr P de la Rey | **–** | 990 000 |
| Mr E Dietrich | **–** | 1 060 000 |
| Dr SJ Khoza | **–** | 950 000 |
| Mr L Mashaba | **–** | 1 100 000 |
| Mr R Naidoo | **–** | 800 000 |
| Mrs L Ndlovu | **–** | 850 000 |
| Mr A Tadesse[1] | **–** | 950 000 |
| Mrs L van Lelyveld | **–** | 1 100 000 |
| Mr H Weilert[1] | **–** | 968 618 |
| **Total** | **–** | 10 768 618 |

*Note*

1. *Amounts paid to third party.*
2. *The process of finalising the 2009/10 executive incentives has not yet been completed.*

## 45. Schedule of Directors' emoluments continued

**Remuneration of non-executive Directors and co-opted members of the Board**

| | Fees for services as Directors R | Subsistence and travel R | Fees for other services R | **Total 2010 R** | Total 2009 R |
|---|---|---|---|---|---|
| Mr J Naidoo (Chairperson) | 576 000 | 1 260 | – | **577 260** | 313 954 |
| Mr FM Baleni[2] | 52 500 | – | – | **52 500** | – |
| Mr A Boraine | 294 000 | 37 415 | – | **331 415** | 122 287 |
| Mrs T Dingaan | 528 000 | 210 | – | **528 210** | 217 594 |
| Prof. B Figaji[1] | 337 500 | – | – | **337 500** | 97 500 |
| Ms N Gasa[1] | 250 500 | 1 225 | – | **251 725** | 46 264 |
| Dr L Gwagwa | 427 000 | 1 764 | – | **428 764** | 189 620 |
| Dr D Konar[1] | 421 376 | 1 440 | 5 000 | **427 816** | 354 330 |
| Prof. O Latiff | 507 653 | 8 202 | – | **515 855** | 163 000 |
| Mrs W Lucas-Bull | 516 000 | 3 150 | – | **519 150** | 250 434 |
| Dr C Manning | 411 000 | 4 170 | – | **415 170** | 130 904 |
| Mr PJ Moleketi[2] | 52 500 | – | – | **52 500** | – |
| Mr I Mzimela | 427 000 | 1 475 | – | **428 475** | 199 375 |
| Ms T Ramano | 379 000 | 2 730 | – | **381 730** | 166 200 |
| Prof. E Webster | 249 000 | 1 660 | – | **250 660** | 69 234 |
| **Co-opted members** | | | | | |
| Dr R Kfir | 12 000 | – | – | **12 000** | 7 500 |
| Ms M Matsabu | 30 000 | 420 | – | **30 420** | – |
| Mr S Mehlomakulu | 30 000 | – | – | **30 000** | – |
| Mr O Mlaba | 12 000 | – | – | **12 000** | 22 500 |
| Mr JR Modise | – | – | – | **–** | 7 500 |
| Mr S Mohamed | 42 500 | 210 | – | **42 710** | – |
| Mr M Silinga | 24 000 | – | – | **24 000** | 30 000 |
| | 5 579 529 | 65 331 | 5 000 | **5 649 860** | 2 388 196 |

*Notes*

1. *Contract ended 31 December 2009.*
2. *Appointed 1 January 2010.*

## 46. Financial risk management

### 46.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury Division and is governed by the asset and liability management (ALM) policy, incorporating interest rate, currency and liquidity risk parameters. As with all risk management policies of the Bank, the ALM policy resides under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset/Liability Committee (ALCO). ALCO, under the oversight of the Finance Committee of the Board, is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) Division.

#### 46.1.1 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities repricing at any one time, and to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The Treasury Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity, using the 12-month cumulative repricing gap-to-total earning assets ratio, and in the longer term, with respect to the duration of the Bank's net assets. As at 31 March 2010, the 12-month cumulative repricing gap amounted to 12,3% (2009: 13,8%) of total earning assets, well within the approved limit of 22,5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks both up and down, of at least 100 basis points.

The repricing profile as at financial year-end is encapsulated in the table 46.1.1.2 below. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R41 million (2009: R37 million).

##### *46.1.1.1 Hedging of interest rate risk exposure*

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2010, the Bank had interest rate swaps with a total notional contract amount of R6,4 billion (2009: R4,5 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 21). The net fair value of swaps as at 31 March 2010 was R584 million (2009: R494 million), comprising assets of R614 million (2009: R532 million) and liabilities of R30 million (2009: R38 million). These amounts are recognised as fair value derivatives.

### 46.1.1.2 Interest rate sensitivity analysis

| in millions of rand | Currency | Repricing gap <1 month | 1 to 3 months | 3 to 12 months | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | ZAR | 2 578,75 | – | – | – | – | – | – | – | 2 578,75 |
| | EUR | 1,14 | – | – | – | – | – | – | – | 1,14 |
| | USD | 26,91 | – | – | – | – | – | – | – | 26,91 |
| Money market instruments | ZAR | 300,00 | 350,00 | 200,00 | – | – | – | 12,00 | – | 862,00 |
| Repurchase assets | ZAR | 1 167,75 | – | – | – | – | – | – | – | 1 167,75 |
| Investment: government bonds | ZAR | – | – | – | – | – | – | – | 1 042,70 | 1 042,70 |
| Investment: municipal bonds | ZAR | 50,00 | – | – | – | – | 33,33 | 66,67 | 584,00 | 734,00 |
| Investment: corporate bonds | ZAR | – | – | 40,00 | – | 30,00 | – | – | 210,00 | 280,00 |
| Development loans | EUR | – | – | 1,77 | 2,07 | 1,18 | 1,48 | 1,18 | 5,92 | 13,60 |
| | TZS | – | 170,59 | – | – | – | – | – | – | 170,59 |
| | USD | 178,44 | 1 443,27 | 1 597,15 | 16,35 | 16,35 | – | – | – | 3 241,56 |
| | ZAR | 942,49 | 7 341,88 | 3 234,13 | 1 059,32 | 1 366,85 | 1 736,83 | 1 400,72 | 11 649,67 | 28 731,89 |
| | ZMK | – | 3,53 | 3,53 | 7,05 | – | – | – | – | 14,11 |
| Cross-currency swaps: | | | | | | | | | | |
| development loans | TZS | – | (170,59) | – | – | – | – | – | – | (170,59) |
| | USD | (259,73) | (822,48) | (92,77) | (38,96) | (37,29) | (16,41) | (16,41) | (40,99) | (1 325,04) |
| | ZAR | 291,89 | 1 255,32 | 92,14 | 45,65 | 44,84 | 20,23 | 20,73 | 53,71 | 1 824,51 |
| | ZMK | – | (14,11) | – | – | – | – | – | – | (14,11) |
| IRS : investment bonds | ZAR | – | 180,00 | – | – | – | – | – | (180,00) | – |
| **Total financial market assets and derivative hedging financial market assets** | | **5 277,64** | **9 737,41** | **5 075,95** | **1 091,48** | **1 421,93** | **1 775,46** | **1 484,89** | **13 325,01** | **39 189,77** |
| Cross-currency swaps: | | | | | | | | | | |
| lines of credit | EUR | 18,05 | 41,29 | 90,62 | 153,54 | 132,54 | 132,54 | 135,55 | 831,26 | 1 535,39 |
| | USD | – | (217,51) | 5,03 | 4,90 | 4,76 | 4,62 | – | – | (198,20) |
| | ZAR | (42,03) | (583,20) | (36,91) | (71,75) | (71,59) | (71,43) | (73,29) | (353,04) | (1 303,24) |
| | BRL | – | – | 232,77 | – | – | – | – | – | 232,77 |
| Funding: bonds | ZAR | (1 114,00) | – | (684,44) | – | – | (1 600,00) | – | (14 262,32) | (17 660,76) |
| Funding: lines of credit | EUR | (18,05) | (41,29) | (90,62) | (153,54) | (132,54) | (132,54) | (135,55) | (831,26) | (1 535,39) |
| | USD | – | (757,84) | (1 406,63) | (4,49) | (4,49) | (4,49) | – | – | (2 177,94) |
| | ZAR | – | – | (580,22) | – | – | – | – | – | (580,22) |
| | BRL | – | – | (232,77) | – | – | – | – | – | (232,77) |
| IRS: funding bonds | ZAR | (215,00) | (4 550,00) | (1 000,00) | – | – | 1 200,00 | – | 4 565,00 | – |
| IRS: lines of credit | ZAR | – | (100,00) | 100,00 | – | – | – | – | – | – |
| Funding: money market debt | ZAR | (751,00) | (1 175,20) | (1 800,00) | – | – | – | – | – | (3 726,20) |
| Repurchase liability | ZAR | (370,67) | – | – | – | – | – | – | – | (370,67) |
| **Total financial market liabilities and derivative hedging financial market liabilities** | | **(2 492,70)** | **(7 383,75)** | **(5 403,17)** | **(71,34)** | **(71,32)** | **(471,30)** | **(73,29)** | **(10 050,36)** | **(26 017,23)** |
| **Repricing gap** | | **2 784,94** | **2 353,66** | **(327,22)** | **1 020,14** | **1 350,61** | **1 304,16** | **1 411,60** | **3 274,65** | **13 172,54** |
| **Cumulative repricing gap** | | **2 784,94** | **5 138,60** | **4 811,38** | **5 831,52** | **7 182,13** | **8 486,29** | **9 897,89** | **13 172,54** | **13 172,54** |

*These are principal amounts only, and therefore exclude interest.   Spot exchange rates used: EUR/USD 1,353   USD/ZAR 7,265   USD/ZMK 4 690   USD/TZS 1 357,5*

### 46.1.2 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

As at 31 March 2010, the net open foreign currency position on the Bank's interest-bearing assets and liabilities amounted to assets of EUR 1,5 million (2009: EUR 1,5 million) and liabilities of USD 18 million (2009: USD 17 million of assets). In addition, foreign currency equity investments amounted to a net asset position of USD 73 million (2009: USD 39 million) and EUR 26 million (2009: EUR 26 million), respectively.

#### *46.1.2.1 Hedging of foreign currency risk exposure*

The Bank uses cross-currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. The principal terms of these swaps and FECs are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. As at 31 March 2010, the Bank had cross-currency swaps and FECs with a notional amount of R3,3 billion (2009: R3,9 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at balance sheet date.

#### *46.1.2.2 Foreign currency sensitivity analysis*

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposures.

in thousands

| | Currency | |
|---|---|---|
| | EUR | USD |
| Cash at bank | 116 | 3 704 |
| Loan assets | 1 383 | 447 565 |
| Equity investments | 25 779 | 113 211 |
| Cross-currency swaps | 156 202 | (162 868) |
| FECs | – | (46 801) |
| Liabilities | (156 202) | (299 784) |
| **Net open positions** | **27 278** | **55 027** |

### Foreign currency exchange rate (FX) sensitivity analysis

in thousands of rand

| FX sensitivity combined R | ZAR sensitivity (%) | EUR potential impact (%) | EUR/ZAR | USD potential impact | USD/ZAR |
|---|---|---|---|---|---|
| – | – | 9,829545 | – | 7,26500 | – |
| (100,184) | -15,00 | (40,219) | 8,35511 | (59,965) | 6,17525 |
| (66,789) | -10,00 | (26,812) | 8,84659 | (39,977) | 6,53850 |
| (33,395) | -5,00 | (13,406) | 9,33807 | (19,988) | 6,90175 |
| – | 0,00 | – | 9,82955 | – | 7,26500 |
| 33,395 | 5,00 | 13,406 | 10,32102 | 19,988 | 7,62825 |
| 66,789 | 10,00 | 26,812 | 10,81250 | 39,977 | 7,99150 |
| 100,184 | 15,00 | 40,219 | 11,30398 | 59,965 | 8,35475 |

*Spot exchange rate used: EUR/USD 1,353 USD/ZAR 7,265*

#### 46.1.3 Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBSA this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors and operational expenditure. In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on 12-month projected net cash requirements.

In order to balance the prudential requirement for sufficient levels of liquidity against the potentially adverse impact of negative carry cost from time to time, the liquidity portfolio consists of two pools, viz, the Operational Liquidity Pool, which is aimed at ensuring sufficient cash to meet the Bank's near-term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptance as well as liquid debt issues from government, parastatals and other approved issuers. It also includes bonds designated as "held-to-maturity" if the remaining maturity is less than three months. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity gross of funds raised on the bond repo market averaged R4,7 billion (2009: R4,4 billion), with a year-end figure of R6,4 billion (2009: 4,2 billion). This includes cash and cash equivalents of R2,6 billion, corporate and municipal bonds of R816 million, and government bonds amounting to R1,3 billion.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2010 was approximately R1 596,3 million (31 March 2009: R780 million).

in millions of rand

| | Currency | <1 month | 1 to 3 months | 3 to 12 months | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Liquidity gap | | | | | | | | |
| Cash and cash equivalents | ZAR | 2 578,75 | – | – | – | – | – | – | – | 2 578,75 |
| | EUR | 1,14 | – | – | – | – | – | – | – | 1,14 |
| | USD | 26,91 | – | – | – | – | – | – | – | 26,91 |
| Money market instruments | ZAR | 150,00 | 150,00 | 550,00 | – | – | – | 12,00 | – | 862,00 |
| Repurchase assets | ZAR | 1 167,75 | – | – | – | – | – | – | – | 1 167,75 |
| Investment: government bonds | ZAR | – | – | – | – | – | – | – | 1 042,70 | 1 042,70 |
| Investment: municipal bonds | ZAR | 50,00 | – | – | – | – | 33,33 | 66,67 | 584,00 | 734,00 |
| Investment: corporate bonds | ZAR | – | – | 40,00 | – | 30,00 | – | – | 210,00 | 280,00 |
| Development loans | EUR | – | – | 1,77 | 2,07 | 1,18 | 1,48 | 1,18 | 5,92 | 13,60 |
| | TZS | – | – | 24,37 | 48,74 | 48,74 | 48,74 | – | – | 170,59 |
| | USD | 35,08 | 45,48 | 407,26 | 536,35 | 718,07 | 740,34 | 305,55 | 463,42 | 3 251,55 |
| | ZAR | 55,10 | 443,13 | 1 519,60 | 1 690,28 | 2 134,77 | 2 829,83 | 2 768,44 | 17 290,76 | 28 731,91 |
| | ZMK | – | 3,53 | 3,53 | 7,05 | – | – | – | – | 14,11 |
| Cross-currency swaps: development loans | TZS | – | – | – | (56,86) | (56,86) | (56,86) | – | – | (170,58) |
| | USD | (187,81) | 4,04 | (99,79) | (259,91) | (538,93) | (148,92) | (26,78) | (66,94) | (1 325,04) |
| | ZAR | 218,75 | – | 127,56 | 417,09 | 678,31 | 273,85 | 30,60 | 78,38 | 1 824,54 |
| | ZMK | – | (3,53) | (3,53) | (7,05) | – | – | – | – | (14,11) |
| **Derivative hedging financial market assets** | | **4 095,67** | **642,65** | **2 570,77** | **2 377,76** | **3 015,28** | **3 721,79** | **3 157,66** | **19 608,24** | **39 189,82** |
| Cross-currency swaps: lines of credit | EUR | 18,05 | 41,29 | 90,62 | 153,54 | 132,54 | 132,54 | 135,55 | 831,26 | 1 535,39 |
| | USD | – | – | (212,48) | 4,90 | 4,76 | 4,62 | – | – | (198,20) |
| | ZAR | (10,51) | (39,46) | (79,80) | (132,55) | (114,31) | (114,15) | (116,02) | (696,42) | (1 303,22) |
| | BRL | – | – | 232,77 | – | – | – | – | – | 232,77 |
| Funding: bonds | ZAR | – | – | (684,44) | – | (1 114,00) | (1 600,00) | – | (14 262,32) | (17 660,76) |
| Funding: lines of credit | EUR | (18,05) | (41,29) | (90,62) | (153,54) | (132,54) | (132,54) | (135,55) | (831,26) | (1 535,39) |
| | USD | – | (8,55) | (331,43) | (351,35) | (317,38) | (280,41) | (235,04) | (653,78) | (2 177,94) |
| | ZAR | – | – | (249,24) | (49,24) | (53,82) | (58,39) | (16,49) | (153,02) | (580,20) |
| | BRL | – | – | (232,77) | – | – | – | – | – | (232,77) |
| IRS: funding bonds | ZAR | – | – | – | – | – | – | – | – | – |
| IRS: lines of credit | ZAR | – | – | – | – | – | – | – | – | – |
| Funding: money market debt | ZAR | (751,00) | (1 175,20) | (1 800,00) | – | – | – | – | – | (3 726,20) |
| Repurchase liability | ZAR | (370,67) | – | – | – | – | – | – | – | (370,67) |
| **Total financial market liabilities and derivative hedging financial market liabilities** | | **(1 132,18)** | **(1 223,21)** | **(3 357,39)** | **(528,24)** | **(1 594,75)** | **(2 048,33)** | **(367,55)** | **(15 765,54)** | **(26 017,19)** |
| **Liquidity gap** | | **2 963,49** | **(580,56)** | **(786,62)** | **1 849,52** | **1 420,53** | **1 673,46** | **2 790,11** | **3 842,70** | **13 172,63** |
| **Cumulative repricing gap** | | **2 963,49** | **2 382,93** | **1 596,31** | **3 445,83** | **4 866,36** | **6 539,82** | **9 329,93** | **13 172,63** | **13 172,63** |

*These are principal amounts only, and therefore exclude interest. Spot exchange rates used: EUR/USD 1,353 USD/ZAR 7,265 USD/ZMK 4 690 USD/TZS 1 357,5*

The credit committees have clearly defined mandates, members and delegated authorities that are regularly reviewed. The credit committee responsibilities include oversight of governance; risk appetite; model performance, development and validation; counterparty and portfolio risk limits and approvals; country, industry, market and maturity concentration risk; risk mitigation; impairments; stress testing and risk usage and the optimisation of economic capital. The largest credit exposures above defined amounts are approved at the Board Credit Investment Committee.

The Board of Directors is responsible for the governance of credit risk management. The Board:
- Defines the strategy and policy for the management of credit risk
- Has oversight of the overall risk management capabilities and performance
- Is accountable for challenging and disclosing results

*Application of internal rating*

The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital. The Bank has developed an internal rating model for the municipal asset class which has been validated and calibrated by Moody's KMV. A discounted cash flow model has also been developed for the Bank by Krall Demmel Baumgarten (KDB) and fully implemented. These are bespoke models adapted for the Bank's specialised lending and development impact considerations. These models were all subjected to validation and independent reviews before being signed off for implementation. The validation exercise demonstrated that the models were fit for purpose and provided accurate estimates. The independent reviews by Ernst and Young South Africa and Deloitte South Africa ensured that the model development has followed a robust process and that the model design meets internationally accepted standards.

The models that have been implemented will also be subjected to performance monitoring and validation on an annual basis. The principal objectives are to ensure that assumptions used in model development are still appropriate, thereby ensuring that any deficiencies are identified early and that remedial action is taken before the decision-making process is affected; and also to ensure that these models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio. The key blocks in this quantitative assessment are:
- Probability of default (PD)
- Exposure in the event of default (EAD)
- Loss given default (LGD)

These parameters, together with expert judgements, are used in a wide range of the Bank's credit risk measurement and management activities:
- Credit approval: PDs are used to direct applications to different credit sanctioning levels, so that credit risks are reviewed at appropriate levels.
- Credit grading: The Bank employs a 17-point scale of default probabilities which has been mapped and calibrated to both Moody's and Standard and Poor's.
- Risk–reward and pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios in the private sector to allow for risk-adjusted pricing and development impact.
- Risk management information: Group Credit Risk generates risk reports to inform senior management on issues such as portfolio performance and risk appetite.

*Calculations of internal ratings*

To calculate probability of default, the DBSA assesses the credit quality of borrowers (municipalities and private sector clients) and assigns them an internal risk rating.

A key element of the DBSA's internal risk rating model is the PD masterscale. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range.

In the Bank's risk terminology, loss given default (LGD) estimates the likely credit economic loss on default claims. The part that is not recovered, the actual loss, together with the economic cost associated with the recovery process is expressed as a percentage of EAD. The Bank estimates an average LGD for each type of exposure using historical information. The level of LGD depends principally on: the seniority or subordination of the exposure; the length of time taken for the recovery process and the timing of all associated cash flows; and workout expenses.

*Reporting*

In order to fulfil its mandate, the financial sustainability of the Bank is critical. The DBSA therefore dedicates considerable resources to gaining a clear and accurate understanding of credit risk across its portfolios in order to ensure that its balance sheet accurately reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in the following broad stages:
- Measuring and quantifying exposures and concentrations
- Monitoring adverse and weakness within the portfolios
- Identifying potential problem loans (credit watch)
- Raising provisions for impaired loans
- Writing off assets when the whole or part of a debt is considered irrecoverable

*Credit risk mitigation*

The DBSA uses a wide range of techniques to reduce credit risk on its lending. Collateral and guarantees are widely used by the Bank for credit risk mitigations. The amount and type of credit risk mitigation depends on the asset quality of each transaction. The Bank ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The main types of collateral taken comprise mortgage bonds over residential, commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

*Stress testing*

A fundamental duty of credit risk management is to ensure that the Bank does not neglect to prepare for the worst event as the Bank continues with infrastructural funding and maintaining financial sustainability. During the year under review, the Credit Analytics Unit performed stress testing on two of the major asset classes of the Bank's portfolio, namely the municipal and the project finance portfolios. The aim of these stress tests was to help the Bank understand how these portfolios would react if business conditions become significantly more challenging. The Unit generated specific forward-looking scenarios and analysed how well the Bank's financial sustainability would hold up, that is, whether the Bank's level of capital would be adequate and what risk measures should be initiated ahead of time to arrest and mitigate the emerging risk. The stress tests captured a wide range of macroeconomic variables that are relevant to the current environment, such as:
- Gross Domestic Product (GDP)
- Producer Price Index (PPI) and Consumer Price Index (CPI)
- Asset prices
- Interest rates

The stress scenarios took into account a range of factors, including:
- The probability of default and possible losses given default within the Bank's loan book
- Possible declines in the market value of collaterals

The results of the stress tests were presented to the Board Credit Investment Committee. Following this work and discussion with the Committee, it was agreed that the Bank was adequately capitalised to cushion any unexpected losses.

