



Annual Reports 2006/07



DBSA

Development Bank
of Southern Africa

Development Fund

Vision 2014

The DBSA's future direction is informed by the shared vision of *an integrated and empowered region, progressively free of poverty and dependency*, to be achieved by implementing its mission of *driving development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions*.

Vision 2014, which guides the Bank's activities, is derived from the South African government's People's Contract, the Millennium Development Goals and the principles espoused in NEPAD. The five key objectives of the People's Contract are listed below, and the main areas where the Bank is making a contribution in line with its mandate have been emphasised.

1. Reduce poverty by half through *economic development*, comprehensive social security, land reform and *improved household and community assets*.
2. Provide the *skills* required by the economy, *build capacity and provide resources across society* to encourage self-employment with an education system that is geared for productive work, good citizenship and a caring society.
3. Reduce unemployment by half through *new jobs, skills development*, assistance to small businesses, opportunities for self-employment and *sustainable community livelihoods* (including large-scale multi-year public works programmes).
4. Massively reduce cases of tuberculosis, diabetes, *malnutrition* and maternal deaths; turn the tide against HIV and AIDS; *working with the rest of southern Africa*, strive to eliminate malaria; and *improve services to achieve a better national health profile and reduce preventable causes of death*, including violent crime and road accidents. To these ends, ensure that each *South African household has access to clean running water by 2009 and to electricity by 2012*.
5. Position South Africa strategically as a force in global relations, with vibrant and balanced trade and *other relations with countries of the South and the North*, and in an *Africa that is growing, prospering and benefiting all Africans, especially the poor*.

It is imperative that development finance institutions such as the DBSA also work with the other countries of SADC and, for the broader African picture, with the African Union and NEPAD, to deliver on a bold vision of the region's and continent's future. The Bank's mandate, which calls for partnerships and institution building to promote development, empowers it to act in this arena, and supports the wider mission of reversing the marginalised status of

the region. In pursuing these goals, the DBSA will be a leading change agent for socio-economic development and economic integration in southern Africa, and a strategic development partner to the wider African region south of the Sahara.

The DBSA's five-pronged strategy focuses on the following elements:

1. Co-deliver social and economic infrastructure, with a focus on identified sectors
2. Build human and institutional capacity, with a focus on municipalities
3. Promote broad-based economic growth, job creation, cooperation, integration and prosperity, with a focus on identified sectors, geographical areas and projects
4. Serve as a centre of excellence for development financing and effectiveness
5. Engender sustainability, internally and externally

It is underpinned by the following themes:

- Generating investment in assets, both hard (physical) and soft (human and institutional), that serve the poor, directly and indirectly, and that support broad-based wealth creation (infrastructural and productive capital)
- Mobilising, developing, applying and managing knowledge in support of greater development effectiveness, innovation and an enabling developmental environment

Given the scope of the development challenges, the limited resources available and the capacities of the other role players, the Development Bank's strategy involves extending its activities so that it acts as a catalyst, integrator, centre of excellence and strategic implementer for infrastructure development and financing. The strategic realignment programme initiated in mid-2006 is ensuring that the Bank's structure, culture, processes and strategy enable it to deliver on Vision 2014.

Financier

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

Advisor

To build institutional, financial and knowledge capacity for development

Partner

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

Implementer

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

Integrator

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

Accelerating the implementation of Vision 2014



Development Bank
of Southern Africa

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Abbreviations

ADB	African Development Bank	IDP	Integrated Development Plan
AFD	Agence Française de Développement	IT	information technology
AsgiSA	Accelerated and Shared Growth Initiative for South Africa	JBIC	Japan Bank for International Cooperation
BEE	black economic empowerment	JICA	Japan International Cooperation Agency
BSC	Balanced Scorecard	JIPSA	Joint Initiative for Priority Skills Acquisition
CFC	Customer Foreign Currency	KfW	Kreditanstalt für Wiederaufbau
COMESA	Common Market for Eastern and Southern Africa	KMA	Knowledge Management Africa
CORE	corporate operations recording system	LED	local economic development
CPI	consumer price index	LGNet	Local Government Network
CSIR	Council for Scientific and Industrial Research	LGRC	Local Government Resource Centre
DBSA	Development Bank of Southern Africa Limited	LIA	Local Investment Agency
€	euro	MIG	Municipal Infrastructure Grant
EASSy	Eastern Africa Submarine Cable System	NEPAD	New Partnership for Africa's Development
ECCAS	Economic Community of Central African States	NSDP	National Spatial Development Perspective
FET	further education and training	PFMA	Public Finance Management Act
GDP	gross domestic product	PPP	public-private partnership
GIS	geographic information system	R	South African rand
HIA	health impact assessment	RDP	Reconstruction and Development Programme
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome	SADC	Southern African Development Community
HREDI	Hex River Empowerment and Development Initiative	SALGA	South African Local Government Association
HSRC	Human Sciences Research Council	SAM	Social Accounting Matrix
ICT	information and communication technology	SAWiC	South African Women in Construction
IDC	Industrial Development Corporation	US\$	United States dollar

Market definition

This Annual Report uses the DBSA's capacity-based classification of municipalities: Market 1 municipalities are well capacitated (i.e. metros). Market 2 and 3 municipalities are progressively poorer and less capacitated, with the former typically being large and medium-size towns and the latter mainly being rural municipalities.

Exchange rate

On 31 March 2007 the R/US\$ exchange rate was 7,2973 and the R/€ rate was 9,7561.

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 2006/07, are to the financial year ended 31 March.

Business performance overview

	2006/07	5-year average (2003-07)	2005/06	2004/05	2003/04	2002/03
Total capital cost of approvals (R million)	52 176	20 469	22 939	7 917	5 535	13 775
South Africa ¹	40 189	16 457	20 491	7 396	3 929	10 278
Other SADC countries	11 987	4 012	2 449	521	1 606	3 497
Total DBSA contribution to approvals (R million)	8 265	5 489	8 052	3 947	3 348	3 833
% of total capital cost funded by others	84,2	73,2	64,9	50,1	39,5	72,2
Average value per approval (R million)	50,7	53,3	55,5	45,9	57,7	62,8
Number of investment approvals in period	163	103	145	86	58	61
Disbursements (R million)	3 703	3 234	3 077	2 999	2 729	3 661
Technical support disbursements (R million)	38,1	23,2	20,0	18,2	10,9	29,0
Total operating cost excluding interest paid (R million) ²	535,9	422,9	490,8	418,4	382,3	286,9
Number of employees (excluding contractors, etc.)	514	494	506	490	489	470
Net contribution per employee to disbursements (R million)	7,2	6,5	6,1	5,3	5,6	7,8
% of employment equity managers at year-end	77,1	75,7	68,4	70,0	77,0	86,0
Impact on households benefiting from operations (thousands of households) ³	1 586	1 185	1 164	1 948	463	762
Direct impact on employment (thousands of jobs) ⁴	18,2	15,3	14,1	15,4	12,8	16,1
Impact on GDP (R million) ⁵	2 257	2 028	1 973	1 877	1 909	2 126