*Country risk*

DBSA country risk arises from its lending operations in other SADC countries. The Bank is in the process of implementing the methodology of IHS Global Insight for country risk classification, sovereign risk rating and risk pricing. In terms of the DBSA country risk policy, country risk is distinctly different from sovereign risk. While country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual SADC countries, sovereign risk has a clear credit, financial risk focus. The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk-rate countries and generate a probability of default.

The probability of default emanating from the sovereign risk rating and the loss given defaults form the basis for the Bank's individual country exposure limit structure, which is aimed at managing concentration risk at the country level. The limit exposure framework therefore considers the economic strength of the SADC countries, ensuring that country exposures are related both to the degrees of perceived risk and to the Bank's capital and reserves, which is the Bank's capacity to sustain losses. The exposure framework therefore ensures that the Bank's exposure limits are set on prudential grounds. Country ratings are reviewed annually or when there is a report of a major risk within a SADC country, and the limits are adjusted accordingly. In addition, aggregate investment in other SADC countries is limited to one-third of the Bank's maximum total investment portfolio.

### 46.2.1 Credit risk exposure

#### *46.2.1.1 Maximum exposure*

(a) Development loans:

| in thousands of rand | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| | | Gross amount | Allowance for impairment | Carrying amount | Gross amount | Allowance for impairment | Carrying amount |
| Non-performing book | | | | | | | |
| Municipalities | | 331 828 | 154 949 | 176 879 | 254 652 | 82 243 | 172 409 |
| Other | | 1 324 217 | 430 458 | 893 759 | 1 366 612 | 533 689 | 832 923 |
| | | **1 656 045** | **585 407** | **1 070 638** | **1 621 264** | **615 932** | **1 005 332** |
| Performing book | | | | | | | |
| Low risk | Municipal | 15 437 364 | 3 395 | 15 433 969 | 11 116 296 | 3 977 | 11 112 319 |
| | Other | 6 832 730 | 22 995 | 6 809 735 | 7 318 883 | 25 698 | 7 293 185 |
| Medium risk | Municipal | 1 229 465 | 11 429 | 1 218 036 | 1 509 790 | 5 199 | 1 504 591 |
| | Other | 7 839 683 | 64 401 | 7 775 282 | 7 804 958 | 57 440 | 7 747 518 |
| High risk | Municipal | – | – | – | 99 238 | 339 | 98 899 |
| | Other | 704 821 | 43 939 | 660 882 | 731 763 | 44 850 | 686 913 |
| | | **32 044 063** | **146 159** | **31 897 904** | **28 580 928** | **137 503** | **28 443 425** |
| **Total book debt** | | **33 700 108** | **731 566** | **32 968 542** | **30 202 192** | **753 435** | **29 448 757** |
| Rescheduled loans included in performing book | | 71 061 | 398 | 70 663 | 117 845 | 402 | 117 443 |

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

## 46.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from its development finance loans. However, credit risk may also arise where the downgrading of a client's rating causes the fair value of the Bank's investment in that entity's financial instrument to fall.

- Credit risk may also be manifested as country risk where difficulties may arise in the SADC country in which an exposure or counterparty is domiciled, thus impeding or reducing the value of assets.
- Settlement risk is another form of credit risk: this is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

The Bank meets its credit risk management objectives through its framework and governance, its measurement, reporting and system of internal ratings, its mechanism for credit risk mitigation and its country risk methodology.

*Framework and governance*

The granting of credit is the Bank's major source of income, and the Bank dedicates considerable resources to managing credit risk, which is the most significant risk it faces. Credit risk is managed in accordance with the Bank's comprehensive enterprise risk management framework and credit policies.

The Bank's credit policy sets out the principles under which the Bank is prepared to assume credit risk. In managing credit risk, the DBSA applies the five-step risk management process and internal control framework. Specific credit risk management objectives are:

- To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio
- To control and plan the taking of credit risk, ensuring it is coherently priced across the business, taking into consideration development impact and avoiding undesirable concentrations
- To support the Bank's mandate of sustainable infrastructure growth with decision-making based on sound risk management principles and a proactive approach to identifying and measuring new risks
- To ensure a robust framework for the creation, use and ongoing monitoring of the Bank's credit risk measurement models
- To ensure that the Bank's balance sheet reflects the value of the assets in accordance with accounting principles

*Organisation and structure*

The Group Credit Risk Unit, has been divided into Credit Risk Assessment (South Africa Operations and International Division) and Credit Analytics (credit quantification). These Units are responsible for assisting the Chief Risk Officer in the design, implementation, monitoring, measuring and enhancement of the credit risk management system across divisions. They are also tasked with:

- Recommending and communicating credit risk strategies and policies
- Developing and deploying credit rating management tools and methodologies
- Evaluating and proposing enhancements to credit risk management practices and standards
- Measuring and reporting on aggregate credit risk exposures and management performance

The DBSA has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust reviews and challenging of performance. Credit risk analysts are deployed at divisional level to enable responsible risk taking and effective risk management. Credit Risk assumes a divisionalised structure for the two main business areas i.e. South Africa Operations and International Division. The responsibilities of Credit Analytics include:

- Performing credit checks on municipalities, privately owned companies and international finance operations as part of the credit review
- Presenting an objective view of the quality of all credits under consideration and making recommendations to the various credit committees
- Monitoring credit exposure limits
- Monitoring the asset quality of the performing assets on a continuous basis

(b) Other receivables:

| in thousands of rand | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| | | Gross amount | Allowance for impairment | Carrying amount | Gross amount | Allowance for impairment | Carrying amount |
| **Debtors 90 days and over** | Fees and sales invoiced | 8 994 | 2 117 | 6 877 | 2 314 | 152 | 2 162 |
| | Special programmes/ projects/miscellaneous | 3 630 | 3 583 | 47 | 9 046 | 2 926 | 6 120 |
| | | **12 624** | **5 700** | **6 924** | **11 360** | **3 078** | **8 282** |
| **Debtors current to 90 days** | | | | | | | |
| Low risk | Fees and sales invoiced | 25 799 | – | 25 799 | 25 388 | – | 25 388 |
| Current - 30 days | Travel advances | – | – | – | 124 | – | 124 |
| | Special programmes/ projects/miscellaneous | 17 131 | – | 17 131 | 9 326 | – | 9 326 |
| Medium risk | Fees and sales invoiced | 8 634 | – | 8 634 | 5 673 | – | 5 673 |
| 30 days - 60 days | Special programmes/ projects/miscellaneous | 282 | – | 282 | 4 014 | – | 4 014 |
| High risk | Fees and sales invoiced | 2 381 | – | 2 381 | 158 | – | 158 |
| 60 days - 90 days | Special programmes/ projects/miscellaneous | 79 | – | 79 | 515 | – | 515 |
| | | **54 306** | **–** | **54 306** | **45 198** | **–** | **45 198** |
| Staff and study loans | | 794 | – | 794 | 398 | – | 398 |
| Municipal deposits | | 3 195 | – | 3 195 | 977 | – | 977 |
| Prepaid expenses | | 3 789 | – | 3 789 | 2 275 | – | 2 275 |
| | | **7 778** | **–** | **7 778** | **3 650** | **–** | **3 650** |
| **Total book debt** | | **74 708** | **5 700** | **69 008** | **60 208** | **3 078** | **57 130** |

(c) Commitments:

(Loans signed, but not yet fully disbursed)

| in thousands of rand | | 2010 | 2009 |
|---|---|---|---|
| Low risk | Municipal | **1 042 918** | 2 126 854 |
| | Other | **833 222** | 2 623 978 |
| Medium risk | Municipal | **321 521** | 401 132 |
| | Other | **2 440 089** | 3 001 303 |
| High risk | Municipal | **5 725** | 37 561 |
| | Other | **132 019** | 281 823 |
| Total fixed commitments | | **4 775 494** | 8 472 651 |

| | | | |
|---|---|---|---|
| (d) | Guarantees | **330 187** | **467 255** |

*46.2.1.2 Loans that are past due or individually impaired*

(a) Loans past due but not individually impaired:

| in thousands of rand | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | 3 months | 3 to 6 months | 6 to 12 months | >12 months | Total | 3 months | 3 to 6 months | 6 to 12 months | >12 months |
| Overdue amounts | 146 400 | 139 173 | 127 | 6 360 | 740 | 150 666 | 141 314 | 5 681 | 3 308 | 363 |
| Not yet due | 4 436 660 | | | | | 5 151 423 | | | | |
| **Total** | **4 583 060** | | | | | **5 302 089** | | | | |

The fair value of collateral held in respect of the above amounted to R620 million (2009: R1 226 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

(b) Individually impaired loans (non-performing book)

| in thousands of rand | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Allowance for impairment | Carrying amount | Gross amount | Allowance for impairment | Carrying amount |
| 0% to 10% | 233 412 | 192 235 | 41 177 | 111 373 | 107 633 | 3 740 |
| 11% to 40% | 169 624 | 98 254 | 71 370 | 352 958 | 248 588 | 104 370 |
| 41% to 60% | 521 941 | 210 195 | 311 746 | 291 774 | 93 440 | 198 334 |
| 61% to 99% | 731 068 | 84 722 | 646 346 | 865 159 | 166 271 | 698 888 |
| | **1 656 045** | **585 406** | **1 070 639** | **1 621 264** | **615 932** | **1 005 332** |

The fair value of collateral held in respect of the above amounted to R505 million (2009: R453 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments, insurance policies and promissory notes.

### 46.2.2 Financial counterparty exposure

| | Credit exposure | |
|---|---|---|
| Risk category | **2010 Utilised amount** | **2009 Utilised amount** |
| Bonds | 845 866 | 767 866 |
| Derivatives | 1 181 142 | 983 651 |
| Cash and money markets | 3 468 788 | 2 707 996 |
| Repurchase agreements | 3 124 | 30 624 |

### 46.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulations made under section 17 of the Development Bank of Southern Africa Act (No. 13 of 1997).

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities.
- To maintain an adequate credit rating to ensure the Bank's continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions.

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28,6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt consists of total liabilities excluding other creditors (as shown on the balance sheet). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2010, the debt to equity ratio stood at 148,5% (2009: 131,3%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets consist of total assets (as shown on the balance sheet). Shareholders' capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair value reserve. As at 31 March 2010, the capital ratio stood at 39,1% (2009: 42,1%).

Development Bank of Southern Africa

| | |
|---|---|
| **Company registration number:** | 1600157FN |
| **Registered office:** | Headway Hill<br>1258 Lever Road<br>Midrand<br>South Africa |
| **Postal address:** | PO Box 1234<br>Halfway House<br>1685<br>South Africa |
| **Telephone:** | +27 11 313 3911 |
| **Fax:** | +27 11 313 3086 |
| **Home page:** | www.dbsa.org |

## Annual Report team

**Sponsor:**
Pieter de la Rey

**Core team:**
Donovan Govender, Lyn Sumners, Melanie Annandale

**Financial team:**
Isaac Ngoasheng, Janet Perch, Lanushar Moodley, Mduduzi Ndlovu, Rewai Gandidzanwa, Saleh Coovadia, Zakeer Nanabhay

**Contributors:**
Admassu Tadesse, Bathobile Sowazi, Booye Rousseau, Chantal Naidoo, Colleen Hughes, Dawie Mocke, Debbie Blackburn, Dorothy Kobe, Dries van Niekerk, Ilonka van Diggelen, Johan Conradie, Keneiloe Kubheka, Mabana Makhakhe, Marco Agostini, Sandile Nene, Saphira Patel, Stefan Bölling, Susan Visser, Theo Jansen van Vuuren, Thomas Scott, Vusi Nkuna, William Liu

**Assisted by:**
Germaine Janse van Rensburg, Fikile Shamase, Jayshree Naidoo, Ntokozo Langa, Manda Bester, Michael Taljaard, Peter Wingate-Pearse, Raul Domingues, Rikkie Schonken, Swazi Maja, Theresa de Villiers, Vusile Butler, Zoleka Mokgabi

**Technical review:**
Janine Thorne

**Editor:**
Ivan Vladislavić

**Photography:**
Clarisse Pieterson, Simron Tigerls, Guy Stubbs Photographer (Pty) Ltd

# DBSA Development Fund Annual Report 2009/10

DBSA

Development Fund

## Vision

The DBSA Development Fund's vision is to be a leading catalyst in capacity building in order to maximise the impact of development finance in South Africa.

## Mission

The mission of the DBSA Development Fund is to promote and facilitate capacity building within municipalities, communities and local economies for effective and sustainable service delivery and economic development in order to improve the quality of life.

## Products and services

The Fund will achieve its mission by delivering the following products and services:

- **Grant funding:** The Fund provides grants to projects that build sustainable capacity in people, processes and systems at municipal or community level, and through these initiatives seeks to unlock or crowd in other sources of funding.
- **Expertise:** The Fund's core programme, Siyenza Manje, mobilises and deploys engineering, planning and financial experts to implement technical and non-technical infrastructure projects. Expertise is also deployed through the Sustainable Communities programme, the Rural Development programme and the Agencies Unit in order to develop and implement replicable development projects.
- **Development facilitation:** The Fund promotes technical support and sharing of knowledge through leveraging and deploying both internal and external resources in development facilitation activities and sustainable community development.
- **Rural development:** The Fund prepares and implements catalytic rural social and economic infrastructure in addition to institutional and economic turnaround strategies.

## Guiding principles

The Fund pursues the following guiding principles during implementation:

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

# Contents



## Abbreviations

| | |
|---|---|
| AFD | Agence Française de Développement |
| BSC | Balanced Scorecard |
| CEFEB | Centre for Financial, Economic and Banking Studies |
| CIFAL | Centre International de Formation des Autorités/Acteurs Locaux |
| CoGTA | Department of Cooperative Governance and Traditional Affairs |
| DBSA | Development Bank of Southern Africa Ltd |
| GRAP | Generally Recognised Accounting Practice |
| IDC | Industrial Development Corporation |
| IDT | Independent Development Trust |
| LEDi | Local Economic Development initiative |
| LGSETA | Local Government Sector Education and Training Authority |
| MEC | Member of the Executive Council |
| MIG | Municipal Infrastructure Grant |
| MTEF | Medium-Term Expenditure Framework |
| MU | Makerere University |
| NQF | National Qualifications Framework |
| UP | University of Pretoria |
| SADC | Southern African Development Community |
| SAFCOL | South African Forestry Company Ltd |
| SALGA | South African Local Government Association |
| SMME | small, medium and microenterprise |
| 2IE | International Institute for Water, Engineering & Environment |

### Financial year

The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2009/10, are to the financial year ended 31 March.

# Business and financial overview

as at 31 March 2010

| Financial results (R million) | 2009/10 | 2008/09 | 2007/08 | 2006/07 |
|---|---|---|---|---|
| **Income** | | | | |
| Grants received from the DBSA | **340,9** | 120,0 | – | – |
| Grants received from the National Treasury | **319,6** | 219,3 | 85,0 | – |
| **Expenditure** | | | | |
| Siyenza Manje costs | **456,6** | 313,3 | 121,3 | 42,2 |
| Grants | **120,1** | 101,0 | 59,8 | 67,3 |
| Other operating expenditure | **86,9** | 19,5 | 9,6 | 12,4 |
| Funding reserve | **10,2** | 10,1 | 104,2 | 209,9 |
| Approvals for the year | **109,3** | 61,8 | 49,3 | 20,4 |
| Grant commitments at year-end | **111,5** | 97,6 | 102,3 | 139,3 |

The DBSA Development Fund exceeded its operational targets for 2009/10 and maintained its costs within the approved allocation.

## Siyenza Manje costs

At year-end, the Siyenza Manje programme of the DBSA Development Fund employed 189 engineers and technicians, 80 finance experts, 26 planners, 156 young professionals and 164 artisans. Among them were 121 deployees seconded from professional service providers.

Through these deployments, the programme assisted 199 municipalities and 18 government departments, and facilitated 3 825 municipal infrastructure grants (MIGs) and capital expenditure projects to the value of R8,9 billion. The projects created 64 869 jobs, and provided 107 195 households with access to sanitation services and 406 719 households with access to bulk sanitation. In addition, 203 125 households were connected to water reticulation networks and 410 093 households to bulk water. The deployees facilitated the development of 544 systems, 489 policies and 173 plans. They offered on-the-job training to 388 municipal officials in the field of planning, 1 025 in technical services and 1 008 in financial management.

The increase in the costs of the Siyenza Manje programme can be ascribed to three main factors:

- In 2008/09, the employment of deployees increased gradually during the year, which kept the related expenditure on remuneration, subsistence and travel costs lower. In 2009/10, by contrast, the deployees served for the full year, with concomitant increases in the related expenditure.
- The same holds for service providers: while some were employed during the course of the previous year, 2009/10 was their first full year on the programme. The Fund also employed additional professional service providers in 2009/10.
- Training costs rose after a programme was formalised to increase the training of young professionals and artisans.

## Grants

The Fund disbursed grants of R120 million (2008/09: R101 million) to support training, capacity building and sustainable development projects.

The 18,9% increase in grant disbursements in 2009/10 is due to the training grants offered by the Vulindlela Academy. The Academy was transferred from the Bank to the Fund during the year (see the section on other operating expenditure opposite) and these grants were previously reflected in the financial statements of the Bank. The Academy disbursed training grants of R19 million in 2009/10, which funded the training of 6 746 delegates. The delegates attended a total of 11 366 training interventions.

Capacity building grants were disbursed to fund projects that developed 27 systems, 11 planning initiatives, three policies and two feasibility studies. Twelve other initiatives were also supported, including drought relief in the Kou-Kamma Municipality (Eastern Cape) and disaster management in the iLembe Municipality (KwaZulu-Natal).

The Sustainable Communities programme disbursed grants of R24 million, of which R4,2 million was used to refurbish soccer pitches and facilities in Driekoppies (Mpumalanga), Tshisaulu (Limpopo) and Elliotdale (Eastern Cape). The programme also leveraged funding amounting to R100 million, developed bankable projects in three areas and established partnerships with both the public and the private sector to support the development of sustainable communities.

## Other operating expenditure

During the year, the income and expenditure of five business units were transferred from the Bank to the DBSA Development Fund: Project Management, Rural Development, Sustainable Communities, Agencies, and the Vulindlela Academy. These units were previously accounted for in the Bank's financial statements and their transfer caused a sharp increase in the other operating expenditure of the Fund.

The Agencies Unit attracted eight new agencies this year, increasing the number of agencies supported to 35 in the year under review. It also signed agreements to manage funds to the value of R442 million on behalf of a range of partners. This brought the overall portfolio to R757 million.

The Rural Development Division (the former Local Economic Development Initiative or LEDi) brought three pilot sites into implementation during the year: Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality. The Fund provided technical assistance to develop economic and institutional turnaround strategies, and identified 24 catalytic development projects. The beneficiary municipalities have since taken over the responsibility for these projects.

The Division also developed an innovative product to facilitate project finance in poor areas: the Regional Economic Model forecasts the impact that an investment in a specific sector will have on economic growth. The model is being tested in Theewaterskloof Local Municipality and the eThekwini Metro.

## Funding from the National Treasury

The National Treasury contributed R323,7 million to the DBSA Development Fund in 2009/10. Of this amount, R319,6 million is recognised in the statement of comprehensive income as a grant received. The remaining R4,1 million, together with the interest received on the National Treasury's contribution, is included as deferred income in the statement of financial position. This is done in terms of the accounting statement on government grants, which requires that such grants be recognised as income over a period that matches the costs they are intended to compensate.

## Funding from the DBSA

The DBSA contributed R340,9 million to the Development Fund, in line with its commitment to the Fund's strategic objectives. The value of the funding was increased significantly this year to cover the additional costs related to the transfer of five capacity building units to the Fund.

# Chairman's report

**Brian Figaji**
*Chairman*

The DBSA Development Fund is the capacity building arm of the Development Bank of Southern Africa. Its mission is to facilitate capacity building in municipalities, communities and local economies, and thereby contribute to effective and sustainable service delivery and economic development. In the year under review, the Fund continued to implement its three main programmes, Siyenza Manje, Community Development Facilitation and Rural Development, in addition to managing the DBSA Vulindlela Academy and the agencies function of the DBSA Group. It also provided grant funding to selected municipalities that required assistance in addressing capacity and institutional challenges.

The Siyenza Manje programme remains the DBSA Development Fund's flagship intervention in terms of municipal support and capacity development. The programme is co-funded by the National Treasury and implemented in collaboration with the Departments of Cooperative Governance and Traditional Affairs (CoGTA) and Water Affairs, and the South African Local Government Association (SALGA). During the year, the programme continued to deploy technical, planning and finance experts in municipalities and government departments. One of the lessons learnt from the earlier stages of the programme was the need for additional support for institutional development; as a result, institutional turnaround specialists were recruited and deployed for the first time this year.

The Community Development Facilitation programme also made significant progress during the year. The foundation of the programme remains the Development Charter, which rallies development stakeholders around a common vision and pathway to address the development needs of an area in the short, medium and long run. This year, three sites went into implementation following the signing of their Community Development Charters. An important component of the programme is the development of smart partnerships that mobilise the resources required for community development. This year, an amount of R99,5 million was mobilised for implementing projects at the identified sites.

The Rural Development programme stems from the Local Economic Development Initiative (LEDi), which was adapted in response to the government's priority focus on rural development. During the year, the programme developed an innovative funding model, which aims to leverage the Municipal Infrastructure Grant (MIG) to shorten the implementation cycle of municipal infrastructure projects. The implementation


of the model depends on the finalisation of the National Treasury's review of the MIG policy.

The DBSA Vulindlela Academy continued to provide certified and accredited training programmes on issues that affect municipalities, such as municipal finance management, project management, municipal governance, project finance, community leadership, sustainable development, local economic development, supply chain management and risk management. Owing to the sustained high demand for these services, the Academy significantly increased the number of officials trained during the year.

In keeping with its mandate, the DBSA Development Fund remains responsive to strategic changes in its environment. The Fund has acted decisively on the CoGTA's request that it scale up its assistance to municipalities, in support of the Local Government Turnaround Strategy and the national goal of restoring integrity to the local government system. The Board held strategic discussions in November 2009 and February 2010 to review the Fund's focus and realign it with the national government's priorities. As a result, the Fund restructured its support package to local government into four main programmes:

- The Capacity Development and Deployment programme (formerly Siyenza Manje) undertakes institutional capacity building in municipalities through the deployment of experts in the fields of engineering, finance, town planning and organisational development. This supports the national Local Government Turnaround Strategy.
- The Operations and Maintenance programme focuses on the management of municipal infrastructure assets to sustain service delivery and optimise the lifespan of this infrastructure. The programme stands in support of the National Infrastructure Management Strategy and emphasises job creation through small enterprises by developing a local network of service providers for operations and maintenance.
- The Rural Development programme (formerly LEDi) develops alternative funding models for service delivery and economic development. It focuses on catalytic infrastructure for rural areas in support of the government's Comprehensive Rural Development Programme.
- The Community Development Facilitation programme (formerly Sustainable Communities) promotes integrated and sustainable development in under-resourced communities, using participatory

# Chairman's report continued

methodologies to promote people-driven development. The programme has long provided project management support. It now also provides project origination support, which helps to arrange the financing and implementation of projects that are based on the development needs articulated by the local communities.

The Fund's clients were not unaffected by the global economic crisis. This, combined with a national shortage of financial skills, required the Fund to increase its financial management support to clients. Liquidity management, debtor management, revenue enhancement and the structured transfer of financial management skills were identified as areas of intervention that are important for creating financially viable municipalities. In response to this need, Siyenza Manje, through the South African Institute of Chartered Accountants, developed a cash flow management model. The model is currently being piloted in four Gauteng municipalities with a view to a national rollout in 2010/11.

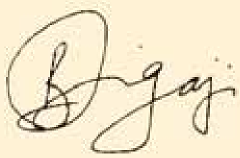
The Fund is keenly aware of the need to keep growing the capacity for better service delivery. It sees shared services as an important aspect of maintaining this momentum. In this regard, the Fund has taken the bold step of recruiting water management specialists from Ireland to augment its capacity for implementing a partnership project with the Department of Water Affairs. This project promotes the sustainable management and maintenance of water purification plants in order to reduce and eventually eliminate the potential for waterborne diseases in the country's water system.

To enhance its commitment to and capacity for risk management, the Fund established a Board subcommittee on risk management. The committee subsequently adopted the DBSA's enterprise-wide risk management framework for use in the Fund's operations.

To sustain the existing high level of motivation among its employees, the Fund introduced performance awards across all levels as part of the broader performance management system. This is intended to encourage the development of models of good practice, facilitate shared learning, help municipalities to excel, and promote creativity and innovation.

Finally, the need to increase the scale and reach of its programmes in support of the government's service delivery programmes requires the Fund to sustain its efforts to build partnerships and mobilise funds. To this end, the Fund will continue to reach out to the private sector and government departments to structure appropriate funding partnerships.

I would like to extend my thanks to the Board and management of the DBSA Development Fund for their commitment, dedication and support during the year. I look forward to an exciting year in which we will continue to make a significant difference in the lives of poor communities.



**Brian Figaji**

# Board of Directors

## Prof. Brian de Lacy Figaji
**(65)**

*Company Director*

**Chairman of the DBSA Development Fund Board as from:**
21 February 2006

**Academic qualifications:**
- DEd, Coventry University, UK (2002)
- DLitt, Hayward, Cal State, USA (2001)
- 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)

**Other directorships:**
- Bovidae Investments: Non-executive Director
- Cape Lime: Non-executive Director
- Dormell: Chairman of the Board (non-executive)
- I&J Holdings: Chairman of the Board (non-executive)
- Marib Holdings: Chairman of the Board (non-executive)
- Nedbank Ltd: Non-executive Director
- PetroSA: Non-executive Director

## Mr Paul Cambo Baloyi
**(54)**

*Chief Executive Officer: DBSA Development Fund*

**DBSA Development Fund Chief Executive Officer as from:**
1 July 2006

**Academic qualifications:**
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

**Other directorships:**
- Block II Waterford (Pty) Ltd: Executive Director and Shareholder
- Business Ventures: Non-executive Director
- Chrometco Ltd: Non-executive Director
- Development Bank of Southern Africa Ltd: Chief Executive Officer and Managing Director
- Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA Nominee)
- Nulane Investment Holdings (Pty) Ltd: Non-executive Director
- Pan-African Investment Fund: Non-executive Director (DBSA Nominee)
- Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director
- TCX Investment Management Company: Non-executive Director (DBSA Nominee)

## Dr Paul Kiyingi Kibuuka
**(49)**

*Managing Director: DBSA Development Fund*

**DBSA staff member as from:**
1 August 1994

**Managing Director of the DBSA Development Fund as from:**
1 July 2009

**Academic qualifications:**
- DPhil (Demography), University of Pretoria (1999)
- MA (Demography) (cum laude), University of Pretoria (1996)
- BA Hons (Demography), University of Pretoria (1994)
- BStat, Makerere University, Uganda (1984)

**Other directorships:**
- Mphato Investments: Non-executive Director
- Lincoln Consultants Ltd: Non-executive Director

## Mr Elroy Africa
(45)

*Director-General: Department of Cooperative Governance and Traditional Affairs*

**DBSA Development Fund Director as from:**
14 February 2008

**Academic qualifications:**
- MSc (Town and Regional Planning), University of Natal (1993)
- BSocSc (African Politics; Industrial Sociology), University of Cape Town (1986)

## Mr Andrew Boraine
(51)

*Chief Executive: Cape Town Partnership*

**DBSA Development Fund Director as from:**
24 November 2005

**Academic qualifications:**
- BA Hons (Economic History), University of Cape Town (1987)
- BA (History), University of Cape Town (1983)

**Other directorships:**
- Accelerate Cape Town: Non-executive Director
- Cape Town City Hall Redevelopment and Management Company: Non-executive Director
- Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)
- Development Bank of Southern Africa Ltd: Non-executive Director
- International Downtown Association: Non-executive Director
- St Patrick's Trust: Trustee

## Dr Claudia Manning
(43)

*Executive Director: Sangena Investments*

**DBSA Development Fund Director as from:**
26 February 2009

**Academic qualifications:**
- DPhil, University of Sussex (1996)
- MPhil, University of Sussex (1992)
- BA Hons (Economic History), University of Natal (1988)
- BA (Economic History; English), University of Natal (1987)

**Other directorships:**
- Development Bank of Southern Africa Ltd: Non-executive Director
- Presidential BEE Council: Member of Council
- Roadcrete Africa (Pty) Ltd: Non-executive Director
- Stewart Scott International (Pty) Ltd: Non-executive Director

## Ms Mampiti Matsabu
(47)

*Executive Director:*
*Savannah Environmental (Pty) Ltd*

**DBSA Development Fund**
**Director as from:**
26 March 2009

**Academic qualifications:**
- Management Advancement Programme (MAP 47), Wits Business School (2001)
- Diploma in Project Management, School of Project Management, Midrand (1999)
- MSc (Civil Engineering), Drexel University, Philadelphia (1992)
- BSc (Civil Engineering), Howard University, Washington DC (1986)

**Other directorships:**
- LA Crushers (Pty) Ltd: Chairperson of the Board (non-executive)
- Patlong Investment Holdings (Pty) Ltd: Non-executive Director
- Vox Consulting (Pty) Ltd: Non-executive Director

## Mr Simphiwe Mehlomakulu
(40)

*Executive Chairman: Reatile Resources*

**DBSA Development Fund**
**Director as from:**
26 March 2009

**Academic qualifications:**
- Executive MBA Programme, Stanford University (2004)
- MBA, University of the Witwatersrand (1998)
- Postgraduate Diploma in Marketing Management, University of South Africa (1995)
- BSc (Chemical Engineering), University of Cape Town (1992)

**Other directorships:**
- Clotan Steel (Pty) Ltd: Non-executive Director
- Reatile Resources: Executive Director
- Reatile Gaz: Executive Director
- Reatile Timrite: Non-executive Director
- Paperkem: Non-executive Director

## Mr Seeraj Mohamed
(42)

*Director: Corporate Strategy and Industrial Development Research Programme, School of Economic and Business Sciences, University of the Witwatersrand*

**DBSA Development Fund**
**Director as from:**
19 May 2009

**Academic qualifications:**
- MA (Development Economics), Williams College, Williamstown, Massachusetts (1997)
- GDE (Mining Engineering), University of the Witwatersrand (1996)
- BCom Hons (Economics), University of the Witwatersrand (1995)
- BA Hons (Economic History), University of Cape Town (1990)
- BSocSc, University of Cape Town (1989)

## Mr Ivan Mzimela
(48)

*Chairman: Holland Risk Capital*
*Executive Director: Capricorn Ventures International*

**DBSA Development Fund Director as from:**
6 March 2009

**Academic qualifications:**
- Leadership Development Programme for Senior Executives, Ashridge Business School, London (2000)
- Leadership for Change, Directors Diploma in Corporate Governance, Wits Business School (1999)
- Project Management Certificate, IBM (1998)
- Strategic Planning Certificate for Chief Executives, National University of Singapore (1997)
- MA (Counselling and Educational Psychology), University of Regina, Canada (1992)
- BA Hons (Psychology), University of the North (1985)
- BA (Social Work), University of the North (1984)

**Other directorships:**
- Development Bank of Southern Africa Ltd: Non-executive Director
- Hollard Life and Hollard Insurance Company: Non-executive Director
- Hollard Risk Capital: Chairman of the Board (non-executive)
- Insurance Institute of South Africa: Non-executive Director
- Insurance Sector Education and Training Authority: Deputy Chairperson (non-executive)

## Mrs Malijeng Theresa Ngqaleni (51)

*Chief Director: Provincial and Local Government Infrastructure, Intergovernmental Relations, National Treasury*

**DBSA Development Fund Director as from:**
15 November 2007

**Academic qualifications:**
- LMSc (Ag. Econ), University of Saskatchewan, Canada (1989)
- BA (Economics), National University of Lesotho (1983)

**Other directorships:**
- Development Bank of Southern Africa Ltd: Non-executive Director

## Dr Baldwin Ben Sipho Ngubane (69)

*Medical doctor*

**DBSA Development Fund Director as from:**
26 March 2009

**Academic qualifications:**
- Postgraduate Diploma in Economic Principles, University of London (2003)
- M Prax Med (Master of Family Medicine and Primary Health), Natal Medical School (1986)
- Diploma in Public Health, University of the Witwatersrand (1983)
- Diploma in Tropical Medicine, University of the Witwatersrand (1982)
- MB ChB, Durban Medical School (1971)

**Other directorships:**
- Blue Horizon Investments 41: Non-executive Director

# Board of Directors continued

## Prof. Edward Charles Webster (67)

*Professor of Sociology: University of the Witwatersrand*

**DBSA Development Fund Director as from:**
15 November 2007

**Academic qualifications:**
- PhD, University of the Witwatersrand (1983)
- BPhil, University of York (1972)
- MA (Politics, Philosophy and Economics), Oxford University (1971)
- University Education Diploma, Rhodes University (1964)
- BA Hons (History), Rhodes University (1964)

**Other directorships:**
- Chris Hani Institute: Non-executive Director
- Development Bank of Southern Africa Ltd: Non-executive Director
- Human Sciences Research Council: Member of Council
- Labour Job Creation Trust: Trustee

# Board Member during the year under review

## Ms Nomboniso Gasa (42)

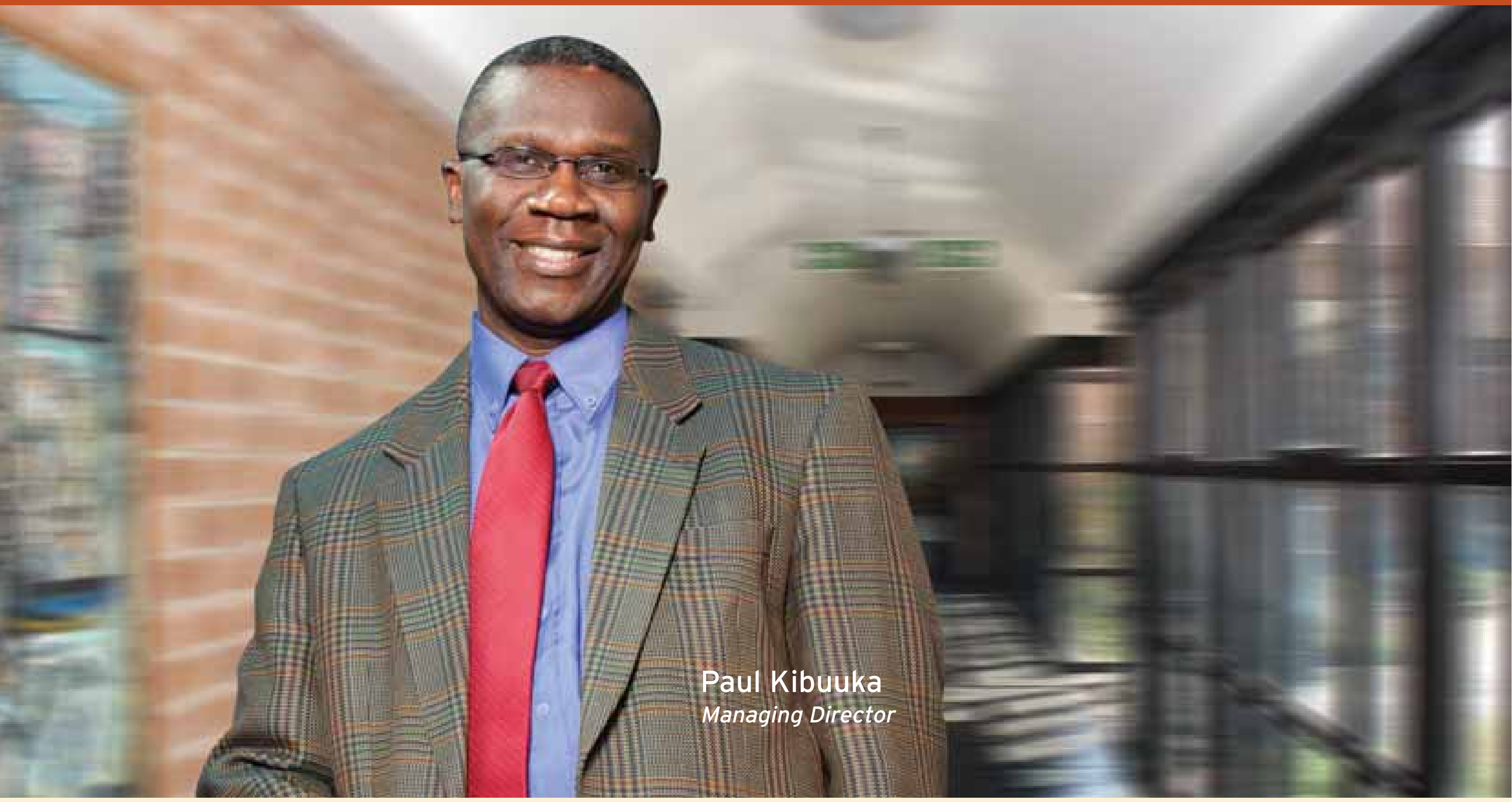
*Independent Gender and Policy Researcher and Analyst*

**DBSA Development Fund Director between:**
1 August 2003 and 31 December 2009

## DBSA Development Fund Corporate Secretariat

**Mrs Bathobile Sowazi**
Group Corporate Secretary
PO Box 1234
Halfway House 1685

# Managing Director's report



**Paul Kibuuka**
*Managing Director*

At the start of 2009/10, the DBSA faced intense expectations that it would support national efforts to sustain development during the global economic downturn. The Minister of Finance at the time, Mr Trevor Manuel, stated in the Budget Speech of February 2009: "The success of the Siyenza Manje programme in bringing in skills in support of municipal infrastructure investment is an example of how a developmental state can better coordinate its interventions. The DBSA is now considering broadening this model to support the financial management and delivery capacity of municipalities." He also announced a significant increase in the MIG facility from R32 billion to R67 billion in the new three-year budgeting (MTEF) period.

The expectation generated by these pronouncements challenged the DBSA Development Fund to expand its operations without expanding its resources. The Fund adopted a philosophy of doing more with less: its Balanced Scorecard (BSC) targets were increased while inputs were carefully managed. The Fund was able to use the efficiencies generated in the system over the past three years to improve the delivery of services.

The Fund responded to the government's expectations and the challenges of the global economic crisis by realigning and repackaging its services. It refocused its three divisions: Siyenza Manje was changed to Capacity Development and Deployment; Sustainable Communities to Community Development Facilitation; and Local Economic Development to Rural Development. Each of these is discussed in turn below.

## Capacity Development and Deployment

This Division comprises the Siyenza Manje programme, the DBSA Vulindlela Academy and the Agencies Unit.

### Siyenza Manje programme

Siyenza Manje provides crucial support to the government in accelerating service delivery at the municipal level. In recognition of the achievements of this programme, the CoGTA asked the Fund to provide additional support to the government's Local Government Turnaround Strategy. The Fund, in consultation with the DBSA's Development Planning Division, formulated a comprehensive response in which Siyenza Manje will spearhead the Bank's support, using its existing resources.

In addition to these new initiatives, Siyenza Manje continued with its normal operations: deploying resources, offering project implementation support, and building the capacity of its clients. By year-end,

*"The Fund adopted a philosophy of doing more with less: its Balanced Scorecard targets were increased while inputs were carefully managed."*

a cumulative total of 189 engineers and technicians, 80 finance experts, 26 planners, 156 young professionals and 164 artisans were employed on a contract basis and deployed in low-capacity municipalities and departments across the country. These numbers include 121 experts deployed on the basis of contracts with professional service providers.

The deployees assisted 199 municipalities and 18 government departments, and facilitated 3 825 capital infrastructure projects aligned to MIG (a 38% increase from 2008/09) to the value of R8,9 billion. This year, 1 237 of the projects were completed, which was 77% more than the target set in the BSC. These projects connected 203 125 and 107 195 households to water and sanitation reticulation services, respectively; 410 093 and 406 719 households obtained access to bulk water and sanitation, respectively. During the implementation of these projects, 64 869 job opportunities were created.

The deployees also facilitated the development of 544 systems, 489 policies and 173 plans. They offered on-the-job training to 388 municipal officials in the field of planning, 1 025 in technical services and 1 008 in financial management.

The DBSA has conceptualised an Operations and Maintenance programme to help municipalities operate and maintain infrastructure sustainably. The programme will be implemented in 2010/11 in partnership with the IDC, Khula, the Department of Public Works, the IDT and other stakeholders. It promotes labour-intensive activities by small contractors and aims to employ youth, women and community cooperatives.

## Vulindlela Academy

The DBSA Vulindlela Academy is a platform for capacity building, knowledge sharing and skills transfer at the local government level. The Academy is accredited by the Local Government Sector Education and Training Authority (LGSETA) and has a suite of eight accredited full qualifications. It has established strategic partnerships with a range of national and international partners, as shown later in this Annual Report.

The Academy reached several milestones during 2009/10 and exceeded its BSC training target significantly. The Vulindlela Academy offered 11 366 training interventions to external learners; 7 361 of these involved delegates identified by Siyenza Manje deployees and referred to the Academy for training. This year alone, 44% of Siyenza Manje municipalities benefited from Vulindlela's training programmes. The Academy also offered 1 031 training opportunities to delegates from SADC and 2 974 to delegates from other DBSA intermediaries.

The year also saw the rollout of the Pan-African Capacity Building Programme, a virtual academy that provides training in competencies that are critical to the efficient management of public services in Africa. Although it uses the Vulindlela Academy delivery platform, the Programme has its own Advisory Board, comprising representatives of the sponsoring development finance institutions and the four participating universities. The Board members held an inaugural meeting in February 2010 and a programme steering committee was established. By year-end, the Programme had achieved the following:

- It offered a range of short courses to 385 delegates from a variety of African countries (target: 100).
- It entered into negotiations with three universities in Africa to serve as centres of excellence for the delivery of a Masters programme in Infrastructure Management, in collaboration with an international university based in France.
- It led the design of the curriculum for the placement of young professionals under the Siyenza Manje programme in line with their workplace skills development plans. This process culminated in the development of a partnership programme with the Agence Française de Développement (AFD) that placed 15 young professionals on internships in medium-sized French municipalities.