1. The exceptional increase in approvals is due largely to the Gautrain project.

2. Includes technical assistance grants.

3. Refers to households benefitting from access to one or more services.

4. Based on the DBSA's disbursements within South Africa only.

5. Based on the DBSA's disbursements within South Africa only, at constant 2006 prices.

Financial performance overview

	2006/07	5-year average (2003-07)	2005/06	2004/05	2003/04	2002/03
Financial results (R million)						
Operating income	1 819	1 535	1 591	1 168	1 446	1 651
Interest on development activities ¹	1 982	1 803	1 763	1 714	1 872	1 686
Interest on investments	559	581	477*	607	663	597
Interest expense	1 243	1 086	1 060	1 061	1 101	967
Surplus for the year	1 283	1 001	928	749	763	1 284
Financial position (R million)						
Cash and cash equivalents	890	1 514	1 454*	2 007	1 913	1 306
Financial market assets/Investment in government bonds (prior to 2002)	5 265	5 757	6 556*	6 132	5 723	5 107
Investment in development activities ¹	21 223	17 135	18 003	16 323	15 832	14 296
Other assets	548	327	406*	258	216	210
Total assets	27 926	24 733	26 419*	24 719	23 684	20 919
Issued share capital	200	200	200	200	200	200
Total capital and reserves	14 538	12 229	13 219	11 962	11 197	10 231
Financial market liabilities/medium- and long-term financing (prior to 2002)	12 715	11 794	12 467*	12 083	11 736	9 971
Other liabilities	673	710	733	674	751	717
Total liabilities	13 388	12 504	13 200*	12 757	12 487	10 688
Financial ratios (%)						
Return on shareholder's funds	8,8	8,3	7,0	6,3	6,8	12,5
Return on assets	4,6	4,1	3,5	3,0	3,2	6,1
Operating costs to income ²	34,3	29,6	33,7*	35,8	26,4	17,4
Interest cover (times)	2,0	2,2	2,1*	2,2	2,3	2,4
Total capital and reserves to loan ratio	72,0	73,9	76,4	76,6	72,0	72,4
Long-term debt to equity	88,7	98,0	95,3*	101,8	105,9	98,3
Cash and cash equivalents to total assets	3,2	6,2	5,5	8,1	8,1	6,2
Issued capital to assets	0,7	0,8	0,8	0,8	0,8	1,0
Total capital and reserves to assets	52,1	49,3	50,0*	48,4	47,3	48,9
Financial market liabilities to investment in development activities ¹	59,9	69,4	69,2*	74,0	74,1	69,7
Weighted average interest rate on development loans	11,4	11,6	11,1	11,1	11,0	13,5
Total impairment as percentage of development loans ³	5,1	6,2	5,2	8,2	6,6	6,1
Impairment for loans considered irrecoverable as percentage of development loans	2,1	3,1	2,2	4,9	3,1	3,3

* Restated

1. Development activities include development loans and investments.

2. Operating income excludes net foreign exchange gain/(loss) and revaluation of financial instruments.

3. Includes reserve for general loan risks.

Governor's foreword



Minister of Finance: Mr Trevor Manuel, MP

In 2006, the South African economy grew by nearly 5%, registering solid growth for the third consecutive year. This makes it the longest period of sustained economic growth in our recorded history. All indicators point towards a continuation of this trend in the period ahead. Expenditure in the economy has grown steadily and the level of GDP in 2006 was more than double that of 1999.

By any measure, these achievements are remarkable. However, while we celebrate these successes, we remain mindful of the enormous task we still have ahead of us in eradicating poverty and reducing inequality. Government will continue to pursue policies that will set the economy on a higher growth trajectory, and investment in infrastructure is a key part of achieving this. But the bigger challenge is: how do we translate the outcomes of a better performing economy so that everyone benefits, especially the poorest and most vulnerable in our society?

Development finance institutions like the DBSA play a crucial role in deepening the development impact of our infrastructure programme, and we are pleased that the Bank continues to design and adapt programmes in response to the challenges our country faces today. Integral to this response are the growing number of DBSA investments in municipalities with limited revenue bases of their own, and the extension of loans and investments in such areas. Commitment to regional integration by increasing the financing of

multi-country investments is also welcomed. The fact that all of this has been achieved without compromising the financial sustainability of the Bank and its overall corporate performance is indeed commendable.

In the 2007 budget, we allocated additional resources to an integrated approach to human resources development; knowledge generation; investment in infrastructure; and improvements to the strategic management of the public science and technology system. We are making an enormous effort to improve capacity at all levels of government, so as to enable our people to develop, plan, finance and roll out infrastructure. The infrastructure delivery improvement programme that has been implemented in the provinces over the last three years sought to overcome capacity and delivery constraints faced by that sphere of government. The Siyenza Manje programme extends similar support to municipalities.

The DBSA is a partner in a number of government capacity building and other developmental initiatives, and we expect this relationship to grow as we embark on other programmes to tackle the country's development challenges.

Over the next decade, in addition to our infrastructure spend for the 2010 FIFA World Cup, we will revamp our rail and transport network, develop a new telecommunications backbone, and build a new energy production and distribution system. The economic outlook for the next three to five years has never been more optimistic; even setting aside investments in municipal infrastructure in support of the World Cup, we have never had such expansive growth in prospect.

In spite of all these achievements, the challenge we continue to face is to transform the gains made in achieving sustained growth into benefits for the poor and unemployed. The scale of the backlogs to be overcome in South Africa and the challenges faced in the rest of the SADC remind us that making a greater developmental impact is not just about having the necessary financial resources and the political will. It is far more complex than that. But I am confident that institutions like the DBSA will deploy their resources in a manner that will help us find some of the solutions we need. I therefore urge you, as a leading development finance institution, to act boldly and creatively, so that we are able to fulfil our promise of a better life for all, sooner rather than later.

A stylized, handwritten signature in black ink, which appears to read 'T. Manuel'.

Trevor Manuel

Limpopo-Lipadi Game and Wilderness Reserve, Botswana

The Reserve is an example of a project that will contribute to poverty alleviation by employing local labour and implementing community programmes.



Board of Directors

Development Bank of Southern Africa Limited



Mr Jayaseelan Naidoo (52)

Director: J&J Group

DBSA Director as from:

1 May 2000

Chairman of the DBSA Board as from:

24 August 2000

Other directorships:

Dr Reddy's Laboratories SA (Pty) Ltd - Non-executive Director
 Consilience Technologies (Pty) Ltd - Non-executive Director
 First South Financial Services (Pty) Ltd - Non-executive Director
 Global Alliance for Improved Nutrition - Chairman of the Board (non-executive)
 International Telecommunication Union - Non-executive Director
 J&J Financial Services (Pty) Ltd - Non-executive Director
 Jay and Jayendra (Pty) Ltd - Chairman of the Board (non-executive)
 Jay Naidoo Development Trust - Trustee
 Love Life Trust - Trustee and Deputy Chairman
 Macquarie First South (Pty) Ltd - Non-executive Director
 Old Mutual Life Assurance Company (SA) Ltd - Non-executive Director
 Old Mutual Life Holdings (SA) Ltd - Non-executive Director
 OneCall Contact Centre Systems (Pty) Ltd - Non-executive Director
 Venturepharm (Pty) Ltd - Non-executive Director
 William J. Clinton Foundation dba Clinton Global Initiative - Global Health Advisory Board Member



Prof. Brian de Lacy Figaji (62)

Company Director

Academic qualifications:

MEduc (Administration, Planning and Social Policy), Harvard University (1989)
 Diploma in Tertiary Education, University of South Africa (1987)
 Graduate Diploma (Engineering), University of Cape Town (1985)
 BSc (Engineering), University of Cape Town (1972)
 BSc (Science), University of the Western Cape (1969)

DBSA Director as from:

1 August 1997

Other directorships:

Bovidae Investments - Non-executive Director
 Cape Lime - Non-executive Director
 DBSA Development Fund - Chairman of the Board (non-executive)
 Dormell - Chairman of the Board (non-executive)
 HHO Africa - 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 (51)

Chief Executive Officer and Managing Director: DBSA

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)

DBSA Director and staff member as from:

1 July 2006

Other directorships:

Business Venture - Non-executive Director
 DBSA Development Fund - Chief Executive Officer and Managing Director
 Platinum Park - Non-executive Director



Dr Iraj Abedian (51)

Chief Executive Officer and Chief Economist: Pan-African Advisory Services

Academic qualifications:

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

DBSA Director as from:

1 August 2001

Other directorships:

Applied Fiscal Research Centre (AFReC), University of Cape Town - Non-executive Director
 DBSA Development Fund - Non-executive Director
 IAMA Global Trade - Non-executive Director
 Munich Re - Non-executive Director
 National Business Initiative - Non-executive Director
 Transnet Ltd - Non-executive Director
 Velvet Moon Stones - Non-executive Director



Mr Andrew Boraine (48)

Chief Executive Officer: Cape Town Partnership

Academic qualifications:

MA (Community Education and Resources), University of Cape Town (1987)
BA Hons (Economic History), University of Cape Town (1987)
BA (History), University of Cape Town (1983)

DBSA Director as from:

1 August 2005

Other directorships:

Accelerate Cape Town - Non-executive Director
Convenco - Chairman of the Board (non-executive)
DBSA Development Fund - Non-executive Director
SA Cities Network - Chairman of the Board (non-executive)



Ms Thenjiwe Pamela Claudia Chikane (41)

Chief Executive Officer: MGO Consulting

Academic qualifications:

CA (SA) (1997)
BCompt (Hons), University of South Africa (1995)
BCompt, University of South Africa (1993)
BCom, University of the North (1985)

DBSA Director as from:

1 August 2004

Other directorships:

Nedbank Ltd - Non-executive Director
PetroSA - Non-executive Director
SITA - Chairperson of the Board (non-executive)
Telkom SA - Non-executive Director



Mr Trevor Fowler (56)

Chief Operating Officer: Office of the Presidency

Academic qualifications:

Pr Eng (1982)
BSc (Civil Engineering), University of Manitoba, Canada (1979)

DBSA Director as from:

1 August 2004



Mr Lungisa Fuzile (42)

Deputy Director-General: Intergovernmental Relations, National Treasury

Academic qualifications:

MCom (Economics), University of Natal (1995)
BCom Hons (Economics), University of Natal (1991)
Higher Diploma in Education, University of Transkei (1988)
BCom, University of Transkei (1987)

DBSA Director as from:

1 July 2006



Ms Nomboniso Gasa (39)

Independent gender and policy analyst

Academic qualifications:

Certificate in Women's Studies, University of the Western Cape (1996)

BA (Political Science), University of the Western Cape (1990)

Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1988)

DBSA Director as from:

1 August 2003

Other directorships:

Commission for Gender Equality - Commissioner

DBSA Development Fund - Non-executive Director

HSRC - Non-executive Director



Dr Lulu Gwagwa (48)

Director: Lulu Gwagwa Development Consulting

Academic qualifications:

PhD (Economics), University College London (2003)

MSc (Economics), London School of Economics and Political Science (cum laude) (1990)

Certificate in Gender Planning, University College London (1989)

BA (Geography), University of Fort Hare (1978)

DBSA Director as from:

1 August 2004

Other directorships:

Amasondo Fleet Services - Non-executive Director

DataPro - Non-executive Director

FirstRand - Non-executive Director

Gwagwa Training and Development - Director

Lereko Investments - Director

Lereko Mobility - Director

Massmart - Non-executive Director

Mbane Power - Director

Ninham Shand - Non-executive Director

Real Africa Holdings Ltd - Non-executive Director

Rivas Consulting - Non-executive Director

Siphiwo Sethu Family Trust - Trustee and Beneficiary

Sun International - Non-executive Director



Dr Deenadayalen Konar (53)

Consultant

Academic qualifications:

DCom, University of South Africa (1989)

MAS, University of Illinois (1981)

CA (SA) (1978)

Postgraduate Diploma in Accounting, University of Durban-Westville (1978)

BCom, University of Durban-Westville (1975)

DBSA Director as from:

1 August 2001 (co-opted to Audit Committee: 1 June 1995)

Other directorships:

Automobile Association of South Africa - Director

Credit Management Solutions Group (Pty) Ltd - Non-executive Chairman

Eskom Pension and Provident Fund - Trustee

Illovo Sugar Ltd - Director

J D Group Ltd - Director

Kumba Resources Ltd - Non-executive Director

Macsteel Holdings (Pty) Ltd - Non-executive Director

National Horseracing Authority - Director

Old Mutual Life Assurance Co. (SA) Ltd - Director

Old Mutual Life Holdings (SA) Ltd - Director

Sappi Ltd - Non-executive Director

SA Reserve Bank - Director

SA Reserve Bank Captive Insurance Co. Ltd - Non-executive Chairman

Securities Regulation Panel - Member

Steinhoff International Holdings Ltd - Director



Mrs Wendy Lucas-Bull (54)

Director of Companies

Academic qualifications:

BSc, University of the Witwatersrand (1976)

DBSA Director as from:

1 August 2005

Other directorships:

Alexander Forbes - Non-executive Director
Business Venture Investments (Pty) Ltd - Non-executive Director

Dimension Data Holdings Plc - Non-executive Director

Eskom Holdings Ltd - Non-executive Director

Lafarge - Non-executive Director

Nurcha - Non-executive Director

Partners for Housing - Non-executive Director

Peotona Capital - Executive Director

Peotona Group Holdings - Director

Directors during the year under review



Dr Claudia Manning (40)
Executive Director: Sangena Investments

Academic qualifications:

DPhil, University of Sussex (1996)
MPhil, University of Sussex (1992)
BA Hons (Economic History), University of Natal (1988)

DBSA Director as from:
1 August 2005

Other directorships:

Roadcrete Africa (Pty) Ltd - Non-executive Director
Stewart Scott International (Pty) Ltd - Non-executive Director



Ms Lindiwe Msengana-Ndlela (41)
Director-General: Provincial and Local Government

Academic qualifications:

MBL, University of South Africa (2002)
BEd, University of South Africa (1995)
Higher Education Diploma, Rhodes University (1988)
BCom, Rhodes University (1987)

DBSA Director as from:
1 August 2004



Mr Silumko Nondwangu (42)
General Secretary: National Union of Metalworkers of South Africa (NUMSA)

DBSA Director as from:
1 August 2004

Other directorships:

Coega Development Corporation - Non-executive Director
National Labour and Economic Development Institute - Non-executive Director
NUMSA Investment Company - Executive Director



Dr Mandla Sizwe Vulindlela Gantsho (45)
Chief Executive Officer and Managing Director: DBSA

DBSA staff member between:
1 October 1995 and 30 June 2006

DBSA Director between:
1 February 2001 and 30 June 2006



Mr Ismail Momoniat (47)
Deputy Director-General: Economic Policy and International Financial Relations, National Treasury

DBSA Director between:
1 July 2004 and 30 June 2006

DBSA Corporate Secretariat

Dr Paul Kibuuka, Corporate Secretary, PO Box 1234, Halfway House, 1685

Chairman's report



Chairman: Mr Jayaseelan Naidoo

During my tenure as Chairman of the Development Bank, I have had the pleasure and privilege of presiding over several exciting changes undertaken by this very important institution.