## Agencies

The Agencies Unit was established in October 2002 to help alleviate constraints on development implementation and management in the SADC region. The DBSA acts as an agent to government and donor organisations that do not have an institutional presence in the region. The Unit attracted eight new agencies this year. It also signed agreements to manage funds on behalf of partners to the value of R441 million, increasing the overall portfolio to R757 million. Through the Voluntary Counselling and Testing programme implemented in partnership with KFW, the Unit built or upgraded 52 clinics across the country. The Job Creation Trust created 842 jobs through SMME development. The Succulent Karoo Ecosystem Programme targets socio-economic development projects linked to biodiversity and environmental management. The programme's work in partnership with Conservation International, benefited 290 families in the Western Cape.

## Community Development Facilitation

This Division consists of the Sustainable Communities programme and the Project Development and Project Management Units.

### Sustainable Communities

The Sustainable Communities programme brings together different stakeholders to design a sustainable development plan that addresses the short-, medium- and long-term development needs of an area. In the process of establishing a Development Charter or Social Compact, a contract is negotiated between the community and other stakeholders regarding the development vision, rules of engagement and priorities for future development of the area. This is translated into a community-based, integrated development planning process that deals with issues of space, the built environment, infrastructure, the economy, social assets and human capital assets.

During the year, the programme leveraged funding of R99,5 million, disbursed grant funding of R24 million and developed bankable projects in three selected sites. It also established partnerships with both the public and the private sector to support the development of sustainable communities.

### Project Management Unit

The Project Management Unit provides project management support to different programmes in the Division and the DBSA. It focuses on developing systems, plans and frameworks. During the year, the Unit prepared nine plans for projects and programmes at the Sustainable Communities sites. It also provided project management support for the implementation of DBSA initiatives such as the Sapsiza project and the health and education roadmaps (as discussed in the DBSA Annual Report). In addition, the Unit facilitated the setting up of project management offices in the King Sabata Dalindyebo and Theewaterskloof Local Municipalities.

### Project Development Unit

The Project Development Unit was fully incorporated into the Division during the year. The Unit focuses on the conceptualisation, pre-feasibility, feasibility and structuring stages of project development. It also raises funds for qualifying projects.

## Rural Development

The LEDi, now the Rural Development programme, aims to integrate development interventions in poor regions so as to catalyse economic growth through improved infrastructure and service delivery. Programmes in three pilot sites, Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality, were brought into implementation during the year. The Fund provided technical assistance to develop economic and institutional turnaround strategies for these municipalities, and identified 24 catalytic development projects. The beneficiary municipalities have since taken over the responsibility for these projects.

Two innovative project finance products were also developed. The first, the Regional Economic Model, forecasts the impact that an investment in a specific sector will have on economic growth. The model is being tested in the Theewaterskloof Local Municipality and the eThekwini Metropolitan Municipality. The second, a MIG-leveraged product, is intended to assist rural and under-resourced municipalities in frontloading MIG allocations. This shortens the project implementation cycle and enables them to fast-track infrastructure service delivery.

## The year ahead

The DBSA Development Fund will expand its fund mobilisation and technical assistance programme significantly by increasing the participation of the private sector, local and international development finance institutions and government departments. The aim is to ensure sustainable support for the development and turnaround programmes of the target municipalities.

I would like to express my sincere gratitude to the Board of the DBSA Development Fund for their continued wise guidance during the year, and to the management and staff of the Fund for their hard work and dedication to achieving the objectives set out in the BSC.

**Paul Kibuuka**

# Divisional executive management

## Mr Dawie Mocke
(49)

*Chief Operating Officer:*
*DBSA Development Fund*

DBSA staff member as from:
1 May 2006

DBSA Development Fund
Chief Operating Officer as from:
1 April 2010

Academic qualifications:
- BCom, Potchefstroom University (1997)

Other directorships:
- Astrolink cc: Member

## Mr Mlulami Hlombe Manjezi
(54)

*Divisional Executive:*
*Community Development Facilitation*

DBSA staff member as from:
6 August 1990

Divisional Executive as from:
1 July 2008

Academic qualifications:
- Accelerated Directorship Programme (ADP), Institute of Directors (2010)
- Programme for Sustainable Leadership, Cambridge University (2010)
- MBL, University of South Africa (2004)
- Management Development Programme, University of South Africa (1996)
- BCom, University of Fort Hare (1979)

Other directorships:
- Agriculture and Rural Development Institute of Fort Hare: Chairman of the Board (non-executive; DBSA Nominee)
- AsgiSA EC (Pty) Ltd: Non-executive Director and Member of the Audit Committee (DBSA Nominee)

## Mr Reuben Matlala
(36)

*Divisional Executive:*
*Capacity Development and Deployment*

DBSA staff member as from:
1 February 1996

Divisional Executive as from:
1 July 2009

Academic qualifications:
- BANKSETA International Executive Development Programme, CASS Business School, London (2008)
- Masters in Public and Development Management, University of the Witwatersrand (2000)
- Diploma in Project Management, Damelin (1998)
- Higher Diploma in Development Planning, University of the Witwatersrand (1995)
- Higher Education Diploma, University of the North (1994)
- BA, University of the North (1993)

Other directorships:
- Bolabola Telecommunications (Pty) Ltd: Non-executive Director
- HVC Drilling (Pty) Ltd: Non-executive Director
- Matlala Brothers Properties cc: Member
- Matlala & Mdluli Transport cc: Member
- Mphato Investment (Pty) Ltd: Member

## Ms Vuyelwa Matsiliza
(43)

*Divisional Executive: Rural Development*

**DBSA staff member and Divisional Executive as from:**
1 December 2009

**Academic qualifications:**
- MBL, University of South Africa (2000)
- BA Hons (Economics) (cum laude), University of the Western Cape (1993)
- BA, University of the Western Cape (1992)

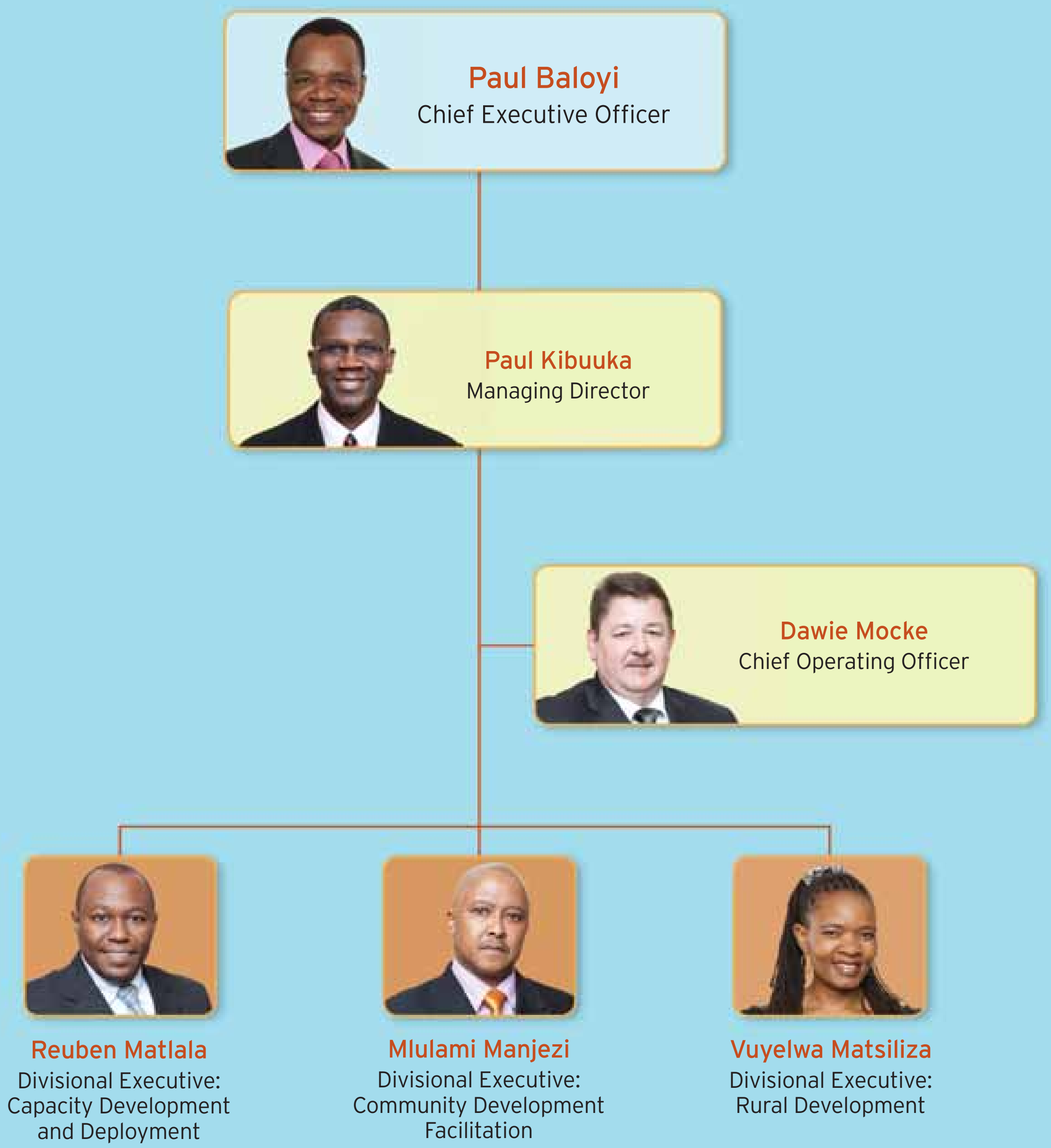
# Executive Manager during the year under review

## Mr André Johan Bouwer
(44)

*Chief Operating Officer: Capacity Development and Deployment*

**DBSA staff member and Divisional Chief Operating Officer between:**
1 March 2008 and 31 July 2009

# Organisational structure



# Operations overview

The DBSA Development Fund continued to deliver hands-on support to low-capacity municipalities in 2009/10. It also responded to calls for support by other spheres of government. As noted earlier, this culminated in the need to reconfigure the Fund in order to meet stakeholder expectations. This report outlines the achievements of the Fund in terms of the three new Divisions, namely:

- *Capacity Development and Deployment:* This Division comprises the Siyenza Manje programme, the Vulindlela Academy and the Agencies Unit. Its focus is to develop and deploy capacity in the public sector, mainly in low-capacity municipalities. The Division also manages funds and implements programmes on behalf of development partners.
- *Community Development Facilitation:* This Division builds capacity within communities to ensure that they participate effectively in the formulation of a shared vision of their development. It consists of three units: Sustainable Communities, Project Management and Project Development.
- *Rural Development:* In response to the government's new priorities, the Fund reviewed its support for local economic development and developed a rural development strategy that was approved by the Board. In terms of this strategy, the Division now facilitates catalytic infrastructure programmes that improve living standards and increase socio-economic activity in rural communities. The Division comprises three units: Rural Infrastructure Development, Institutional Turnaround and Rural Development Solutions.

The following sections present the operational details of the Fund's work during the year under review.

## Grant funding

In the last few years, the Fund increasingly aligned its grant funding with the support offered by the Siyenza Manje deployment programme. This year saw an 18,9% increase in the value of grant disbursements, reaching a total of R120,1 million. This resulted from an increase in grants made by the DBSA Vulindlela Academy towards the training of municipal officials and councillors referred by the Siyenza Manje deployees. About R101 million of the grant funding was directed to institutional capacity building projects in under-resourced municipalities. Capacity building grants were made available to municipalities to assist them with the compilation of valuation rolls; the conversion of financial systems to comply with Generally Recognised Accounting Practice (GRAP); and initiatives such as the Kou-Kamma drought relief programme.

## Capacity development and deployment

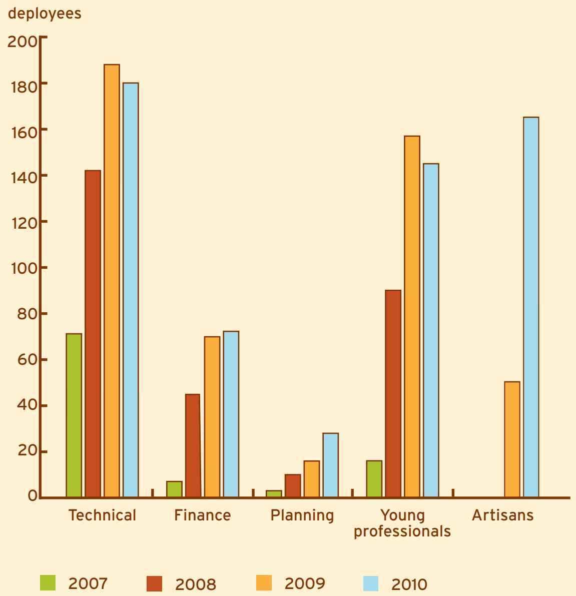
### Siyenza Manje

The Siyenza Manje programme is funded jointly by the DBSA and the National Treasury. During the year, the programme continued to deploy technical, planning and finance experts in municipalities and government departments. In view of its experience and in response to the government's Local Government Turnaround Strategy, the Fund expanded the scope of its interventions to include the deployment of institutional turnaround specialists. The role of these experts is as follows:

- *Technical engineering:* The deployees support municipalities in identifying, prioritising, designing and registering projects, and facilitate the implementation processes, including contract management. The focus of this type of intervention has broadened beyond MIG-funded projects to include municipalities' own capital expenditure and other infrastructure funds sourced from government departments, the DBSA or the private sector.
- *Finance:* The deployees focus on compliance with the statutory requirements of the Municipal Finance Management Act, financial reporting, and the development or review of municipal policies and procedures.
- *Town planning:* The deployees support the compilation of credible integrated development plans and local economic development plans, as well as the development or refinement of spatial development frameworks and land-use management schemes.
- *Institutional turnaround:* These specialists support municipalities in addressing the service delivery challenges related to governance and institutional issues.

***Deployment***

By 2009/10, Siyenza Manje had deployed 189 qualified engineers and technicians (2008/09: 188), 80 finance experts (2008/09: 70) and 26 development or town planners (2008/09: 16) in municipalities across the country. These numbers include 121 deployees on secondment from professional service providers.

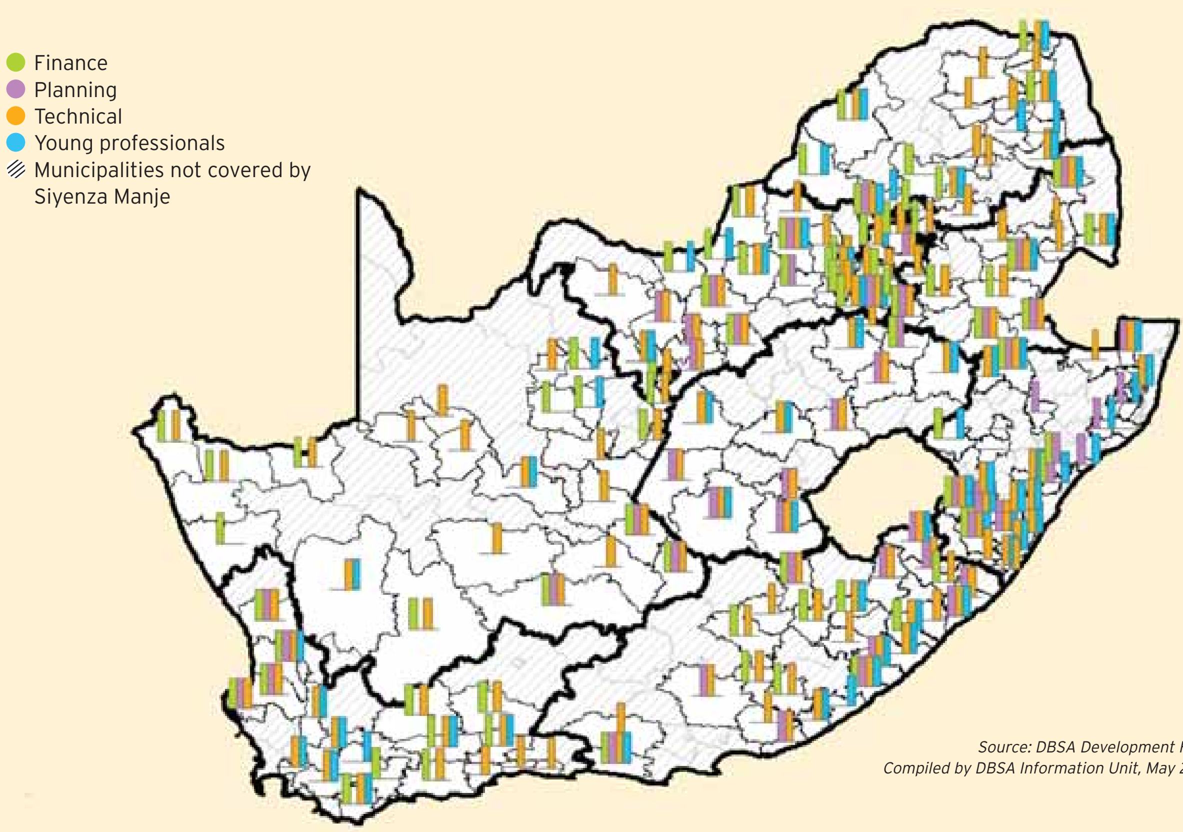



Siyenza Manje deployment trends, 2006/07 to 2009/10

The number of young professionals and artisan apprentices increased by 50% from 207 in 2008/09 to 310 in 2009/10, owing mainly to the rollout of the Artisan Programme to all provinces. The programme provides 42 section 28 artisans and 165 section 13 apprentices with training in the operations and maintenance of infrastructure.

The deployees assisted 199 municipalities (141 direct and 58 shared-services municipalities) and 18 provincial departments by 31 March 2010. This brings the total number of institutions supported to 217, an increase of 26% from 2008/09. The Fund also provided technical support to national departments, including the National Treasury, the Department of Water Affairs and the CoGTA, to facilitate service delivery in municipalities. The map below shows the extent and spread of municipal support through the Siyenza Manje programme.

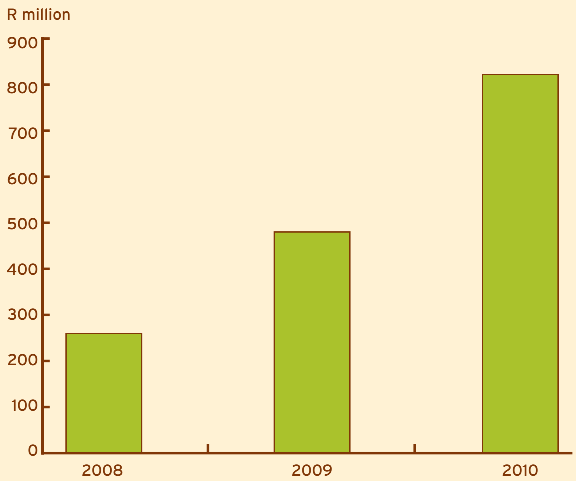
## Number of municipalities supported through Siyenza Manje, 2009/10




*Source: DBSA Development Fund*
*Compiled by DBSA Information Unit, May 2010*

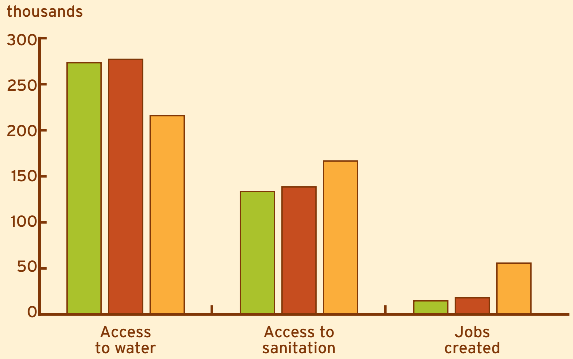
*Development impact*

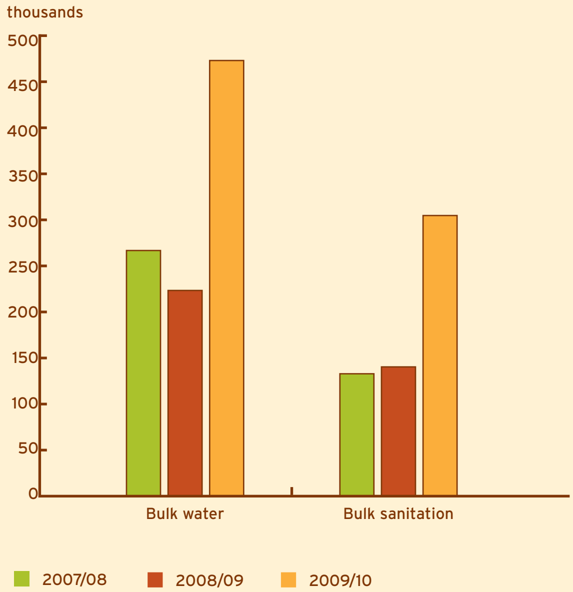
Siyenza Manje deployees facilitated expenditure of R8,9 billion on infrastructure projects worth R17,9 billion during 2009/10. The facilitation of technical infrastructure projects continued its increasing trend, as shown in the graph below.