Over the past decade, we have aligned ourselves more closely with the priorities of the South African government, and with the goals of the SADC Regional Indicative Strategic Development Plan and the New Partnership for Africa's Development (NEPAD). In the year under review, we deepened our impact in this regard and made significant progress on the Siyenza Manje programme, our contribution to government's Project Consolidate.

Our shift towards working with the poorest and most vulnerable is gaining momentum. The Eastern Cape and KwaZulu-Natal are among our top three investment areas. There has also been a steady increase in the number of approved projects in municipalities deemed most at risk under Project Consolidate. Ours is a long-term commitment and we will continue to work closely with these municipalities to help develop both human and financial capital resources.

However, it is vital that our interventions are made to work and that we address the challenges that do arise speedily and efficiently. As partners with local government, we have a shared interest in

achieving results. Moreover, our people have a right to the development goals we are pursuing. For this reason, we at the Bank are absorbing and managing the cost of investing in less capacitated markets and municipalities.

While the major proportion of our resources has been deployed in South Africa, we are pleased to report that multi-country investments now make up the second largest share, underscoring our commitment to regional integration. We are also placing greater emphasis on sharing knowledge and lessons learnt in our quest to be at the forefront of development matters.

We have forged good partnerships locally and in the rest of the region, and our work in priority municipalities and provinces is increasing every year. While our success in this regard is cause for pride, it is important that we start thinking more inventively. The DBSA, as a leading development finance institution in the region, has to undergo a paradigm shift if we are to provide the kind of innovations our shareholder and clients expect of us.

We are acutely aware that much more still needs to be done. It has been 13 years since our democratic system came into being. And while major strides have been made, especially in providing essential services, apartheid planning and all its distortions remain evident. How can we contribute meaningfully to a framework that

The petroleum and liquid fuels depot in Dar es Salaam will greatly facilitate the importation of fuel to the Democratic Republic of Congo, Burundi, Rwanda and Zambia.



ensures proper social infrastructure? After all, for us delivery of services should not simply be about physical infrastructure, but about how to drive the spatial planning arrangements of the new South Africa.

The new centres of industry, tourism and mining in Limpopo, Northern Cape, North West, Mpumalanga and Eastern Cape have great potential. By tapping into this potential, we can contribute towards the design of new cities, where people are able to live close to their workplaces and in non-racial areas. The burning question is: what is the role of the Bank in driving these integrated spatial planning initiatives, while working with our partners in the public, private and community sectors?

Over the past year, there have been numerous protests related to poor service delivery. In some areas, people have taken to the streets more than once to draw attention to their lack of access to essential services. These actions provide food for thought for all of us. How can we, as a key investor in local infrastructure projects, direct our interventions so that we are able to make a difference sooner rather than later? While respecting the people's right to protest and highlight their grievances, can we design our interventions in a way that contributes to resolving the conflicts?

I am confident that our team is ready, willing and able to deal with such challenges, and I am pleased once again with the commitment we have shown to "development activism". But we would be failing ourselves if we did not set higher standards. We have been a successful institution for many years: now we need to reflect on

what more we can do. It is time we created a new paradigm for development finance in this region and on the continent, and fashioned the Bank into a centre of excellence in this sector. To achieve these ends, we will have to improve performance, respond more urgently to the needs of our clients, and be ready to give of our best at all times.

My congratulations to the staff for contributing to the good results. Now we need to work for higher standards, better quality and greater innovation. In future, our results must reflect the development impact of our investments.

We know from experience that finance is not the only key for unlocking solutions to the difficult development challenges we face. Our people will play a crucial role in working out some of the other answers. In this spirit, I once again urge all our staff to make a commitment to making a difference.

I wish to thank the Board for their invaluable advice and determined effort to make the DBSA a successful institution. Lastly, let me acknowledge the support and strategic guidance of our Governor, Minister Trevor Manuel, and the team at the National Treasury.

A handwritten signature in black ink, appearing to read 'Jayaseelan Naidoo'.

Jayaseelan Naidoo

Executive management

Development Bank of Southern Africa Limited



Mr Ernest Dietrich (44)

Executive Manager: Treasury; Acting Executive Manager:
Private Sector and International Investments

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)

DBSA staff member as from:

2 January 2001

Executive Manager as from:

1 April 2006



Dr Snowy Joyce Khoza (49)

Executive Manager: Research and Information

Academic qualifications:

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)

Executive Manager and DBSA staff member as from:

1 October 2002

Other directorships:

Bihati Solutions (Pty) Ltd - Chairman of the
Board (non-executive)
Chamber of Commerce South Africa -
Member of Economic Advisory Board
Ka-Manowi Manor cc - Non-executive Director
Mintirho Investments (Pty) Ltd - Non-executive Director
Tiisano Construction (Pty) Ltd - Non-executive Director
Water Research Commission - Chairman of the
Board (non-executive)



Mr Samson Gwede Mantashe (52)

Executive Manager: Strategic Operations

Academic qualifications:

BCom (Hons), University of South Africa (2002)
Effective Directorship Programme, Kagiso Leadership
School (1998)
BCom, University of South Africa (1997)

Executive Manager and

DBSA staff member as from:

1 July 2006

Other directorships:

Joint Initiative for Priority Skills Acquisition (JIPSA) -
Chairperson
South African Communist Party (SACP) - Chairperson
Teba Bank Ltd - Non-executive Director



Mr Magare Luther Mashaba (55)

Executive Manager: South Africa Operations

Academic qualifications:

MSc (Ag. Econ), Michigan State University (1993)
BSc Hons (Ag. Econ), University of Pretoria (1986)
BSc (Ag. Econ), University of Fort Hare (1981)

DBSA staff member as from:

14 January 1985

Executive Manager as from:

1 September 2001



Ms Loyiso Pityana (36)

Executive Manager: Human Capital and Technology

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)

DBSA staff member as from:

1 October 2002

Executive Manager as from:

1 October 2006

Other directorships:

Conservation International – Advisory Council Member
Fair Cape Holdings – Non-executive Director



Mr Admassu Yilma Tadesse (38)

Chief Economist; Executive Manager:
Corporate Strategy and Communication

Academic qualifications:

Senior Executive Programme for Africa,
Harvard Business School (2003)
MBA, Wits Business School (2002)
MSc (Policy & Planning), London School of Economics (1994)
BA (Economics), University of Western Ontario (1991)

DBSA staff member as from:

1 June 2002

Executive Manager as from:

11 September 2006

Other directorships:

Before Sunset Properties – Non-executive Director

DBSA Development Fund



Mrs Leonie van Lelyveld (36)

Chief Risk Officer; Acting Chief Financial Officer

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)

DBSA staff member as from:

1 April 1998

Executive Manager as from:

1 January 2006



Ms Jeanette Nhlapo (37)

Chief Operating Officer: DBSA Development Fund

Academic qualifications:

Senior Executive Programme,
Columbia Business School (2006)

BA Hons (Social Sciences), University of South Africa (1996)

DBSA staff member between:

18 December 2000 and 31 July 2007

Chief Operating Officer between:

1 June 2004 and 31 July 2007

Other directorships:

Cape Peninsula University of Technology -
Non-executive Director

Executives during the year under review



Mr Jacob Henry de Villiers Botha (58)

Executive Manager: Strategic Initiatives

DBSA staff member between:

1 October 1988 and 31 May 2006

Executive Manager between:

1 October 1996 and 31 May 2006



Mr Lewis Maxwell Musasike (47)

Executive Manager: Private Sector and
International Investments

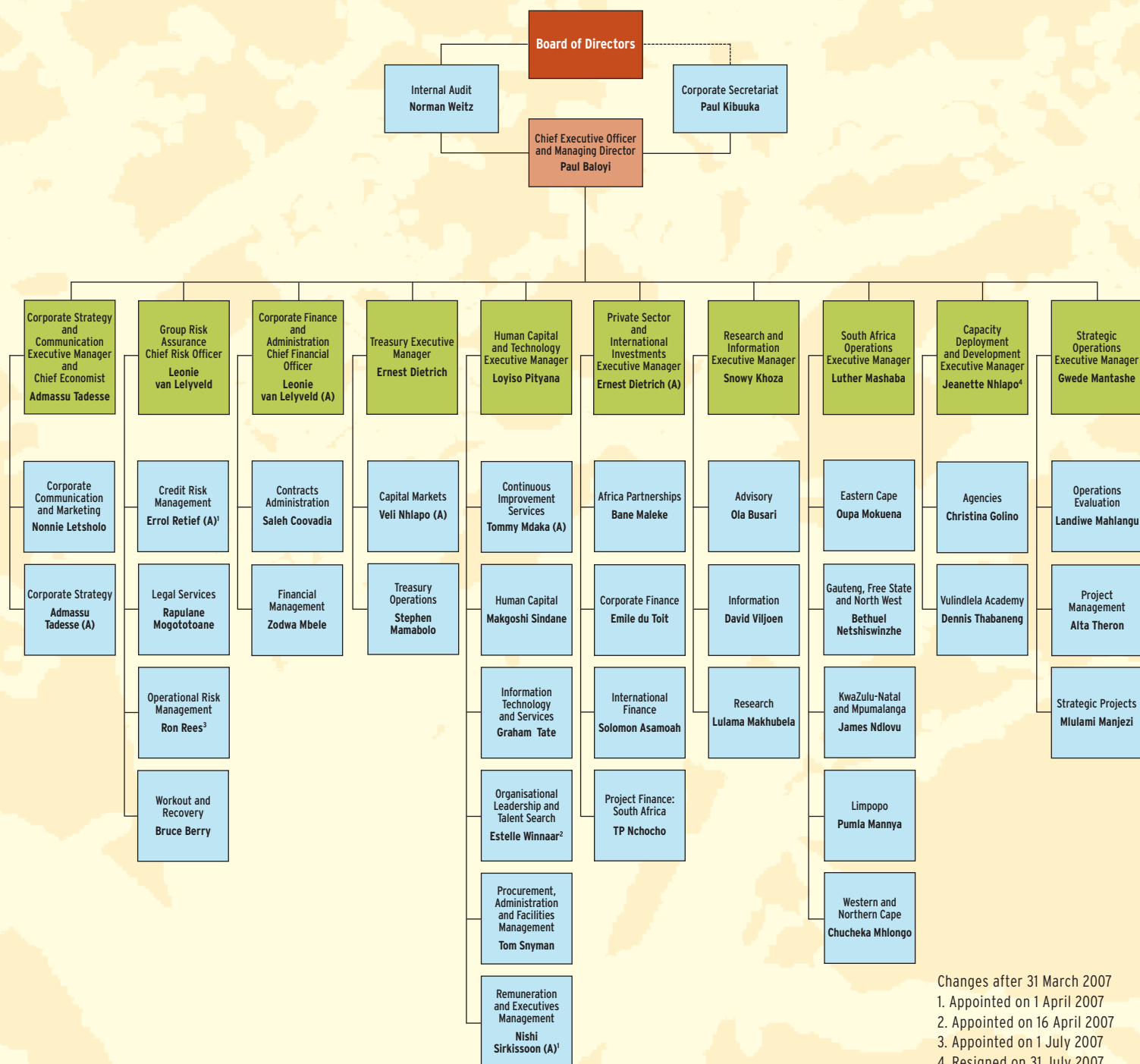
DBSA staff member between:

1 April 1998 and 19 February 2007

Executive Manager between:

1 October 2001 and 19 February 2007

Organisational structure



Changes after 31 March 2007

1. Appointed on 1 April 2007
2. Appointed on 16 April 2007
3. Appointed on 1 July 2007
4. Resigned on 31 July 2007

Chief Executive Officer's report



Chief Executive Officer: Mr Paul Baloyi

The Bank's operating environment

The environment within which the Bank operates is constantly changing. It is affected by worldwide political, technological and other forces, such as globalisation, technological progress and climate change, and also by particular challenges in the domestic and regional spheres. The latter include high levels of poverty, inequality and unemployment; the devastating effects of the HIV/AIDS epidemic; limited access to basic resources and services; and shortfalls in the capacity and skills required to address development needs. Given the scale of development needs and the expectations of the stakeholders, development institutions are constantly challenged to find new and better ways of accelerating development in a skills-scarce environment, while ensuring that their efforts are coordinated to maximise their impact on poor communities.

On the whole, there has been considerable progress both in South Africa and the region. The broader Southern African Development Community (SADC) region is experiencing sustained economic growth, which is likely to continue, particularly in Angola, Mozambique and Tanzania. More than half the countries in SADC are growing at 5% or more in real terms, supported by favourable commodity prices, market-friendly economic reforms, better

macroeconomic management and inflows of foreign assistance, including debt relief.

In South Africa, the economy is experiencing the longest period of sustained economic expansion since World War II, and the evidence suggests it will continue to grow at around 5% per year over the next half-decade, barring major unexpected shocks from offshore. But given South Africa's apartheid legacy, what really matters is how the benefits of growth are distributed through the system. On this front, things have changed decidedly for the better. Employment has grown, a new middle class has emerged and the government has instituted a basic social grant. It has also greatly accelerated the delivery of services: the three tiers of government together with non-financial public enterprises have spent more than R212 billion on infrastructure over the past three fiscal years, providing household services to communities and supporting economic expansion and job creation.

Despite the significant progress, however, the benefits of economic growth do not yet reach enough people. There is still much to do if the remarkable economic achievements of the past years are to benefit society at large.

As programmes unfold to spread the benefits of growth more widely in society, execution constraints are emerging. The obstacle to accelerating progress is often not finance but institutional implementation capacity. The government has identified "binding constraints" that must be overcome to accelerate growth and create employment: infrastructure capacity, availability of skills, the persistence of the so-called "second economy", and the limited institutional capacity at all levels of government. To overcome these implementation obstacles, it has prioritised programmes that aim to build the institutional capacity of government for project planning and execution, e.g. Project Consolidate; and that aim to develop skills, e.g. the Joint Initiative for Priority Skills Acquisition (JIPSA).

As a government-owned development finance institution, the DBSA is committed to supporting the government in achieving its infrastructure and capacity building objectives in South Africa and the wider region. Initiatives that express this commitment on the part of the Bank include the Siyenza Manje programme, which deals with capacity constraints at the operating level of government, and various projects under the Sustainable Communities programme, aimed at job creation. The government has called on the DBSA to put more emphasis on reaching the poorest communities, building capacity for service delivery, and promoting innovative and integrated development solutions. This call is testimony to the Bank's demonstrated capabilities acquired over time.

This project, backed by a R25 million DBSA investment, will construct a storage facility to supply the Breede Valley Municipality with an additional 200 000m³ of water per year.



Although the Bank celebrates its achievements in promoting broad-based growth and reaching poor communities through the delivery of infrastructure services and capacity building, it recognises that the development challenges remain huge and the environment dynamic. Accordingly, the Bank must regularly review its role, its products and services, and the way it operates, to ensure that it makes the best possible use of its development resources and the largest possible impact on the development needs of the country and the region. In response to the Governor's call for innovation, the Bank has now included both origination and product innovation as key targets for the year, and good progress is being made in this regard.