Expenditure facilitated on technical projects, 2007/08 to 2009/10

This year, deployees in municipalities facilitated 3 825 infrastructure projects, a 38% increase on the 2 778 of the previous year. They also facilitated 1 903 non-technical initiatives in the fields of planning, finance and training. This brings the total number of projects facilitated and managed by the Siyenza Manje deployees during the year to 5 728. These projects provided water reticulation to 203 125 households and access to bulk water to a further 410 093 households. The former households are mainly in Limpopo, the Eastern Cape and KwaZulu-Natal, while the latter are mainly in Mpumalanga and the Eastern Cape. The projects facilitated by the deployees also provided 406 719 households with access to bulk sanitation systems and 107 195 households with access to sanitation services. This latter number is a slight decrease from the 2008/09 figure (138 976 households), which is attributable to the overall decrease in sanitation backlogs, especially the bucket system. In line with the government's employment creation priorities, the technical infrastructure projects promoted the use of labour-intensive construction methods and created 64 869 job opportunities during the year. These results are shown in the graphs on the right.




Impact on households of Siyenza Manje deployment

The number of systems facilitated, developed and reviewed in Siyenza Manje municipalities increased from 68 in 2007/08 and 262 in 2008/09 to 544 this year. The majority of these involved conversion to the GRAP system, valuation rolls, billing systems, record keeping, debtors and creditors control, asset registers and other non-financial systems. The town planning and project management deployees developed 489 policies, more than double the 2008/09 number (201). As part of Operation Clean Audit, finance deployees support municipalities in addressing audit queries and submitting all the required financial statements. Finance experts also assist municipalities in submitting accurate financial reports to the National Treasury on time. Siyenza Manje municipalities with finance deployees saw a 65% improvement in audit issues and a 32% improvement in audit opinion, while 33% had a reduction in the number of audit issues raised. Compliance with the Municipal Finance Management Act improved in 73% of municipalities with finance deployees.

*Sustainable municipal assessment and reporting system*

The Siyenza Manje programme developed a web-based tool for assessing municipalities. Before experts are deployed, the tool is used to assess the sustainability and functionality of targeted municipalities and indicate where intervention is required. It is also used in post-deployment assessments to measure progress and establish the possibility of exit once a municipality can cope without further assistance from deployees.

*Alignment with government programmes*

Siyenza Manje continued to respond to emerging government priorities, including the following:

- *Local Government Turnaround Strategy:* The deployees implement programmes in low-capacity municipalities in support of this strategy. They also help to compile the quality evaluation and implementation plans for the Municipal Turnaround Strategies.
- *Increased focus on service delivery:* Siyenza Manje facilitates the implementation of technical projects such as water, sanitation and road infrastructure.
- *Increased focus on job creation:* The programme promotes labour-intensive project designs in collaboration with the Expanded Public Works Programme. The Artisan and Young Professionals programmes also offer training and work opportunities for young apprentices and graduates.
- *Increased government expenditure on infrastructure:* Siyenza Manje facilitates expenditure on municipal grants, including the MIG, as well as capital expenditure.
- *Increased emphasis on accountability:* Finance deployees assist municipalities in achieving the targets set by Operation Clean Audit and in improving compliance with the 16 priority areas of the Municipal Finance Management Act.
- *National Infrastructure Management Strategy:* The Siyenza Manje Operations and Maintenance programme deals with the infrastructure management challenges in municipalities.

### Young Professionals programme

Through the Young Professionals programme graduates are recruited and deployed in municipalities where they are mentored by Siyenza Manje experts. The three-year structured training programme prepares young engineering professionals for registration as technicians, technologists or engineers with the Engineering Council of South Africa. Young finance professionals can obtain a municipal finance qualification at National Qualifications Framework (NQF) Level 6, while planners work towards registration with the South African Council for Planners. The coaching provided by Siyenza Manje deployees helps young professionals gain the experience required to qualify for professional registration or accreditation with the relevant professional bodies. On completion of the structured programme, municipalities can employ the young professionals on a permanent basis; this ensures a positive return on investment and a growing pool of human capital in municipalities. During 2009/10, six young professionals found employment at various municipalities.

### AFD Internship programme

The Development Fund builds partnerships with primary role players in the infrastructure sector to ensure that critical skills gaps are bridged. One such initiative is the internship partnership between the DBSA and the AFD, through which Siyenza Manje young professionals from civil engineering, town planning and finance disciplines obtain international exposure in medium-sized municipalities in France. The internship curriculum is aligned to the competency requirements of the relevant professional registration bodies and contributes to the continuous professional development points required by the Engineering Council of South Africa and the South African Council for Planners. This year, 15 young professionals were selected to participate in the programme in France from March to June 2010.

### Upgrading the Nyathi Water Treatment Works, Nkomazi Local Municipality, Mpumalanga

This project addresses the problem of inadequate water supply in the municipal area, and involves a new water treatment works designed as a mirror image of the existing plant. The project is funded by R38 million from the MIG.

The construction of the water treatment works entailed the installation of a pumping station along the Nkomati River to pump water to the Vlakbult Dam. The objective is to double the supply capacity of the dam, which acts as a storage facility for raw water. Given the high incidence of sediment in the river, the pumped water is allowed to settle in the dam before reaching the purification plant. Once purified, the water is pumped to three different reservoirs in Kamhlushwa. While similar to the existing plant, the new water treatment plant also removes sediment from the raw water before it reaches the sediment tanks.

The project faced a number of challenges, such as the lack of engineering drawings for the old plant, poor quality work from subcontractors, a lack of local semi-skilled workers and delays in payments to contractors. One of the key lessons learnt is that community participation throughout the project cycle is crucial, not least because it helps to create realistic expectations of the project.

Currently, the project is on track to meet its target of increasing the supply of purified water to the 4 650 households in the area. The Siyenza Manje deployees were able to transfer technical and project management skills to municipal staff, and enhanced the capacity of the municipality to achieve higher service delivery targets. The project also created more than 200 temporary jobs through the Expanded Public Works Programme.

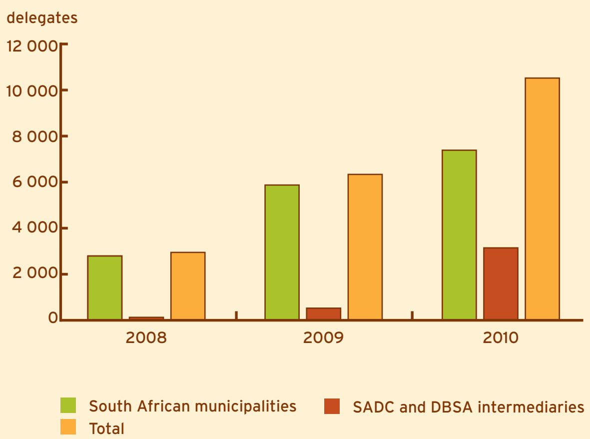
## Vulindlela Academy

The DBSA Vulindlela Academy, which is accredited with the LGSETA, offers practical and customised capacity building and training to a range of DBSA clients. These clients include local municipalities in South Africa, development finance institutions in the SADC area, national government departments, parastatals, public utilities, non-governmental organisations, trusts and some private sector companies involved in development and finance. The strategic purpose of the Academy is to address human and institutional capacity failure, specifically in core skills such as finance, management and planning, which are critical to improving service delivery in South Africa and the region.

*Training in priority skills*

In 2009/10, the Vulindlela Academy offered 11 366 training opportunities to external learners; 7 361 of these involved delegates identified by Siyenza Manje deployees and referred to the Academy for training. This year alone, 44% of Siyenza Manje municipalities benefited from Vulindlela's training programmes. The Academy also offered 1 031 training opportunities to delegates from SADC and 2 974 to delegates from other DBSA intermediaries. The market coverage of the Academy is shown in the graph below.

Over 2 300 municipal officials and young professionals submitted portfolios of evidence for assessment. After assessment, 2 228 external delegates received competency certification. This process is discussed in more detail in the adjacent box.




Vulindlela market coverage, 2007/08 to 2009/10

### Municipal Finance Management Programme for young professionals: Case study

Learning and development programmes aim to produce competent learners and improve certification rates. After completing the Municipal Finance Management Programme, Siyenza Manje's young professionals have to submit a portfolio of evidence to qualify them for certification. To assess the success of this programme, the DBSA Development Fund conducted a case study of the submission and dropout rates of 58 young professionals.

The case study found that personal interest and motivation are crucial to success, but that even highly motivated learners may drop out of the programme for reasons beyond their control. Key among these are competing workplace requirements and personal responsibilities. Learners also cited the long duration of the programme, its level of difficulty, and the need for support and mentoring after the training. The case study recommended measures to improve the programme and increase the submission of learning portfolios.

*Alignment of Vulindlela training to government priorities*

The focus of the Vulindlela Academy is closely aligned with that of the government. The South African Qualifications Authority Act of 1995 and the South African Skills Development and Levies Act of 1998 allow for the financing of skills development by means of a levy-grant scheme that funds Sector Education and Training Authorities. The national government has also developed policies and strategies to inform skills and capacity development and define skills gaps; among these are the Five-Year Local Government Strategic Agenda, the National Capacity Building Framework and the Human Resource Development Strategy. Various skills audits have been undertaken, including a needs assessment by the DBSA and the University of the Witwatersrand, to confirm priority skills gaps.

In response to the identified priorities, Vulindlela has developed a suite of eight accredited full qualifications in planning, local economic development, finance and management leadership, as summarised in the table overleaf.

### Vulindlela Academy training focus

| Focus area | Type of qualification | NQF level | Credits |
|---|---|---|---|
| Planning | National Certificate in Municipal Integrated Development Planning | L5 | 160 |
| Local economic development | National Certificate in Local Economic Development | L4 | 163 |
| | | L5 | 142 |
| | | L6 | 144 |
| Finance[1] | Further Education and Training Certificate in Municipal Finance and Administration | L4 | 157 |
| | National Diploma in Public Finance Management and Administration | L5 | 260 |
| | Certificate in Municipal Financial Management | L6 | 166 |
| Management and leadership | National Certificate in Municipal Governance | L5 | 140 |

1. *NQF Levels 5 and 6 of this focus area are aligned to the National Treasury's Municipal Finance Management Programme.*

***Strategic partnerships***

The Vulindlela Academy, in partnership with the Young Professionals and Artisan programmes, finalised a memorandum of understanding with the LGSETA and secured R65,5 million in funding. The Japan International Cooperation Agency committed a further R900 000 and the AFD Centre for Financial, Economic and Banking Studies provided R2 million for short courses outside South Africa.

The Academy also established strategic partnerships with the following organisations:

- The SADC Development Finance Resource Centre
- The Centre International de Formation des Autorités/ Acteurs Locaux (CIFAL) in Durban
- The South African Local Government Association (SALGA)
- The Municipal Finance Management Programme of the National Treasury
- The Public Administration, Leadership and Management Academy (PALAMA) – a memorandum of understanding is being finalised
- The World Bank Institute

In March 2010, the DBSA, Microsoft and SALGA signed a partnership agreement to develop IT skills for municipal officials, provide placement and further training of IT graduates in municipalities, and conduct an IT seminar series in selected municipalities. The South African Post Office has subsequently contributed to the support of the programme.

***Pan-African Capacity Building Programme***

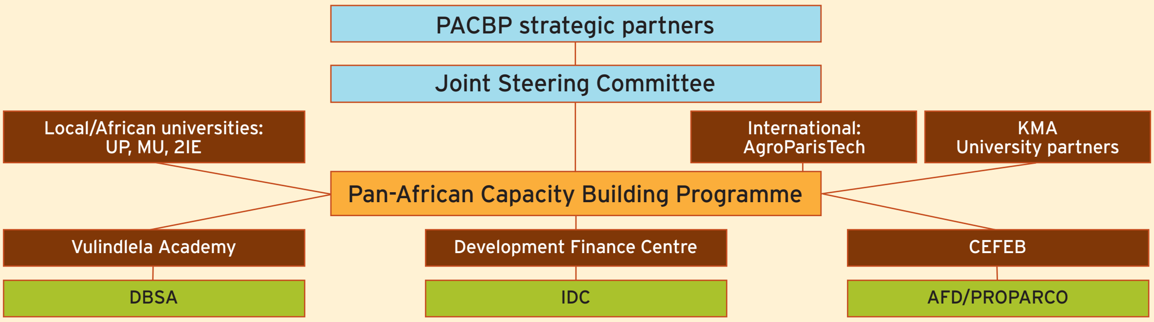
The DBSA and the AFD signed a memorandum of understanding in February 2008 for the creation of a Pan-African Capacity Building Programme. The Industrial Development Corporation (IDC) subsequently joined the programme as a shareholder. The Programme is aimed at addressing training and skills gaps that prevent the continent from meeting its infrastructural development objectives. These gaps are viewed as the main obstacle to the efficient and timely delivery of adequate infrastructure throughout the continent. The Pan-African Capacity Building Programme is a virtual academy that will train and deliver qualified and skilled public sector employees by providing short courses, mid-career development and a Masters programme. This year, at least 385 delegates were trained. In addition, students were interviewed for places in the International Executive Masters Programme in Water Utility Management (OpT) offered by AgroParisTech.

## Pan-African Capacity Building Programme

The Pan-African Capacity Building Programme is a premier capacity building initiative established as a strategic partnership between three development finance institutions: the DBSA, AFD and IDC. The objective of the programme is to provide targeted training and skills development in selected areas, including infrastructure development. The programme was initiated in 2008, when the three funding partners signed memoranda of understanding. The partners provide funding in the following ratio: AFD 54%, DBSA 36% and IDC 10%.

The vision of the programme is to be the leading African capacity building initiative, providing education and professional training and facilitation to enable the continent to meet its infrastructure development objectives and generate sustainable economic development. Its mission is to provide capacity building across the continent and contribute towards development by mobilising financial and human resources for infrastructure development and economic stimulation. The training provided by the programme will help to address capacity gaps in the current education and professional training landscape in Africa.

The governance structure of the programme is set out in the terms of reference, which make provision for the establishment of an Advisory Board and a Joint Steering Committee. Representatives of the funding partners serve on the Board, while other key stakeholders, such as participating institutions, serve on the Joint Steering Committee. The role of the Advisory Board is to provide strategic guidance, direction and oversight to the Committee. In turn, the Committee has to ensure that the programme is implemented successfully and achieves its overall objectives.




During the year under review, the programme, operating under the auspices of the DBSA Vulindlela Academy, trained 385 participants on a range of short courses, as shown in the table below.

| Host country | Training programme | Number of delegates |
|---|---|---|
| Congo (Brazzaville) | Fundamentals of Project Finance | 41 |
| | Financial Modelling | 22 |
| Democratic Republic of Congo | Public-Private Partnerships | 94 |
| | Financial Modelling | 43 |
| Mozambique | Public-Private Partnerships | 37 |
| | Financial Modelling | 26 |
| | Investors Conference | 40 |
| | Fundamentals of Public-Private Partnerships | 82 |
| **Total** | | **385** |

In the year ahead, the focus will be on rolling out the three main components of the Pan-African Capacity Building Programme: a Masters in Infrastructure programme, a series of short courses aimed at improving skills, and support for the Young Professionals internship initiative.

## Implementation of GRAP, Ekurhuleni, Gauteng

Generally Recognised Accounting Practice (GRAP) for municipalities was introduced in July 2008, and it soon became clear that municipalities would need help with implementing the framework. In July 2009, the CoGTA introduced Operation Clean Audit 2014, which aims to ensure that all municipalities and provincial departments have clean audits and quality systems for management information by 2014. GRAP compliance has become a primary focus area in the clean audit drive.

When the Ekurhuleni Metropolitan Municipality required support to implement GRAP, the Siyenza Manje programme deployed a financial expert in the municipality. The brief of the Ekurhuleni GRAP project was to help the municipality develop a standard operating procedure, prepare separate and consolidated financial statements, and implement new accounting standards, while also building capacity and transferring skills to staff.

The process started with the establishment of a highly skilled GRAP implementation team. Several "think tanks" were held to discuss the standards of the GRAP Reporting Framework. By the end of the process, the following outcomes had been achieved:

- *GRAP compliance and unqualified audit opinion:* The municipality achieved full compliance with the GRAP Reporting Framework on the implementation of the GRAP standards. This helped it to obtain an unqualified audit report in 2008/09, the first time this had ever happened.
- *Enhanced governance:* The GRAP compliance process identified gaps and weaknesses in internal controls, management policies and procedures. Most of these gaps have already been dealt with and the rest are receiving attention.
- *Capacity building and skills transfer to officials and staff:* Finance officials gained advanced skills in interpreting and applying accounting standards, in developing and presenting the required departmental documentation, and in compiling separate and consolidated financial statements.
- *Revenue and cash flow enhancement:* The improved controls and procedures that were set up during the GRAP implementation process laid the foundation for future revenue and cash flow enhancements.
- *Stronger management systems:* Robust systems were developed to meet GRAP requirements; these will have the added benefit of enhancing the management and control of relevant systems, processes, transactions, assets and the like. In addition, these systems will have a preventive effect by ensuring better maintenance and by flagging early warning signals.
- *Improved public perception:* The unqualified audit will improve public perceptions. GRAP compliance, along with an unqualified opinion, indicates that the municipal financial processes are accountable and transparent.

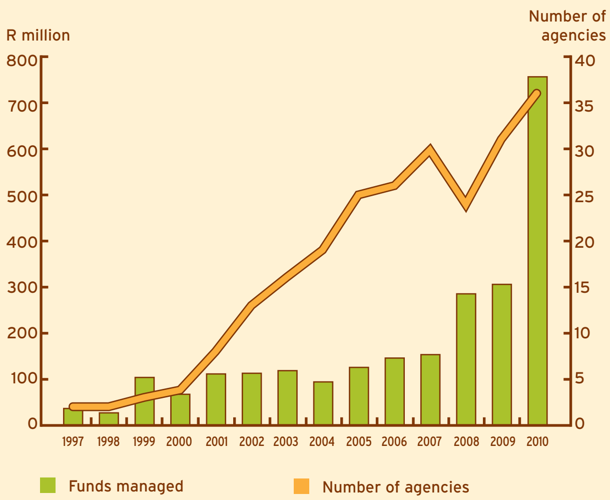
Among the lessons learnt in this process are the following:

- The important aspects of the implementation were the planning, management and monitoring of the project. Most crucial of all may have been the planning stage, during which the current position was assessed and a roadmap to full GRAP compliance developed.
- All municipal officials (including political leaders) need to be dedicated to the project and have an appropriate understanding of the GRAP requirements. Without such dedication, full compliance or a clean audit report is unlikely. The management and staff at Ekurhuleni were fully committed to the project.
- The financial expert must have the appropriate expertise and leadership qualities, and must be able to manage the project strategically and deal with the political requirements.
- The deployee must be able to develop training programmes for the different levels in the municipality and manage these. There should be a progression from formal training to on-the-job training (coaching) and mentoring.

The deployee should stay in position long enough to establish appropriate processes, systems and procedures, and to train staff capable of sustaining the defined standard of performance.

## Agencies

The DBSA established its agency function in response to the acute lack of capacity to implement and manage development programmes in the region. The function acts as an agent for government entities or donors that do not have a local institutional presence or sufficient permanent capacity to implement their development programmes. The Agency Unit ring-fences the support provided to these organisations, thereby minimising the risks for the Bank. During the year under review, it attracted eight new agencies, as shown in the graph below.




**Agency funds under management, 1996/97 to 2009/10**

The programmes managed by the Agencies Unit are having a significant impact on development:

- Voluntary Counselling and Testing: This programme promotes HIV and AIDS prevention and related behavioural changes. Since 2003, 236 clinics have been renovated and upgraded in KwaZulu-Natal, Mpumalanga and the Eastern Cape, 52 of these in this financial year.
- Job Creation Trust: This programme promotes job creation and development. In the year under review, 142 jobs were created, adding to the 842 jobs created since the start of the programme in 2000.
- Succulent Karoo Ecosystem Programme (SKEPPIES): The aim of this programme is to promote conservation and development projects. The five projects that were implemented this year benefited 290 families, created 95 new jobs, supported 23 new businesses, and empowered 54 women through access to jobs and training. The SKEPPIES initiative included an awareness programme that reached 55 000 people.
- Infrastructure Delivery Improvement Programme: This programme develops systems for infrastructure planning and budget improvement. The achievements for 2009/10 include the following:
  - The programme deployed 36 permanent and five short-term financial advisors in nine provinces.
  - A system for infrastructure planning and management was developed and incorporated in the Division of Revenue Bill of 2009.
  - Norms and standards for school infrastructure were developed and published.
  - Spending patterns on provincial education and health infrastructure improved.
  - Provincial departments of health and education improved their infrastructure planning and reporting.
  - Silo approaches to infrastructure delivery were broken down and cooperative governance has been enhanced substantially.

## Kou-Kamma Local Municipality: Capacity building initiatives

In 2008, the national government, through the provincial government of the Eastern Cape, intervened in the Kou-Kamma Local Municipality in terms of section 139(1) of the Constitution. Over the years, sound governance and administrative functionality had eroded in the municipality. Lost revenue on rates and services weakened its cash flow position and eventually conditional grants had to be used to fund operational expenditure. Flood damage to roads and bulk water infrastructure did not help matters.

The DBSA Development Fund supported the provincial government by deploying turnaround specialists to Kou-Kamma. The Fund deployed administrators in 2008 and 2009, followed by financial and technical experts and young professionals.

The deployment stabilised the municipality and laid the foundation for long-term solutions. Financial controls were instituted to manage the use of MIG funds, account data were cleaned, and an inclusive turnaround strategy was developed. This strategy was endorsed by the Council and approved by the MEC. DBSA grant funding was used to provide clean water to schools, clinics and households. Two water trucks and a crane truck were procured, 18 boreholes drilled and 29 water tanks supplied to schools, clinics and communities.