Repositioning the Bank towards 2014

The year under review was pivotal for the Bank, as various changes were introduced in the process of repositioning the organisation to accelerate, deepen and broaden development impact.

These changes took place in the context of heightened shareholder activism in South Africa. This is a welcome trend, not only in the private sector but in the development finance arena, where the DBSA and other development finance institutions have been challenged to reach out further to communities in dire need of infrastructure and economic development opportunities. Informed by a series of stakeholder consultations, notably with the

Governor of the Bank, Minister Trevor Manuel, and other shareholder representatives, the DBSA undertook an intense review of its mandate, vision and mission.

Consequently, the Bank has come up with a sharpened vision and renewed mission, both of which take more fully into account the current socio-economic challenges, opportunities and imperatives facing the country and the region. The Bank's refined vision is that of *"a prosperous and integrated region, progressively free of poverty and dependency"*, while its mission is *"to drive development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions"*.

With the guidance of the Board of Directors, the Bank has now chosen a bolder, more aggressive trajectory, taking as its point of departure the situation of low-income and working communities trapped in the second economy. This trajectory is especially sensitive to the quality of the Bank's development impact, emphasising the maximisation of development objectives over financial returns, greater leverage of the Bank's funding and the increased origination of infrastructure projects. This reflects the shareholder's demands for greater development effectiveness and sustainability in the Bank's operations. As a result, we have adopted a new set of divisional strategies and initiatives that target the remaining infrastructure service backlogs and the spectre of dormitory townships, to mention two key areas of attention.

The essence of our repositioning is a new, hands-on approach that stresses not only the implementation of strategic initiatives, but also catalytic interventions that open up development opportunities in areas with potential. Our outlook takes into account the catalytic role now being played by the Bank in co-creating the increasingly competitive lending market for local authorities. However, we recognise that this early success will only be definitive and meaningful in the next decade if a wider range of municipalities are enabled to access competitive financial markets, as well as deeper, lower cost capital markets. This is the case especially for municipalities with high concentrations of service backlogs and income poverty, in both rural and urban geographies.

The new approach requires more practical, strategic partnerships with both government and the private sector, in order to expand execution capacity and foster innovation in infrastructure and socio-economic development. Central to such partnerships will be the drive to eradicate backlogs in key areas such as sanitation and water, to increase fixed capital formation across a range of sectors, and to create and expand spaces for local economic development and sustainable human settlement. We will soon be concluding new partnerships with key government departments in this regard.

The delivery framework has been revised to enable the Bank to execute the new corporate strategy vigorously. This includes an enhanced human capital and risk management architecture, along with a new governance framework aimed at increasing the quality and speed of the Bank's decision-making processes. These changes are underpinned by a new organisational structure, which increases specialisation, depth, synergy and accountability, as well as staff allocations in various areas, in line with the new strategy and thrusts. We are proud that all the organisational changes have been consolidated by the renewal of the brand, which communicates the Bank's new positioning and ethos, complete with a set of revitalised values.

All of this made for an intense nine months at the helm of the organisation. I am pleased that the renewal and repositioning of the Bank emerged from an inclusive, highly participatory process involving management, staff and external stakeholders. This has helped establish broad consensus and a shared understanding of the Bank's direction and priorities.

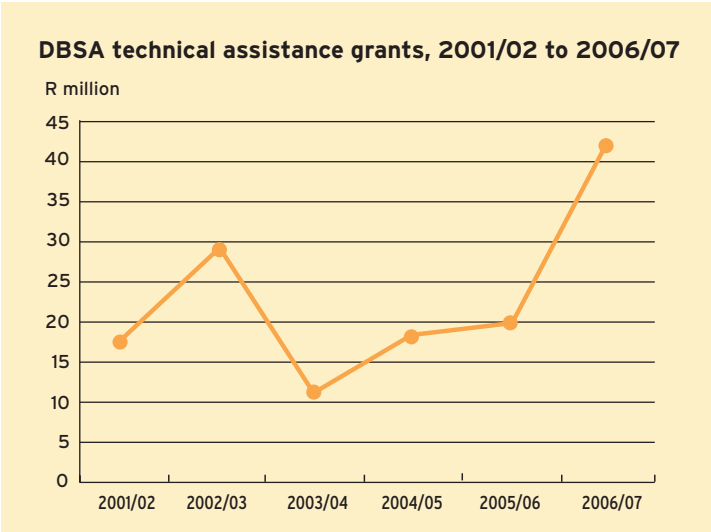
The Bank's operational performance in 2006/07

Importantly, the repositioning of the Bank has not impeded the implementation of existing programmes and initiatives. On the contrary, we increased the intensity of operations in our flagship

programme, Siyenza Manje. This is reported on comprehensively in the Annual Report of the DBSA Development Fund, where the programme is housed.

It gives me great pleasure to report that the Bank has successfully implemented its 2006/07 Corporate Plan, achieving or exceeding all 12 key performance targets.

The highlight of our operational performance this year lies in capacity building, a central focus for both the Bank and the DBSA Development Fund. In the case of the Bank, support for the preparation and packaging of infrastructure projects leapt from about R20 million in 2005/06 to R42 million in 2006/07, 44% above the target for approvals. This is a measure of the Bank's efforts to create a pipeline of bankable projects.



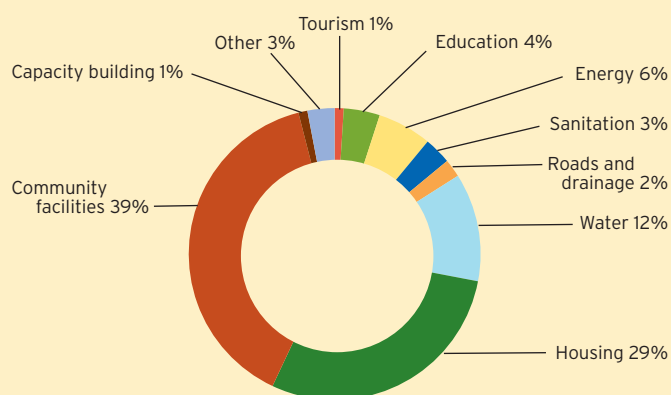
Through the Vulindlela Academy, the Bank trained 489 delegates in various areas critical to delivery and governance; this is 22% above the target for the year. A total of 86% of delegates indicated that they were satisfied with the quality of the training. The Bank was also very active in its advisory and agency functions, offering a wider range of capacity support, both strategic and practical, to over 20 different partners in the country and the region. Among these were several government bodies in South Africa, the NEPAD Secretariat and various social partners. The Bank convened landmark policy conferences in the areas of education, urbanisation and development finance, and promoted the development of municipal capital markets through focused publications.

Perhaps most importantly, during the first full year of implementing the Siyenza Manje programme, the Development Bank, through the DBSA Development Fund, supported 86 municipalities and helped to complete 97 infrastructure projects around the country. Substantial costs were saved, as the operational budget was well within the limits set. With the support of Siyenza Manje, some 178 000 households were provided with access to water and some 126 000 households had their sanitation facilities upgraded to a more acceptable standard.

The Bank also performed well in its traditional areas of activity, approving a total of 163 projects for investment, 12% more than the previous year. The large majority of these approvals were in Markets 2 and 3, a clear indication of the Bank's increased commitment to less established markets and poorly endowed localities. The number of projects in Markets 2 and 3 increased from 38 to 41 and 18 to 32, respectively.

Disbursements grew by 20% year on year, with the lion's share of about 80% going to priority sectors in social infrastructure, including community facilities, water and low-income housing.