This process highlighted a number of factors that affect the successful implementation of a turnaround strategy:

- The costs of section 139 interventions are high, not only in financial terms but in their impact on institutions and individuals. Every effort must be made to prevent municipalities from reaching the point where an intervention is necessary.
- Turnaround strategies for section 139 municipalities should focus on the long term to address sustainability challenges. Quick turnaround of a municipality under administration is seldom possible.
- The relationship between the MEC and the administrator must be based on absolute trust, and the administrator must report directly to the MEC.
- Political buy-in from all stakeholders is essential to ensure accountability.
- Many municipalities will require sustained support, as it is often hard to transfer skills adequately while the institution is under administration.
- The day-to-day running of municipalities must be separated from the turnaround efforts.
- Prior to any intervention, detailed assessments must be made of the management, governance and financial issues.

### Free State Infrastructure Delivery Improvement Programme: Enabling change

The IDIP Change Enablement team became involved in the Free State in November 2007. Their first task was to obtain a clear understanding of the status of infrastructure delivery in the province. After establishing the problems and their causes, they posed questions about the vision for the future and how it could be realised.

In 2009, a structured approach was followed in the drafting of the Free State IDIP Enablement Strategy, based on proven change methodologies. The first action was a thorough situation analysis, which culminated in an analysis of the preferred future. An enablement strategy was then drafted to bridge the gap between the current situation and the preferred future situation. The strategy is implemented by a cross-functional interdepartmental task team, which is responsible for institutionalising best practices.

Among the successes of the programme are that it generated a thorough understanding of infrastructure delivery in the province, identified problem areas and strengths, and won the support of management and staff. As a result of the extensive engagement undertaken by the team, the department took ownership of the IDIP and increased its exposure.

The team faced several challenges: appointments were delayed because of the tight schedules of management, there was some resistance to change, and some of the recommended changes were poorly implemented. The team also learnt valuable lessons: assistance from provincial treasuries should be optimised; regular feedback to all stakeholders is essential; the terminology used should be familiar to government employees; and technical assistants play an invaluable role in enabling change by organising activities and providing input.

The change enablement process in the Free State yielded some general recommendations:

- Change is realised when it is based on tried and tested change methodologies.
- Change is unlikely to happen in the absence of a clear understanding of the status quo, the desired results or preferred future, and a plan for achieving this outcome.
- Change efforts are long-term interventions rather than ad hoc solutions.
- The roles and responsibilities of the members of the team should be clearly defined.
- Leadership support is crucial to the success of any intervention.

## Community development facilitation

### Sustainable communities

The Sustainable Communities programme promotes development that seeks to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. To this end, the programme channels resources directly to communities to empower them to engage in equal partnerships with other stakeholders such as the government, civil society and business; to formulate their own development agendas; and to access the resources needed to broaden and deepen economic development and diversification in their communities.

The programme is focused on the following pilot areas:

- *Urban areas:* Grabouw, Ba-Phalaborwa, Ngangelizwe (Mthatha), Diepsloot
- *Rural areas:* Elliotdale and uMkhanyakude
- *Partnership programme:* Keiskammahoek, Tramways Trust, Richmond Park, Safcol, AsgiSA Eastern Cape and Dreamfields

Progress on three of these sites is discussed in the boxes overleaf.

## King Sabata Dalindyebo pilot project

The signing of the Development Charter in September 2009 marked a major achievement for the King Sabata Dalindyebo pilot project and brought this site into implementation. The Mthatha Sustainable Integrated Development Plan was subsequently developed on the basis of the Charter. Since then, different partners have committed funding for the development of Mthatha, including the following:

- R220 million from the Department of Transport for rehabilitating and replacing roads in the area
- R40 million from the Department of Water Affairs for greening and environmental rehabilitation

Three major projects were identified for implementation, namely the upgrading of the Ngangelizwe Clinic, the refurbishment of the Transido business node for small enterprises, and a densification project in an existing township. These projects are in various stages of implementation.

*After the site was brought into implementation, the Ngangelizwe Clinic refurbishment works commenced.*

*Refurbished training facilities at the Transido business node are used by local small businesses.*

## Elliotdale Rural Housing project

This site was brought into implementation in December 2009 when Chieftainess Nobangile, the Eastern Cape MEC for Housing, the Amathole District Municipality and the DBSA signed the Development Charter for the Elliotdale National Pilot for Rural Human Settlement. A business plan for the development of 1 000 residential units was completed and signed off; the DBSA will be the implementing agent in this regard. A draft agreement has been sent to the stakeholders (Amathole District Municipality, the Eastern Cape Department of Human Settlements and the DBSA) for comment. The required resources have been identified.

The Sustainable Human Settlements and Housing Strategy for Elliotdale emphasises the provision of a range of housing-related opportunities. Various options have been developed, with a focus on creating new economic opportunities in construction and related industries for both skilled and unskilled people, fostering a sense of identity and ownership, and addressing people's development needs.

## Dreamfields project

The Dreamfields project supported the upgrading of sports fields nationwide to facilitate community building through sport. A grant of R6 million was approved for three project sites linked to the Dreamfields Cup. A quarter of the grant was allocated to each of the three projects and the remaining quarter was used to stage the Cup final. The following outcomes were realised:

- *Elliotdale Dreamfields* involved the installation of a subsoil drainage system; this has been completed.
- *Driekoppies Dreamfields* involved the grassing and upgrading of the Driekoppies main stadium and the installation of a fully automated irrigation system and a stabilised sand pitch. The project was handed over to the community in November 2009.
- *Tshisahulu Dreamfields* was completed in April 2010. The project involved grassing the existing soccer pitch, refurbishing dressing rooms and ablution facilities, and installing an automated irrigation system.
- *The Dreamfields Cup* took place in Pretoria in March 2010 and was a great success. Support from the project allowed 100 schools to benefit and almost 1 500 school children under the age of 12 participated in the competition.

*The Driekoppies soccer pitch before it was upgraded.*

*The new-look soccer pitch after the upgrade.*


*The real beneficiaries of the Dreamfields project.*

*Members of the community sitting in the stands of the Driekoppies Stadium.*

## Project management

The Project Management Unit supports the various projects being implemented at the Sustainable Communities pilot sites. It applies robust project management principles to make sure that programmes and projects are implemented on time, within budget and to the desired quality. To ensure measurable progress, a project management plan is developed for each programme and the strategic projects identified at each site. Nine plans were completed for the Sustainable Communities pilot programmes during the year. The Unit also supports Siyenza Manje municipalities and other units in the DBSA Group by developing templates for standardising the reporting and monitoring of programmes.

## Project development

The project development function is relatively new and is intended to take projects from conceptualisation to the fund-raising stage. The following is an example of a project under consideration in this portfolio:

- *Abattoir, Northern Cape:* This R150 million project aims to expand the production capacity of the area, especially the production of meat by small farmers.

## Resources and partnerships

The development of smart partnerships is an important component of the programme, allowing it to crowd in the resources required for community development. The programme has established the following key relationships:

- *Government and parastatal institutions:* The Department of Rural Development and Land Reform, the Department of Human Settlements, and the South African Forestry Company Ltd (Safcol)
- *Private sector companies:* Group Five Ltd, Grinaker-LTA, Unilever and ABSA
- *Non-governmental organisations:* TEBA Development, the Siyakholwa Development Foundation, the Elgin Learning Foundation, the Overberg Training College and the Phalaborwa Foundation

Partnerships with public and private institutions are becoming an integral part of implementing sustainable development policies. The projects being implemented through such partnerships range from housing to infrastructure and local economic development. For example, the Siyenza Manje programme gives technical support to the Gauteng Department of Local Government and Housing in the form of planners, as part of the collaboration between the DBSA and the national Department of Human Settlements.

### Development impact of the Community Development Facilitation programme

In 2009/10, the hands-on efforts made by this programme contributed to the following achievements:

- *Jobs created:* 1 060 jobs were created (BSC target: 650) in the agriculture, construction and municipal service sectors.
- *Training and capacity building:* The programme provided opportunities for formal training (with Group Five) to 406 people, who are guaranteed employment opportunities afterwards.
- *Productive assets for previously disadvantaged individuals:* Assets of R59,8 million were transferred to previously disadvantaged individuals (BSC target: R50 million). These assets included land secured from government or municipalities for community development projects, value added to underutilised community assets, and developments financed on behalf of previously disadvantaged individuals.
- *Crowding in of funds and resources:* The programme mobilised a total of R106 million from development partners (BSC target: R80 million).
- *Bringing sites into implementation:* The programme brought three sites into implementation: Elliotdale, King Sabata Dalindyebo and Richmond Park, against the BSC target of two. The implementation of a site by definition starts with the signing of the Development Charter.

## Rural development

As noted, the LEDi was restructured to focus on rural development. The new initiative embraces the original intent of integrating development interventions in poor regions, where improved infrastructure and service delivery can serve as a catalyst for economic growth. It assists rural municipalities in stimulating economic activity and providing socio-economic infrastructure, thereby improving the living conditions of the rural poor.

Three pilot sites, Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality, have been brought into implementation. The Fund provided technical assistance to develop economic and institutional turnaround strategies and identify catalytic development projects in these areas. It also deployed capacity to facilitate the integration of interventions by various stakeholders, such as the communities, the sector departments of the provincial governments and the private sector. A total of 24 projects were identified at the three sites; the respective municipalities are leading the preparation and funding of these projects.

The Division also worked with partners to enhance planning and bridge the fiscal gap. In this regard, the MIG leveraging instrument and the Regional Economic Model were developed. The model forecasts the economic impact of an investment in a specific sector, in terms of gross value added, employment, remuneration, water and electricity use, and property values. The model is being tested in the Theewaterskloof Local Municipality and the eThekwini Metropolitan Municipality.

In the next financial year, the Division will focus on implementing the rural development strategy in support of the government's Comprehensive Rural Development Programme.

## Other priority initiatives of the Fund

While the Fund focused on the implementation of its annual performance plan as outlined in the BSC, it also implemented a number of priority initiatives. In addition to the Pan-African Capacity Building Programme, the Kou-Kamma Turnaround Strategy and the GRAP implementation in Ekurhuleni, which are discussed in boxes above, the Fund implemented the following initiatives:

- *Developing a funds mobilisation strategy:* Given the need to become self-sustainable, the Fund undertook negotiations with several potential funders. It secured R65,5 million through memoranda of understanding that earmarked funds for specific interventions, such as piloting the operations and maintenance initiative and training municipal officials in priority skills.
- *Supporting the Eastern Cape Schools Infrastructure Programme:* The Fund supports the Eastern Cape provincial government in its efforts to eradicate unsafe and unhealthy school structures. During the year, it provided project management and technical support to the provincial office for the replacement of mud classrooms with formal classrooms at 30 schools. The new classrooms use energy-efficient technologies such as alternative building materials and solar technology.
- *Implementing the Diepsloot closed-circuit waterborne sanitation system:* This project, financed by the Fund, pilots a standalone closed-circuit waterborne toilet system. Each unit consists of five to ten toilet blocks linked to a hybrid treatment plant.
- *Operations and maintenance initiative:* By year-end, the Fund had shortlisted municipalities for the selection of three pilot sites and had made significant progress in raising finance for this initiative.
- *Sustainable municipal reporting system:* The Fund developed a tool to assess the sustainability and functionality of municipal management. Assessments have been conducted in 48 municipalities supported by the Siyenza Manje programme.

# Corporate governance

The DBSA Development Fund shares its corporate governance framework with the DBSA, excluding its Board of Directors. The Fund's commitment to the principles of good corporate governance accords with that of its controlling entity, the DBSA. Throughout the year, the Fund monitored its progress against the King III Report, which came into effect in March 2010, and the Protocol on Corporate Governance for the Public Sector. The operations of the Fund during 2009/10 were in line with the programme approved by the Board for the year.

## Organisational repositioning

The constitution of the DBSA Development Fund was revised in 2008/09 to realign the role of the Fund with the priorities of the shareholder. As noted earlier in this report, the Fund initiated a number of strategic programmes during the year, including the rural development initiative. The Fund now includes the following Divisions: Community Development Facilitation, Capacity Development and Deployment, and Rural Development. The organisational structure of the Fund is depicted on page 20.

## Board of Directors

The conduct and business of the Development Fund Board are governed by the Articles of Association and relevant principles of the Companies Act, No. 61 of 1973. In terms of these Articles, the DBSA appoints all Board members for a term of three years. Upon appointment, Board members enter into a service contract in line with the Companies Act and applicable tenets, which sets out the details of their fiduciary responsibilities. New Board members also attend an induction session aimed at exposing them to the business model of the Fund.

The Development Fund Board was reconstituted during the year as Dr P Kibuuka was appointed as Managing Director of the Fund in July 2009 and the tenure of office of Ms N Gasa expired in December 2009. Dr Kibuuka and the Managing Director of the DBSA, Mr P Baloyi, are the only executive Directors on the Board of the Fund. The Board is chaired by Prof. B Figaji, an independent non-executive Director.

The Board is responsible for approving the Corporate Plan, which was submitted to the National Treasury in February 2010 in accordance with the Public Finance Management Act, No. 1 of 1999. Management ensures that the strategy of the Board is executed and reports periodically on the implementation of the Corporate Plan and other initiatives agreed upon with the Board. The Board monitors the performance of the Fund against the Corporate Plan. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Fund reports on significant resolutions of the Fund Board at each meeting of the DBSA Board. Important reports of the Development Fund are also submitted to the DBSA Board for notification.

In June 2009, the Board undertook a project oversight visit to the Eastern Cape province. The visit was an opportunity for Board members to verify the development impact of the Fund's programmes and interact with members of the communities who benefit from the services they provide.

## Board committees

As noted, the DBSA Development Fund shares its governance structures with the DBSA. Accordingly, the DBSA Development Fund Board directs and controls the operations of the Fund through the Board committees that it shares with the DBSA. The Board has also established the following two committees:

### Development Fund Risk Committee

The new Risk Committee assists the Board in ensuring the continued sustainability of the Fund and its interventions through effective risk management. The Committee is responsible for the approval of interventions delegated by the Board; the review of intervention strategies and related policies, standards and controls; performance evaluation of individual interventions; and the consideration of management reports. The Development Fund Risk Committee is chaired by Dr C Manning, an independent non-executive Director, and has six other members, three of whom are non-executive Directors.

### Siyenza Manje Working Committee

The national Siyenza Manje Working Committee was established to provide oversight of the effective implementation of the Siyenza Manje programme, an initiative co-funded by the National Treasury.

The Siyenza Manje Working Committee is a stakeholder committee that is subordinate to the Board. It is intended to ensure that the efforts of all the stakeholders are well coordinated, and makes recommendations to the Board on effective strategies

and on the challenges encountered by Siyenza Manje employees. The Committee is chaired by Prof. B Figaji and the other members are Dr P Kibuuka (Managing Director: DBSA Development Fund), Mr D Mngadi and Mr O Mahlawe (CoGTA), Ms L Gwabeni (National Treasury), Ms J Evans and Ms P Makhanya (Department of Water Affairs), Mr L Joel (SALGA) and Mr R Matlala (Divisional Executive: DBSA Development Fund).

Other government departments that are crucial to the success of the Siyenza Manje initiative, such as Transport and Housing, are invited members of the Committee.

Further details on the Board's committee structure and governance system are provided in the corporate governance report on pages 76 to 81 of the DBSA Annual Report.

## Corporate Secretary

All Directors have access to the advice and services of the DBSA Corporate Secretary. In terms of the DBSA Act, No. 13 of 1997, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

## Board composition and record of attendance, 2009/10

Five board meetings were held during the year and the attendance of individual members is reflected in the table below.

| Number of meetings | 5 |
|---|---|
| Prof. Brian Figaji (Chairperson) | 5/5 |
| Mr Paul Baloyi | 5/5 |
| Dr Paul Kibuuka[1] | 3/5 |
| Mr Elroy Africa | 4/5 |
| Mr Andrew Boraine | 5/5 |
| Ms Nomboniso Gasa[2] | 3/3 |
| Dr Claudia Manning | 5/5 |
| Ms Mampiti Matsabu | 5/5 |
| Mr Simphiwe Mehlomakulu | 5/5 |
| Mr Seeraj Mohamed[3] | 2/2 |
| Mr Ivan Mzimela | 5/5 |
| Mrs Malijeng Ngqaleni | 5/5 |
| Dr Sipho Ngubane | 3/5 |
| Prof. Eddie Webster | 4/5 |

1. *Appointed as Managing Director of the Development Fund on 1 July 2009.*
2. *Retired as non-executive Director on 31 December 2009.*
3. *Appointed to the Board on 19 May 2009.*

# Risk management

The DBSA Development Fund is incorporated in terms of section 21 of the Companies Act. As a section 21 company of the DBSA, the Fund has to comply with all the relevant provisions of the Act.

Risk management is a strategic priority for the DBSA and the DBSA Development Fund. The Fund has adopted the DBSA's risk management frameworks with two main objectives: to ensure that it can manage risks effectively and efficiently, and to start inculcating a culture of risk management that will eventually become ingrained in the operations of the Fund.

Risk management aims to assist an organisation in dealing effectively with potentially negative events, which can create uncertainty. It aims to enable the organisation to respond in a way that reduces both the likelihood of such negative events and the severity of their consequences.

During the year, the effects of the global economic crisis continued to play out. Access to finance remained tight in most developing countries. While the potential sources of finance for the Fund were equally affected, the Fund has continued to access government finance for capacity building, using MIG funding as a mitigation strategy. The crisis also eroded confidence in financial systems and institutions, and exposed weaknesses in governance systems. However, the strong governance system of the DBSA Development Fund has withstood these testing times.

Many of the risks faced by the Fund are external, which means that they are not under the direct control of its management. Such external risks include changes in the political environment and insufficient external funding. Other risks are internal in nature and can be controlled by management, such as the risk of non-compliance with internal governance processes. The Fund has instituted sound measures to mitigate these risks.

## Development impact

One of the significant developmental risks facing the country is the risk of dysfunctional municipalities. The government is addressing this risk through the Local Government Turnaround Strategy, which aims to turn municipalities into centres of excellence that provide efficient and effective service delivery and local development. There is considerable congruence between this strategy and the mandate of the Fund. The Fund uses the Vulindlela Academy, the Siyenza Manje programme and external service providers to build capacity and close skills gaps in municipalities. It has become a preferred partner for municipalities, particularly as a facilitator of development.

## Institutional risk

During this tough economic period, the DBSA has played an important role in creating financial capacity for infrastructure development and investment. It has provided funds where the private financial sector has been unwilling or unable to assist. However, the lack of appropriate skills and capacity, among its clients and within the Fund itself, remains a fundamental and ongoing business risk.

The rapid growth of the Fund has brought considerable pressure to bear on its systems, processes and capacity. This is being relieved by imparting skills through the joint efforts of the Siyenza Manje staff and various deployment programmes.

## Reputational risk

The risk management framework of the Fund views reputational risk as a consequence of other primary risks. The management of these primary risks is therefore of utmost importance. The Fund manages reputational risk by aiming to prevent actions that tarnish the reputation of the organisation and its initiatives. Accordingly, it ensures that staff are grounded in the Fund's value-based principles. During the year, risk exposures through misconduct or ethical concerns relating to the deployees in various municipalities posed a potential threat to the reputation of the Fund, but these risks were managed appropriately.

## Legal risk

Failure to comply with applicable laws and regulations may have regulatory, financial and reputational consequences for the Fund. Therefore, the Board of the Fund fosters a culture of compliance with relevant laws, not only as a legal requirement but as a good business practice. In developing its compliance framework, the Fund consulted international best practice and other leading corporate governance frameworks. It also maintains an ongoing engagement with regulators and assurance providers to ensure compliance with all relevant statutory requirements.

The legal function of the DBSA provides the Fund with efficient and effective professional services on day-to-day legal matters. The Fund believes that its legal risks are within the acceptable risk tolerance.

## Financial risk

The Fund uses a risk management framework similar to that of the DBSA to mitigate the financial and market risk aspects of its financial sustainability. The Fund depends on the DBSA and the National Treasury for the ongoing support of its mandate. It continues to pursue other potential sources of funding to broaden its funding base.

## Human capital risk

Virtually any enterprise faces a default human capital risk. The Development Fund paid particular attention to this aspect of risk during the year. The employees of the Fund work largely within communities rather than at the head office. Siyenza Manje deployees in particular spend extended periods in municipalities, interacting with and transferring skills to municipal employees. In these circumstances, it is vital that the Fund maintain two-way contact with its employees to ensure good communication and high staff morale. The Fund has appointed a dedicated human capital executive to deal with these challenges. The executive will also regularly review the Fund's human capital systems and processes.

## Stakeholder risk

The Fund works across the spectrum of stakeholders in many areas of South Africa, and engages with stakeholders at all levels. These stakeholders include (but are not limited to) the government, the public sector, the private sector and informal communities. The Fund is keenly aware that such interaction requires a variety of skills and competencies. To this end, the Fund adopted a stakeholder management plan during the year to give ongoing guidance to management and employees who deal with stakeholders at any level.

# Annual financial statements

# Directors' responsibility for financial reporting

for the year ended 31 March 2010

The Directors are responsible for overseeing the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the DBSA Development Fund, its business and its transactions, as well as the financial position of its trade or business presented in this report.

In preparing the financial statements:

- The Companies Act, No. 61 of 1973, as amended, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adhered to.

In order to fulfil this responsibility and to enable the Directors to meet their financial reporting responsibilities:

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

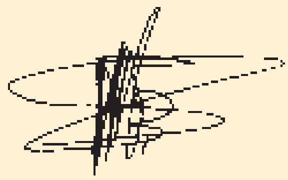
The Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls, and auditing and financial reporting matters. The external auditors have unrestricted access to the Audit Committee.

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 period under review.