DBSA disbursements on social infrastructure projects in South Africa, 2006/07



The Bank's disbursements were concentrated in markets and localities that have larger populations, major backlogs in key infrastructure sectors, strong inward migration and greater capacity to absorb larger investments and loans. The co-financing and leverage ratio, a measure of the Bank's cooperation with other

private and public financiers, was impressive: this ratio increased by 37% from 1:1,9 (2005/06) to 1:2,6 (2006/07). Including the impact of the large Gautrain project would result in a much larger year-on-year increase and a leverage ratio as high as 1:5,32.

Significantly, the DBSA has achieved or exceeded many of its operational targets, while remaining well within the cost-income levels set for the year under review. The Bank has maintained its financial sustainability and shown healthy growth in the balance sheet, operating income and surplus.

The Bank's strong development and business performance during 2006/07 has been highlighted here. Nevertheless, we are acutely aware of the massive development challenges facing the country and the region, which demand much higher levels of achievement. We are committed to responding strongly to the Board's call for us to "raise the bar" in the delivery of development impact.

Looking ahead to 2007/08 and beyond, the Bank will strive to raise the level of its performance to new heights. Over and above the flagship Siyenza Manje and Sustainable Communities programmes, we will continue to provide strategic and operational support to the 2010 Infrastructure Project, the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and the NEPAD action plans for infrastructure.

In closing, I would like to express my sincere appreciation to the Governor of the Bank, Minister Trevor Manuel, for his wisdom and support. I would also like to thank the Chairman of the Board of Directors, Jay Naidoo, for his direction and leadership, and my fellow Directors for their unfailing commitment and guidance. Their astute oversight has been invaluable in repositioning the Development Bank.

Finally, I would like to extend my gratitude to the DBSA's management and staff, who worked under considerable pressure during the year. They ensured that the Bank achieved sound results, even as it repositioned itself to play a stronger role in addressing the development challenges facing the country and the region. Their efforts will be indispensable as the Bank pursues its renewed mission in the years ahead.

Paul Baloyi

Operations overview

South Africa Operations

Executive Manager: Mr Luther Mashaba



Strategic overview

As the public sector arm of the Bank, the South Africa Operations Division focuses on promoting the sustainable delivery of services through infrastructure provision within South Africa. It deals mainly with public sector clients and institutions delivering a variety of infrastructure-related services to communities, but also works closely with the Bank's Private Sector and International Investments Division in deals involving the domestic private sector. In addition, the Division assists other parts of the Bank, including the Strategic Operations Division and the Siyenza Manje task team, in providing comprehensive support packages to clients.

Approved projects include the funding of a low-income **Inner City Accommodation** project in Braamfontein, Gauteng (R54 million), which entails the refurbishment and renovation of an office building to create quality, affordable rental accommodation for inner city workers. By providing 319 apartments and parking facilities, the project promotes urban renewal and addresses the acute need for affordable housing in metropolitan areas.



The Division is structured on a geographical basis to ensure that it can build a detailed understanding of its clients and the development needs in each of the nine provinces. It consists of five operational units, each under the leadership of a Regional Manager and based in Midrand. The Division has strong and direct relationships with the Workout and Recovery Unit and Operational Risk Management Unit, which provide support to clients in distress as well as risk oversight for investments.

Operations review

Approval of new investment projects

During 2005/06, a record amount of R5,1 billion was approved. A large proportion of this was in respect of bids (36% of which did not convert to fixed commitments). Based on these trends and the increased focus on less capacitated municipalities, the Division set a more conservative target (R2,2 billion) for 2006/07, while aiming to increase the conversion rate. However, its more efficient and targeted approach towards infrastructure finance enabled the Division to approve R3,6 billion and convert R2,9 billion of this into commitments.

Outreach to poor communities

The Division continued to increase its outreach to Market 3 municipalities, which accounted for 25% of the total number of approvals against a target of 10%. This was mainly the result of the Targeted Infrastructure Programme, a special purpose concessional programme started in 2004 to build sustainability through a combination of technical and investment support to poorer municipalities and communities. The first phase of the programme of R798 million is nearly fully committed. More than 50 Market 3

The **Moses Kotane Community Water Supply** project in North West, funded under the Targeted Infrastructure Programme, aims to develop water resources in a number of rural villages, equip existing boreholes and drill new ones, and construct minimum storage facilities and a basic water reticulation network to RDP standards.



This programme included the construction of the Durban Harbour Services Tunnel in the eThekweni Municipality.



Operations overview

communities, who would otherwise have been excluded from investment support, have benefited to date. In view of the development impact achieved and the successful outreach to smaller municipalities, the Board approved a further facility of R2 billion over the next five years.

Broadening the delivery channel

As in the past two years, the number of approvals continued to grow: 128 projects were approved against a target of 100 (110 during

2005/06). Of these, 24% were for first-time clients, mainly from Market 3 and the educational and entrepreneurial sectors. A notable trend was the continued growth in approvals to further education and training (FET) institutions, in line with the Division's emphasis on strengthening the human capacity required for sustainable development. This helped to extend the delivery of services to a broader spectrum of the population.

Utilities, which provide services across sectors such as water or entrepreneurial development, remained important beneficiaries

The **Phumulani Lodge Tourism Development** project in Mpumalanga focused on stimulating the local economy. The DBSA invested R6,1 million in this project, which is managed by the Mdluli Trust, a 100% black economic empowerment (BEE) community-based company. The company participates in development projects that create both temporary and sustainable job opportunities. The objective of the project is to attract tourists to the Lowveld area by providing a typical African safari lodge.

The Bank's loan will finance the construction of a new conference facility, restaurant, administration block and 13 new chalets, in addition to the existing 17. The investment will generate employment and empower disadvantaged communities that participate in the Lodge's daily activities, e.g. by providing fresh produce and decorative local art and craft products. Sixteen local people will be employed during construction for approximately 3 000 working days and the number of full-time employees will increase from 22 to 35.



A loan of R2 million to the **Pepps Polokwane College** in Limpopo, the second from the Bank, funded the construction of six additional classrooms with furniture and equipment. Established in 1991, this independent college on the outskirts of Polokwane has experienced a sharp increase in enrolments from 540 (2003) to 708 (2007), attracting students from both local feeder schools and the rest of SADC.

By increasing access to the FET sector, this project stands in support of the Department of Education's policies and the DBSA's mandate. Apart from general educational programmes, this sector provides specialised programmes in the natural sciences, and career, vocational and technical education. Financing this sector assists in providing students with the relevant knowledge and skills either to access the higher education sector or formal employment, or to pursue an entrepreneurial career.

and accounted for 21% of total approvals. Metropolitan municipalities, which are important growth nodes and also deliver services to roughly a third of the country's poor population, received 41% of the rand value of approvals by the Division.

Provincial focus

Provinces with metropolitan municipalities and larger urban centres continued to receive significant support, given their higher demand for investment and the concentration of poor communities in urban areas. KwaZulu-Natal (43%) and Gauteng (30%), followed by the Eastern (8%) and Western Cape (7%), received the bulk of approvals during 2006/07. In the Northern Cape, significant progress was made in increasing investment through the Targeted Infrastructure Programme.

In provinces such as Limpopo, Mpumalanga and the Free State, where absorption capacity is low and opportunities are more limited, the Division developed longer term programmes with technical assistance products aimed at overcoming these constraints. It is anticipated that it will take three to five years before higher investment flows through municipalities are realised. For this reason, the Division strongly supports the Siyenza Manje task team and other private sector initiatives to build the economies or delivery capacity in these areas. As a result, the Bank's portfolio of non-municipal clients, especially in the entrepreneurial sector, is growing and will continue to be expanded.