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

The financial statements that appear on pages 45 to 63 were approved by the Board of Directors on 14 June 2010 and signed on its behalf by:

**Brian de Lacy Figaji**
Chairman of the Board



**Paul Cambo Baloyi**
Chief Executive Officer

# Report of the Audit Committee

for the year ended 31 March 2010

We are pleased to present our report for the financial year ended 31 March 2010.

The Audit Committee members and attendance are reflected on page 80 in the Governance and management overview of the DBSA Annual Report.

## Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the Public Finance Management Act and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

Section 51(1)(a)(ii) of the Public Finance Management Act states the following:

(a) The accounting authority must ensure that the public entity has and maintains:

- (i) effective, efficient and transparent systems of financial and risk management and internal control;
- (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77, and
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

## The effectiveness of internal control

The Audit Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

## The quality of in-year management and monthly and quarterly reports submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board of Directors and the DBSA Development Fund during the year under review.

## Evaluation of financial statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the Annual Report with the independent external auditors and the Accounting Authority
- Reviewed the independent external auditors' management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

**Omar Aboobaker Latiff**
Chairman of the DBSA Audit Committee

# Independent auditor's report to Parliament

for the year ended 31 March 2010

## Report on the financial statements

We have audited the financial statements of the DBSA Development Fund, which comprise the statement of financial position as at 31 March 2010, the statement of comprehensive income, the statement of changes in funding reserve, the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes and the Directors' report as set out on pages 47 to 63.

### Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (No. 1 of 1999) and the Companies Act of South Africa (No. 61 of 1973). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund at 31 March 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and by the Companies Act of South Africa.

**Gobodo Inc.**
Registered Auditor

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
14 June 2010

41 West Street
Houghton
Johannesburg

# Directors' report

for the year ended 31 March 2010

The Directors have pleasure in presenting their report, which forms part of the annual financial statements of the DBSA Development Fund for the year ended 31 March 2010. The report reviews the performance of the DBSA Development Fund and reflects significant progress with the Siyenza Manje programme in the fourth year of its implementation.

The Directors of the Fund subscribe to the principles of good corporate governance. With the exception of its Board, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. During the period under review, a fully mandated Risk Committee was constituted as a subcommittee of the Board of Directors to support oversight and ensure that risks are managed efficiently and effectively. Further details on the Fund's corporate governance structures and practices are provided on page 38 and 39 of this Annual Report.

## The functions of the Fund and the nature of the business

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

- Mobilisation and deployment of municipal expertise
- Grant funding for targeted capacity building
- Development facilitation
- Development of sustainable communities
- Project development support

### Mobilisation and deployment of municipal expertise

The DBSA Development Fund provides hands-on support primarily to municipalities but also to selected service delivery departments. The Fund's flagship intervention is the Siyenza Manje programme, which assists municipalities in implementing infrastructure projects as part of the national drive to accelerate the delivery of basic services to communities. At the heart of the initiative is the deployment of skilled expertise to municipalities, particularly in the areas of engineering and technical services, as well as project and financial or treasury management. These experts are paired with officials within the municipalities to promote the transfer of skills. To ensure sustainability, young professionals are assigned to these experts to be mentored and coached, with the objective of retaining them within the municipalities. The Siyenza Manje programme intends leaving a legacy not only of completed projects but also of capable officials within the technical, finance and planning departments of targeted municipalities, to operate and maintain the assets once the deployment programme has been completed. In line with this objective, the Fund rolled out the Artisan Programme to all provinces during the year. To date, 218 artisans have been deployed, including plumbers, electricians, bricklayers, motor mechanics and fitters for water works.

In addition, the Fund made significant progress on the following initiatives during the year:

- A sustainable municipal assessment and reporting tool was developed and implemented.
- A municipal cash flow model was developed in partnership with the South African Institute of Chartered Accountants.
- In partnership with the AFD, 15 young professionals were placed in municipalities in France for a three-month internship, starting in March 2010.

The Operations Evaluation Division of the DBSA is undertaking an independent three-year review of the inputs, outputs, outcomes and processes of the Siyenza Manje programme.

### Grant funding for targeted capacity building

Before the implementation of the Siyenza Manje programme, the DBSA Development Fund had a key role in channelling technical assistance grant funding to municipalities, backed by a recapitalisation grant from the DBSA. This role has been integrated into the Siyenza Manje programme as part of the drive to prioritise support for interventions that will ensure the long-term sustainability of the Siyenza Manje, Sustainable Communities and Rural Development programmes. Such support includes improving service delivery and critical municipal management systems for operations and maintenance, as well as facilitating community-based sustainable development plans and Community Development Charters.

## Development facilitation

In close collaboration with the DBSA and other stakeholders, the Fund continues to provide municipalities and service delivery organisations with capacity building, development knowledge, technical support and human resource deployment.

## Development of sustainable communities

This programme channels resources directly to communities to empower them to engage in equal partnership with government, civil society and business, to formulate their own agendas and access the resources needed to ensure their implementation. This year, the Fund facilitated the development of Social Compacts and Development Charters for the King Sabata Dalindyebo and Elliotdale pilot sites. This culminated in the inclusion of the development priorities of the local communities in the integrated development plans of the local municipalities.

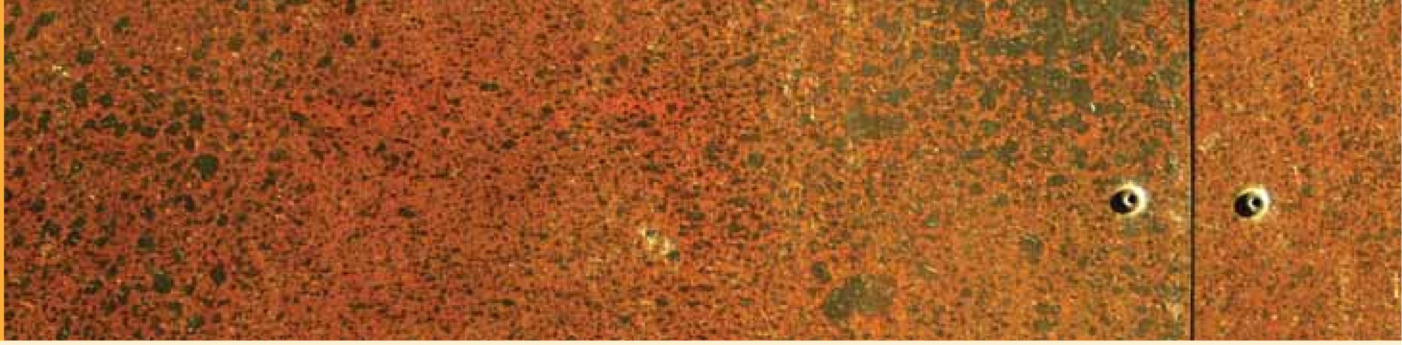
## High-level performance overview

The Fund operates on a three-year business cycle for corporate strategy and business planning. It uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2009/10 were set in terms of high-level targets for the different divisions of the Fund. The Board approved the 2009/10 objectives and the BSC was used as the basis for the performance management of the entire staff. Each division also had its own BSC, which determined its share of the composite objectives. The management of the divisions was measured against these objectives.

The Directors are pleased that the Development Fund achieved its strategic objectives for 2009/10. After four successful years of implementing the Siyenza Manje programme, the Fund refocused the programme in support of the government's Local Government Turnaround Strategy. It extended its capacity building support to 199 municipalities and 18 national and provincial departments through the shared-services model. The Fund also facilitated MIG expenditure of R8,9 billion, exceeding the annual target by 27%, and assisted in completing 1 237 projects. This was a significant achievement, which has its roots in the implementation support offered by experts deployed in the regional offices of the Department of Water Affairs, as well as the shared-services model rolled out during the year. These projects were generally large, as municipalities increasingly clustered smaller projects into bigger ones to gain procurement efficiencies. Many of the projects were in bulk infrastructure, which increased household water supply and improved water pressure in under-resourced municipalities.

The Development Fund also disbursed R76,8 million in capacity building grants to municipalities for the development of systems, policies and plans. Many of these interventions supported the development of systems in line with government programmes such as Operation Clean Audit, and improved compliance with the 16 priority areas of the Municipal Finance Management Act.

Other initiatives included setting up project management units in municipalities, providing drought relief to Kou-Kamma Municipality and piloting alternative technologies such as the closed-circuit waterborne sanitation system in Diepsloot. The Vulindlela Academy disbursed an additional R19 million for training interventions in finance, management and planning. This amount funded training for 6 746 external candidates, who accounted for a total of 11 366 training interventions. The Sustainable Communities programme achieved a rating of 94%, reflecting its progress in preparing its pilot sites for implementation. At the King Sabata Dalindyebo site, the Sustainable Integrated Development Plan for Mthatha was concluded and the Development Charter signed in September 2009. The rural site of Elliotdale was brought into implementation in December 2009 when Chieftainess Nobangile and other stakeholders signed the Development Charter. The Local Economic Development pilot sites, Ugu, Cacadu and Theewaterskloof, also moved to implementation. The Local Economic Development initiative has now been refocused on rural development in support of the government's Comprehensive Rural Development Programme.



The following table summarises the Fund's performance against its high-level strategic objectives and targets for the year ended 31 March 2010.

### High-level performance, 2009/10

| Strategic goal | Strategic objective | Key performance indicator | Target | Results |
|---|---|---|---|---|
| Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity | Provide assistance for clients' social and economic infrastructure projects | Total rand value of grants disbursed (for capacity building) | R90 million | R101 million |
| | | MIG and other infrastructure grants expenditure | R7,0 billion | R8,9 billion |
| | | Number of projects completed | 700 | 1 237 |
| | | Funds crowded in or leveraged | R150 million | R179 million |
| | | External learners trained by Vulindlela | 7 000 | 11 366[1] |
| | | Number of people trained on the job (planning, finance and technical training) | 2 000 | 2 421 |
| | | Project effectiveness (milestones achieved at rural and urban sites) | 70% | 94% |
| | | Number of municipalities (and departments) supported | 170 | 217 |

1. *The actual number of candidates trained is 6 746; they attended a total of 11 366 training sessions.*

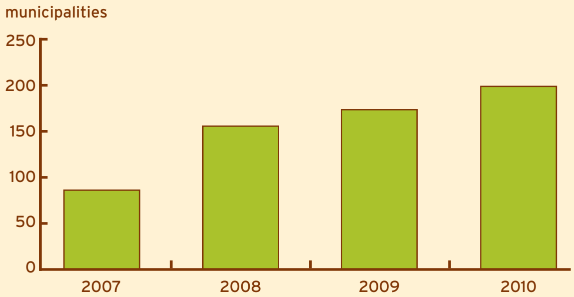
## Environmental report

The DBSA Development Fund pays particular attention to the environmental impact of its operations. Although it does not set separate objectives for environmental impact, the Fund's appraisal framework includes a module on the environmental impact of all its projects. In addition, Siyenza Manje deployees help to ensure that municipalities adhere to environmental management legislation. They also transfer skills to officials that will enable them to plan and implement projects in an environmentally responsible manner.

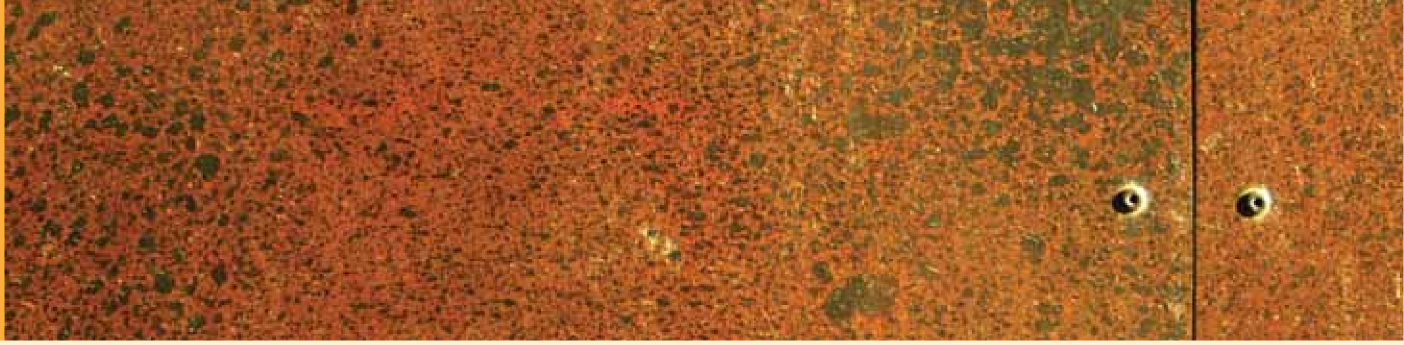
## Social report

### Capacity building support

The Fund's capacity building support to municipalities aims to sustain the thrust of the government's Local Government Turnaround Strategy. Selected local municipalities receive hands-on support to accelerate service delivery. The Fund set a target of assisting 170 municipalities this year, and exceeded the target significantly by reaching 199 municipalities, as well as 18 provincial and national departments. It committed R111,5 million in grant funding to poorly resourced municipalities and disbursed R101 million.




Number of municipalities supported, 2006/07 to 2009/10



far as possible. During the year, the Fund was able to leverage R179 million against the targeted R150 million. This demonstrates the aggressive implementation of its funding policy and the willingness of clients to contribute to their own capacity building.

The National Treasury provided funding support for the Siyenza Manje programme worth R319,6 million this year. It will contribute a total of R890,8 million over the three-year cycle ending 31 March 2013. Further commitment to funding has been secured from the National Treasury for the duration of the programme. The Sustainable Communities programme mobilised R99,5 million for community development programmes through the Neighbourhood Partnership Development Grant and the Breaking New Ground initiative. Likewise, the DBSA Vulindlela Academy leveraged R60 million from the LGSETA over a three-year period up to 2013.

The operational growth of the Fund over the last three years has increased its funding requirements. Additional multi-year funding will be mobilised through the partnership building and funds mobilisation campaign.

## Strategic partnerships

Strategic partnerships are an important element of the long-term sustainability of the Fund's initiatives and contribute to the leveraging of funding and expertise. Partnerships at strategic and project levels include the Deployment Multi-Party Stakeholder Committee/Forum. In addition, representatives from the CoGTA, the Department of Water Affairs, the National Treasury, SALGA and selected local government practitioners provide guidance on the implementation of Siyenza Manje through the Siyenza Manje National Working Committee.

The DBSA Vulindlela Academy has made significant progress with the Pan-African Capacity Building Programme in terms of establishing the virtual academy envisaged in the memorandum of understanding signed with the AFD in April 2008. In January 2010, the IDC signed an addendum to this memorandum of understanding and officially joined the programme. At the first meeting of the Advisory Board in February 2010, the terms of reference for the Joint Steering Committee and the Advisory Board were approved and the Board noted the overall progress on the programme. The meeting also guided management in the compilation of a detailed strategy for partnership building and funds mobilisation.

## Client service excellence

The Fund deployed technical professionals to key national and provincial government departments to streamline the approval process for municipal infrastructure grants and improve the service delivery chain for local government. As a result, the regional offices of the Department of Water Affairs accelerated the approval of technical projects, such as MIG-funded water and sanitation projects.

The Fund observed that most municipalities were not operating and maintaining their infrastructure adequately, whether existing or new. The unintended consequence of building new infrastructure without addressing maintenance needs was that the operations and maintenance backlogs in low-capacity municipalities increased. This year, the Board of the Fund approved a proposal to pilot a municipal infrastructure maintenance programme in three municipalities in 2010/11.

## Efficient and effective operating systems

The DBSA and the Fund revised the management agreement on the services to be rendered by the Bank's operational and support units; the revised agreement has been implemented successfully. The Fund maintained the project portfolio office and management continued to fine-tune the system to improve the integrity and completeness of data.

In consultation with other divisions of the DBSA, the Fund developed a tool for assessing the need for support in each targeted municipality. The tool is currently being applied to guide the deployment process through determining capacity and resource gaps, in addition to the baseline information required by the Bank.

## Innovation

The Fund constantly seeks to develop innovative programmes to address the capacity needs of poor municipalities. The demand for new infrastructure is still substantial, but the need to operate and maintain municipal infrastructure adequately is growing as well. During the year, the Fund conceptualised an operations and maintenance programme for municipal infrastructure; a pilot programme will be rolled out in 2010/11. The programme aims to support the maintenance of municipal infrastructure by small and medium-sized contractors, and contribute to the development of the local maintenance industry.

Another innovation was the design of the MIG leveraging instrument, which aims to provide bridging finance to poorly resourced priority regions for the implementation of catalytic infrastructure projects. The use of this instrument is still subject to the MIG policy review and approval by the National Treasury.

## Human resources and employment equity

The personnel of the Fund are its main asset and the Fund is committed to ensuring the wellbeing of its employees. In terms of the management agreement with the DBSA, full-time employees of the Fund have access to the Bank's Employee Assistance Programme. The Fund also operates within the employment equity framework set by the Bank. The Fund's full-time staff complement comprises 89% previously disadvantaged individuals and 58% women. The deployment staff complement comprises 76% previously disadvantaged individuals and 28% women. Due to the scarcity of skills for programme implementation in the South African labour market, the various programmes have acquired foreign experts in the fields of engineering, finance and planning, as shown in the table below.

### Staff composition, 31 March 2010

| Category | Black | Coloured | Asian | White | Other (Foreign) | Total | % gender |
|---|---|---|---|---|---|---|---|
| **Permanent staff** | | | | | | | |
| Male | 23 | – | 2 | 6 | 3 | 34 | 42 |
| Female | 36 | 1 | 1 | 9 | – | 47 | 58 |
| Total | 59 | 1 | 3 | 15 | 3 | 81 | |
| % race | 73 | 1 | 4 | 18 | 4 | 100 | |
| **Deployment staff**[1] | | | | | | | |
| Male | 244 | 25 | 7 | 85 | 46 | 407 | 72 |
| Female | 144 | 7 | 2 | 7 | 2 | 162 | 28 |
| Total | 388 | 32 | 9 | 92 | 48 | 569 | |
| % race | 68 | 6 | 2 | 16 | 8 | 100 | |

1. *The deployment staff complement includes contract programme managers, experts, young professionals and artisans.*

## Financial report

The DBSA established the Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided the Fund with a total of R1,09 billion for its capacity building and development initiatives. The Bank is committed to capitalising the Fund periodically for continued operations. It is also committed to providing continued management support for the Fund's financial, accounting and governance systems.

The financial results of the Fund are fully disclosed on pages 47 to 63. The financial highlights for the year under review are:

- Of the R120,1 million total grants disbursed during the year, R101 million was for capacity building initiatives (2008/09: R101 million).
- The costs of the Siyenza Manje programme grew substantially from R313,3 million to R456,6 million as a result of the increased deployment of experts, artisans and young professionals in municipalities.
- Other operating expenditure grew to R86,9 million (2008/09: R19,5 million) owing to the incorporation of five capacity building units from the DBSA.

## Funding mobilisation

The DBSA Development Fund aims to maximise the impact of its development resources and therefore leverages contributions by clients and third parties as

## Directorate

Details pertaining to the Board members appear on pages 8 to 12 of this Annual Report.

| Name | Position | From |
|---|---|---|
| Prof. B Figaji | Non-executive Director | 24 November 2005 |
| | Chairman | 21 February 2006 |
| Mr P Baloyi | Chief Executive Officer | 1 July 2006 |
| Dr P Kibuuka | Managing Director | 1 July 2009 |
| Mr E Africa | Non-executive Director | 14 February 2008 |
| Mr A Boraine | Non-executive Director | 24 November 2005 |
| Dr C Manning | Non-executive Director | 26 February 2009 |
| Ms M Matsabu | Non-executive Director | 26 March 2009 |
| Mr S Mehlomakulu | Non-executive Director | 26 March 2009 |
| Mr S Mohamed | Non-executive Director | 19 May 2009 |
| Mr I Mzimela | Non-executive Director | 26 March 2009 |
| Mrs M Ngqaleni | Non-executive Director | 15 November 2007 |
| Dr S Ngubane | Non-executive Director | 26 March 2009 |
| Prof. E Webster | Non-executive Director | 18 October 2007 |

The details of the Directors' emoluments are set out in note 8 of the financial statements.

## Business and registered address

The Fund's business and registered address details appear on page 64.

## Events subsequent to balance sheet date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in the annual financial statements, which will have a significant effect on the operations of the Fund, the results of the operations or the financial position of the Fund.

## Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Fund sustained material losses.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Fund sustained material losses.

III. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business, none of which was material.

IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Fund: no such financial assistance was received. The DBSA and the National Treasury provided financial support to Siyenza Manje, and both have committed to providing funding for the duration of the programme. The National Treasury provided R319,6 million during the year under review and will provide a total of R890,8 million during the period 2011–13.

# Statement of financial position

at 31 March 2010

| in rands | Notes | 2010 | 2009 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Accounts receivable | 1 | **30 035 804** | 12 713 091 |
| Cash and cash equivalents | 2 | **160 907 702** | 113 349 845 |
| **Total assets** | | **190 943 506** | 126 062 936 |
| **Funds and liabilities** | | | |
| **Funds** | | | |
| Funding reserve | | **10 175 341** | 10 132 320 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable | 3 | **92 544 863** | 43 321 650 |
| Deferred income | 4 | **88 223 302** | 72 608 966 |
| **Total funds and liabilities** | | **190 943 506** | 126 062 936 |

# Statement of comprehensive income

for the year ended 31 March 2010

| in rands | Notes | 2010 | 2009 |
|---|---|---|---|
| **Gross funding** | | | |
| National Treasury contribution recognised | 4 & 7 | **319 620 639** | 219 293 843 |
| Development Bank of Southern Africa funding | | **340 900 000** | 120 000 000 |
| | | **660 520 639** | 339 293 843 |
| **Other income** | | | |
| Sundry income | | **2 795 018** | – |
| Interest received | 5 | **352 163** | 320 005 |
| | | **3 147 181** | 320 005 |
| **Operating expenses and grants** | | | |
| General and administration expenses | 6.1 | **(266 386 835)** | (172 663 207) |
| Grants | 6.2 | **(120 122 253)** | (101 049 195) |
| Personnel expenses | 6.3 | **(277 115 711)** | (160 058 684) |
| | | **(663 624 799)** | (433 771 086) |
| **Surplus (deficit) for the year** | | **43 021** | (94 157 238) |
| Transfer to funding reserve | | **(43 021)** | 94 157 238 |
| | | **–** | – |

# Statement of changes in funding reserve

for the year ended 31 March 2010

| in rands | |
|---|---|
| **Balance at 1 April 2008** | **104 289 558** |
| Transfer from funding reserve | (94 157 238) |
| **Balance at 1 April 2009** | **10 132 320** |
| Transfer to funding reserve | 43 021 |
| **Balance at 31 March 2010** | **10 175 341** |

# Statement of cash flows

for the year ended 31 March 2010

| in rands | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts | | **650 084 223** | 401 207 119 |
| Cash payments | | **(614 401 586)** | (400 982 363) |
| Cash generated from operations | 9 | **35 682 637** | 224 756 |
| Interest income | | **352 163** | 320 005 |
| Interest received included in deferred income | | **11 523 057** | 11 276 753 |
| **Net cash from operating activities** | | **47 557 857** | 11 821 514 |
| **Cash and cash equivalents movement for the year** | | **47 557 857** | 11 821 514 |
| Cash and cash equivalents at beginning of the year | | **113 349 845** | 101 528 331 |
| **Cash and cash equivalents at end of the year** | 2 | **160 907 702** | 113 349 845 |

## 1. Presentation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act of South Africa, 1973. The financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

## 2. Basis of preparation

The preparation of annual financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 3. Financial instruments

### Classification
Management determines the appropriate classification of financial assets on initial recognition.

### Accounts receivable
Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

### Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### Accounts payable
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### Provisions
A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligations.

## 4. Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been received and approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to expenses. Grants received from National Treasury are recognised to the extent that they have been expended on Siyenza Manje; any unexpended funds received are recognised as deferred income in the statement of financial position.

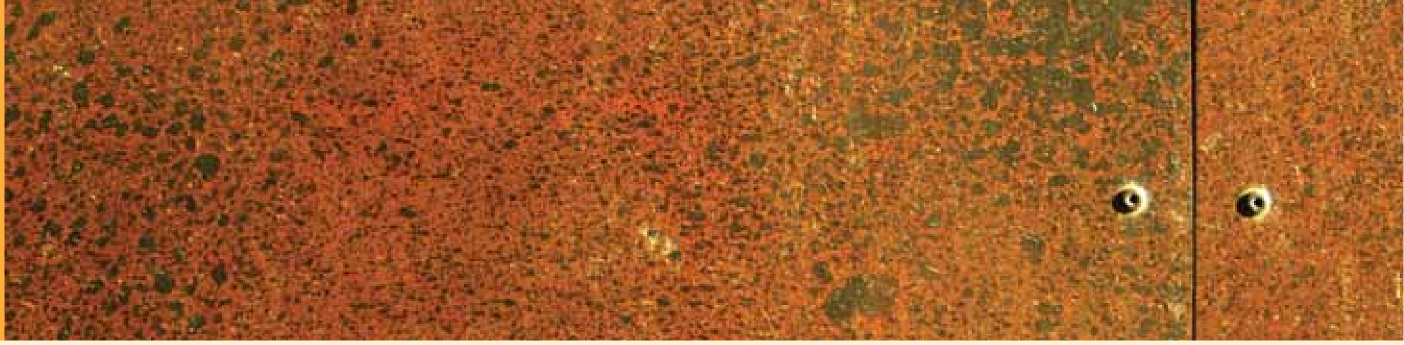
## 5. Grants disbursed

Grants disbursed consist of amounts disbursed to beneficiaries. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

# Notes to the financial statements

for the year ended 31 March 2010

| in rands | 2010 | 2009 |
|---|---|---|
| **1. Accounts receivable** | | |
| Advances to deployees | **956 001** | 766 123 |
| Development Bank of Southern Africa Limited | **16 124 684** | 5 366 228 |
| Interest receivable – Current account | **48 877** | 28 248 |
| Interest receivable – Siyenza Manje deferred income | **909 101** | 994 228 |
| South African Revenue Services (VAT) | **10 964 026** | 5 558 264 |
| Trade receivables | **1 033 115** | – |
| | **30 035 804** | 12 713 091 |
| **2. Cash and cash equivalents** | | |
| Cash and cash equivalents consist of: | | |
| Bank balances | **9 576 242** | 10 226 602 |
| Call account | **151 331 460** | 103 123 243 |
| | **160 907 702** | 113 349 845 |
| **3. Accounts payable** | | |
| Bonus provision | **45 284 939** | 12 485 678 |
| Development Bank of Southern Africa Limited | **21 176 241** | 11 890 898 |
| Leave pay provision | **14 255 131** | 7 532 464 |
| Trade payables | **11 828 552** | 11 412 610 |
| | **92 544 863** | 43 321 650 |
| **4. Deferred income** | | |
| **National Treasury** | | |
| Opening balance | **70 840 075** | 88 746 974 |
| Funds received from National Treasury | **323 711 918** | 190 504 082 |
| Plus: interest on bank call account | **11 413 447** | 10 882 862 |
| Less: National Treasury portion recognised | **(319 620 639)** | (219 293 843) |
| | **86 344 801** | 70 840 075 |
| **Industrial Development Corporation** | | |
| Opening balance | **1 768 891** | – |
| Funds received from the Industrial Development Corporation | **–** | 10 000 000 |
| Plus: interest on bank call account | **109 610** | 393 891 |
| Less: Industrial Development Corporation portion of costs | **–** | (8 625 000) |
| | **1 878 501** | 1 768 891 |
| Total deferred income | **88 223 302** | 72 608 966 |
| **5. Interest received** | | |
| Bank | **352 163** | 320 005 |



| in rands | Note | 2010 | 2009 |
|---|---|---|---|
| **6. Operating expenses and grants** | | | |
| **6.1 General and administration costs** | | | |
| Administration costs | | **16 314 359** | 9 405 905 |
| Audit fees | | **286 143** | 169 501 |
| Communication costs | | **5 888 332** | 5 066 665 |
| Management fees | | **21 792 319** | 14 547 959 |
| Professional service providers | | **139 140 332** | 86 001 353 |
| Subsistence and travel | | **55 167 693** | 39 667 312 |
| Training | | **27 797 657** | 17 804 512 |
| | | **266 386 835** | 172 663 207 |
| **6.2 Grants** | | | |
| Grants for capacity building | | **101 040 517** | 91 174 195 |
| Grants for Vulindlela Academy | | **19 081 736** | – |
| Grants to victims of violence | | **–** | 9 875 000 |
| | | **120 122 253** | 101 049 195 |
| **6.3 Personnel expenses** | | | |
| Remuneration – non-executive Directors' Emoluments* | 8 | **1 738 145** | 543 620 |
| Remuneration – staff and deployees | | **275 377 566** | 159 515 064 |
| | | **277 115 711** | 160 058 684 |

**The process of finalising the 2009/10 executive incentives has not yet been completed.*

| in rands | Note | 2010 | 2009 |
|---|---|---|---|
| **7. Siyenza Manje costs included in the operating expenses above are as follows:** | | | |
| Administration costs | | **12 506 368** | 8 073 048 |
| Audit fees | | **–** | 135 601 |
| Communication costs | | **5 548 559** | 5 007 894 |
| Professional service providers | | **136 606 476** | 85 887 741 |
| Remuneration | | **230 823 109** | 157 531 880 |
| Subsistence and travel | | **45 105 145** | 39 065 720 |
| Training | | **26 011 256** | 17 575 034 |
| | | **456 600 913** | 313 276 918 |
| **Siyenza Manje costs are shared as follows:** | | | |
| Development Bank of Southern Africa – 30% | | **136 980 274** | 93 983 075 |
| National Treasury – 70% | | **319 620 639** | 219 293 843 |
| | | **456 600 913** | 313 276 918 |

## 8. Directors' emoluments

### Executive

| 2010 | Basic salaries | Medical aid, group life and provident fund contribution | Other allowances and benefits | Total |
|---|---|---|---|---|
| Dr P Kibuuka | 810 192 | 201 933 | 200 635 | 1 212 760 |

### Non-executive

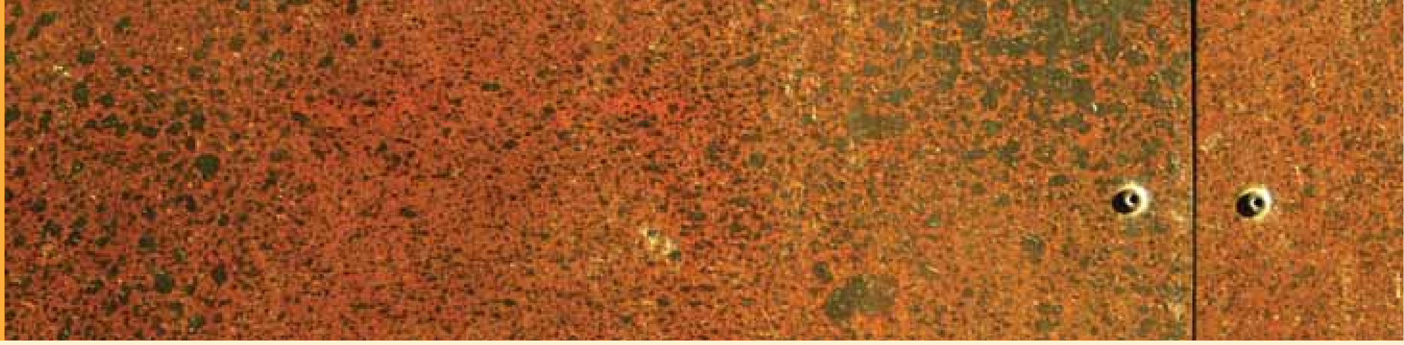
| 2010 | Salaries/ fees | Subsistence and travel | Attendance fees | Retainer fees | Total |
|---|---|---|---|---|---|
| Mr E Africa[1] | – | – | – | – | – |
| Mr A Boraine | – | 16 940 | 65 000 | 56 194 | 138 134 |
| Prof. BD Figaji | 346 000 | 2 005 | 117 000 | – | 465 005 |
| Ms N Gasa[2] | – | 875 | 52 000 | 42 145 | 95 020 |
| Dr C Manning | 90 000 | 630 | 104 000 | 56 194 | 250 824 |
| Ms M Matsabu | – | 700 | 104 000 | 56 194 | 160 894 |
| Mr S Mehlomakulu | – | – | 104 000 | 56 194 | 160 194 |
| Mr S Mohamed[3] | – | 665 | 26 000 | 46 828 | 73 493 |
| Mr I Mzimela | – | 630 | 78 000 | 56 194 | 134 824 |
| Mrs M Ngqaleni[4] | – | – | – | – | – |
| Dr S Ngubane | – | 315 | 78 000 | 46 828 | 125 143 |
| Prof. EC Webster | – | 420 | 78 000 | 56 194 | 134 614 |
| | **436 000** | **23 180** | **806 000** | **472 965** | **1 738 145** |

1. *Representative of Department of Cooperative Governance and Traditional Affairs; does not receive emoluments.*
2. *Tenure ended on 31 December 2009.*
3. *Appointed as non-executive Director on 19 May 2009.*
4. *Representative of National Treasurer; does not receive emoluments.*

| 2009 | Salaries/ fees | Subsistence and travel | Attendance fees | Total |
|---|---|---|---|---|
| Dr I Abedian | – | – | 22 500 | 22 500 |
| Mr A Boraine | – | – | 22 500 | 22 500 |
| Mr N Christodoulou | – | – | 37 500 | 37 500 |
| Prof. BD Figaji | 240 000 | – | 45 000 | 285 000 |
| Ms N Gasa | – | 490 | 30 000 | 30 490 |
| Mr JB Magwaza | – | – | – | – |
| Dr C Manning | – | 210 | 7 500 | 7 710 |
| Mr M Vilakazi | 70 000 | – | 37 500 | 107 500 |
| Prof. EC Webster | – | 420 | 30 000 | 30 420 |
| Mr I Mzimela | – | – | – | – |
| Dr S Ngubane | – | – | – | – |
| Mr S Mehlomakulu | – | – | – | – |
| Ms M Matsabu | – | – | – | – |
| Mrs M Ngqaleni | – | – | – | – |
| | **310 000** | **1 120** | **232 500** | **543 620** |
| Made up as follows: | | | | |
| – Siyenza Manje | 248 000 | 896 | 186 000 | 434 896 |
| – Capacity building | 62 000 | 224 | 46 500 | 108 724 |

### Other executive Directors

Mr P Baloyi (CEO) is the other executive Director and does not receive Director's emoluments.



| in rands | 2010 | 2009 |
|---|---|---|

## 9. Cash generated from operations

| | | |
|---|---|---|
| Deficit for the year | **43 021** | (94 157 238) |
| **Adjustments for:** | | |
| Interest received | **(352 163)** | (320 005) |
| Interest received included in deferred income | **(11 523 057)** | (11 276 753) |
| **Changes in working capital:** | | |
| Accounts receivable | **(17 322 713)** | 89 328 038 |
| Accounts payable | **49 223 213** | 32 788 722 |
| Deferred income | **15 614 336** | (16 138 008) |
| | **35 682 637** | 224 756 |

## 10. Approvals and commitments

| | | |
|---|---|---|
| Grant approvals for the period | **109 310 000** | 61 833 000 |
| Total outstanding grant commitments at the end of the period | **111 520 000** | 97 592 000 |
| **Contractual commitments entered into with the Siyenza Manje project** | | |
| Due in one year | **166 162 000** | 112 792 000 |
| Thereafter | **96 400 000** | 57 813 000 |
| | **262 562 000** | 170 605 000 |

## 11. Taxation

The DBSA Development Fund is exempt from income tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.

## 12. Related parties

| | | |
|---|---|---|
| **Related party transactions** | | |
| **Management fees paid to:** | | |
| Development Bank of Southern Africa | **21 792 319** | 14 547 959 |
| **Grant received from:** | | |
| Development Bank of Southern Africa | **340 900 000** | 120 000 000 |
| **Related party balances** | | |
| **Amounts included in accounts receivable regarding related parties** | | |
| Development Bank of Southern Africa | **16 124 684** | 5 366 228 |
| **Amounts included in accounts payable regarding related parties** | | |
| Development Bank of Southern Africa | **21 176 241** | 11 890 898 |

The Development Bank of Southern Africa has undertaken to underwrite the commitments of the DBSA Development Fund to the extent that is not covered by external funders.

## 13. Risk management

The Development Fund is incorporated in terms of section 21 of the Companies Act. As a section 21 company, the Fund has to comply with all relevant provisions of the Act that are applicable to this type of company.

Risk management is a strategic priority of the DBSA and the Development Fund, which has adopted the DBSA risk management framework to ensure that the risks it faces are managed effectively and efficiently. One of the primary objectives in adopting the risk management framework is to inculcate a culture of risk management in the Fund, which should be ingrained in its operations.

Risk management is geared towards dealing effectively with potential future events that create uncertainty and responding in a manner that reduces the likelihood of negative events and the severity of their consequences.

In the past year, developing countries were affected by the global economic crisis, which also impacted potential sources of funding. Access to credit, loans and funding remains tight. Nonetheless, the Fund has continued to access and leverage capacity building funding from the government's MIG as a mitigation strategy. The credit crisis has also eroded confidence in financial systems and institutions, exposing weaknesses in governance systems, among other things. The Development Fund has a sound governance system in place, which has withstood these testing times.

Many of the risks faced by the Fund are external in nature and management does not have direct control over them. Such risks include changes in the political environment and insufficient external funding to execute the mandate of the Fund. Other risks are internal in nature, and management can control them to a great extent. They include risks of non-compliance with internal governance processes. The Fund has measures in place to mitigate these risks.

### Development impact

One area of great concern nationally is the developmental risk faced by the country due to the perceived dysfunctionality of municipalities. National government has embarked on a project to turn municipalities into centres of excellence through the implementation of a Local Government Turnaround Strategy which aims to promote efficient and effective service delivery and local economic development. This strategy is congruent with the Fund's own mandate. Through the Vulindlela Academy, the Siyenza Manje programme and external service providers, the Fund is working to bridge skills gaps and capacitate municipalities with appropriately skilled staff. The Fund is a preferred partner for municipalities, particularly as a facilitator for development and a creator of wealth and employment.

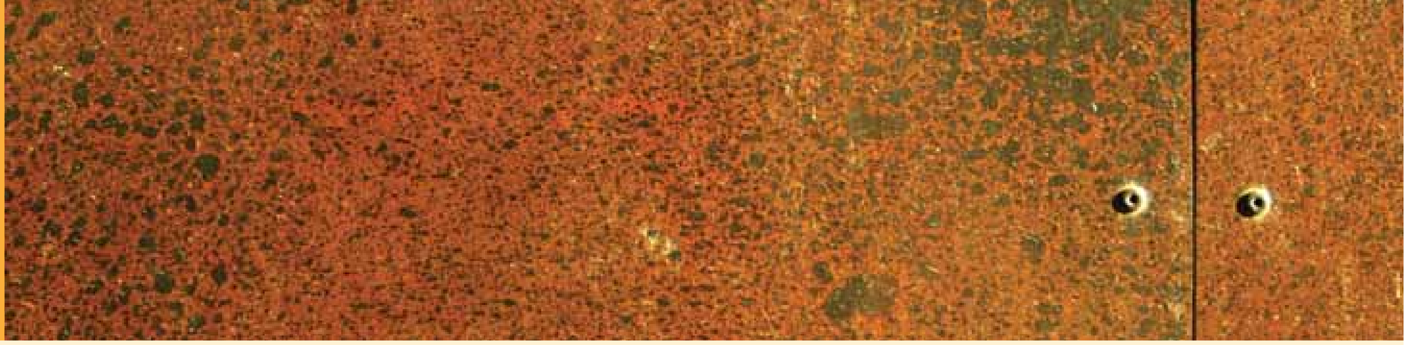
### Institutional risk

The DBSA has played an important role in creating finance capacity for infrastructure development and overall investment activity during tough economic conditions; certain gaps have existed, as in many cases the private financial sector was unwilling or unable to provide development finance. The lack of appropriate skills and capacity, among clients and within the Fund itself, is a fundamental ongoing business risk.

The Fund has experienced a rapid growth rate and this has placed pressure on the current systems and processes. This challenge has been addressed by imparting skills through the joint efforts of the Siyenza Manje staff and various deployment programmes.

### Reputational risk

The Fund considers reputational risk in its formal risk management framework. Reputational risk is viewed as a consequence of other primary risk, and managing these risks is therefore of utmost importance. Accordingly, the first objective in responding to reputational risk is to prevent actions that tarnish the reputation of the Fund and its initiatives by inculcating in staff the value-based principles that the Fund upholds. During the year under review, risk exposures of misconduct or ethical matters relating to deployees in various municipalities posed a potential threat to the reputation of the Fund, but these were managed adequately.



## Legal risk

Legal risk refers to the risk of failing to comply with applicable laws and regulations, which may have regulatory, financial and reputational consequences for the Fund. The Board of Directors of the Fund fosters a culture in which compliance  is perceived not only as a legal requirement but as good business practice.

The DBSA's Legal Services department provides professional services on day-to-day legal matters and these are managed efficiently and effectively. The Fund believes that the legal risks it faces are within the acceptable risk tolerance.

Ongoing engagement with regulators and assurance providers facilitates the implementation of current, amended and new legislation and regulations. The Fund has taken cognisance of international best practice and other leading corporate governance frameworks in the developing its compliance framework.

## Financial risk

The financial and market risk aspects relating to the financial sustainability of the Fund are mitigated and managed by risk management frameworks similar to those of the DBSA. The Fund is dependent on the DBSA and the National Treasury for ongoing support of its mandate. The Fund continues to pursue other potential sources of funding to broaden its funding base.

Development Fund


| | |
|---|---|
| **Company registration number:** | 2001/030153/08 |
| **Registered office:** | Headway Hill<br>1258 Lever Road<br>Midrand<br>South Africa |
| **Postal address:** | PO Box 1234<br>Halfway House<br>1685<br>South Africa |
| **Telephone:** | +27 11 313 3911 |
| **Fax:** | +27 11 313 3993 |
| **Home page:** | www.dbsa.org |



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**Typesetting and reproduction:** Macgraphics, Johannesburg, South Africa
**Printing:** Hot Dot Print, Johannesburg, South Africa

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Only wood from sustainable forests is used. Manufactured from TCF pulp (Totally Chlorine Free). Acid free. Recyclable.
**Text:** Printed with vegetable based inks on SAPPI's Triple Green, local wood-free art paper.
PEFC, Sustainable Forests Initiative, FSC and CoC standards compliant. The pulp is a bi-product of sugar production.

DBSA

Development Bank
of Southern Africa

Headway Hill
1258 Lever Road
Midrand
South Africa

PO Box 1234
Halfway House
1685
South Africa

Telephone: +27 11 313 3911
Fax: +27 11 313 3086

Home page: www.dbsa.org

Registration number:
1600157FN