Mobilising co-funding on development projects

The availability of investment funding from government, private sector and other development agents increased significantly during the past year. The Division focused on integrating such funding into its projects to facilitate optimum development solutions. In respect of mobilising co-funding, the Division achieved a ratio of 1:1,25 against a target of 1:0,75. This is a considerable achievement in view of the fact that smaller, higher risk Market 3 clients generally find it difficult to attract finance. The mobilisation of co-funding from third parties on small, higher risk projects remains a key challenge for the Division. Close cooperation with the Siyenza Manje task team and with national government to align funding flows are two major initiatives in this respect.

Cooperation and competition on municipal finance

The increased appetite for funding municipal infrastructure demonstrated by private banks as well as the growing use of open tenders by municipalities challenged the Bank to maintain its

emphasis on development impact and sustainability within a price-dominated bidding environment. It also challenged the Division to improve its turnaround times without compromising the integrity of its assessment processes and the provision of additional developmental services such as technical support.

Deepening development impact

As shown in the Directors' report, the Bank increased its development impact significantly during 2006/07, partly as a result of higher disbursements in the South Africa Operations Division

The DBSA contributed R7,3 million to the R17,6 million **Gillimburg Farming** (animal feed) project in Limpopo. It entails the establishment of an animal feed company with citrus drying and mixing capacity, producing value-added animal feed products that are sold locally and nationally. This will provide a strategic and commercial backbone to the cattle production project that will be scaled up in the near future as part of the Gillimburg venture. Two of the major processors of citrus in South Africa, Granor Passi and Cape Fruit, are partners in the project. The Bank's support enabled the creation of a major national BEE company that supplies animal feed products locally and nationally under the well-known Citro brand, through sustainable marketing contracts with the Molasses Trading Company. This resulted in the creation of 75 new job opportunities in an area with high unemployment.



The Bank's success in deepening its development impact is demonstrated by the **Hex Valley Water Augmentation Scheme** in the Western Cape. During 2004, the DBSA Development Fund was involved in establishing the Hex River Empowerment and Development Initiative (HREDI).

A section 21 company was registered to promote BEE and local economic development (LED) in the valley.

At first, the farming community led the initiative, with the aim of supporting farm workers and disadvantaged communities in establishing entrepreneurial projects.

Through the Fund's involvement, both the Breede Valley Municipality and the Cape Winelands District Municipality became involved, and a range of local farmers and businesses pledged their support.

The project, backed by a R25 million DBSA investment, will construct a storage facility to supply the Breede Valley Municipality with an additional 200 000m³ of water per year and improve the water allocation for irrigation. The development impact of the project includes the creation of job opportunities during and after implementation and access to water for poor households. The improved, stable supply of irrigation water will also assist emerging farmers. The largest tender arising from the project, for the construction of the dam wall and associated structures, may be awarded to a competitive joint venture that includes empowerment contractors. Smaller local contractors are expected to participate fully in all aspects of the construction.



(R2,1 billion against a target of R2 billion). But the Division was still challenged by the limited implementing capacity of its clients: close to 7% of its loan book is classified as non-disbursing. The Division therefore increased its support for the capacity building of clients, both through focused technical assistance and through support to the Siyenza Manje task team on project implementation.

The DBSA's business model, and specifically its appraisal process, seeks to ensure that investments are sustainable for both the beneficiaries and the client. In the appraisal process, divisional and other specialists assess the environmental compliance, social acceptability and technical viability of each project, and explore ways of optimising its impact on the local economy, employment creation and the standard of living of communities. One measure of the success of this approach is the sharp increase in the use of small local contractors and BEE service providers. An estimated 33% of the R3,6 billion approved was allocated to such contractors (up from 31% in 2005/06), generating an estimated R1,4 billion inflow to local economies. In addition, 1,7 million households will be connected for the first time to one or more basic services, at a ratio of 486 households per R1 million invested.

Sustainability is further strengthened through sound project design and quality assurance during the implementation of a project. In addition, the client's financial sustainability has to be protected to enable it to maintain service delivery in the long run. Encouragingly, the number of clients who found it difficult to meet their financial obligations to the Bank decreased from 5,4% of the loan book in 2005/06 to 4,1% at the end of 2006/07. The Workout and Recovery Unit, in close collaboration with the Division, continued to support these clients. This protected the Division's loan book and virtually no write-offs on the debt of public sector clients were required.

Capacity building for clients

When it comes to accelerating service delivery, one of the key challenges is the capacity constraints of poor municipalities: many lack the ability to prepare projects for implementation, to access MIG funding especially, and to manage, implement and maintain investment projects. The South African government is addressing the most acute capacity constraints through Project Consolidate, in partnership with the DBSA and particularly the Siyenza Manje task team of the DBSA Development Fund. The South Africa Operations Division continued to support the Fund and managed R60 million of its grant disbursements for general capacity building.

In addition, the Division provided technical assistance to clients to identify, prepare and implement projects: R13,4 million in grants was approved and R14,3 million disbursed against an available



The community-based **Bethelsdorp Development Trust** in the Eastern Cape's Nelson Mandela Metropolitan Municipality was established to promote the development of a sustainable community in the area. The Trust is fully functional and its drivers are dynamic and innovative. The Division provided technical support for the institutional strengthening of the Trust, the creation of sector plans, and the mobilisation of stakeholders. Afterwards, the Trust and the Municipality concluded a service delivery agreement regarding the replacement and operation of the Heritage Centre and infrastructural development in the Van der Kemps Kloof area. The Bank, the Municipality and the Trust co-funded several planning initiatives and viability studies for sustainable business ventures, two of which attracted a R3,5 million loan from the DBSA.

The Bank helped the community to form a joint venture with the private sector, in which it retained 70% ownership. As community trusts may not enter into commercial business ventures, the Trust formed a business arm, Bethelsdorp Investment Holdings (Pty) Ltd.

Given its success to date, the Bank appointed the Trust as a service provider for its Sustainable Communities pilot project, which builds community capacity for development initiatives, including dealing with the private sector. The project will employ 250 people to produce high-quality hand-woven rugs and tapestries, mainly for export to the United States. The total cost of the project is estimated at R8,2 million, with the DBSA providing debt financing of R2,0 million for looms, beaters and spinning wheels. The balance of training costs and working capital is sponsored by the Departments of Labour and Arts and Culture, the Nelson Mandela Municipality and the Eastern Cape Development Corporation.

budget of R22 million. To ensure that its development solutions, especially for Market 3 municipalities, combine advice, technical assistance grants and investment funding to improve service delivery, the Division has programmed a further R35 million for 2007/08, to be utilised mainly with the Targeted Infrastructure Programme.

Alignment with national and provincial strategic initiatives

As noted, initiatives such as the NSDP, AsgiSA and the Provincial Growth and Development Strategies are important tools that direct the flow of funding in South Africa. The Development Bank supports this process by providing inputs to various national and provincial strategy initiatives. Provincial initiatives are especially important in this regard as they create the enabling environment for development investments. In 2006/07, the Division was involved in 35 of these. For example, in the Eastern Cape it participated in developing a provincial perspective, reviewing Integrated Development Plans (IDPs) with the national government, SALGA conferences and initiatives, and Provincial Growth and Development Summits; and in Gauteng it was involved in the Poverty Alleviation Strategy and the Local Government Advisory Council.

In alignment with the Provincial Growth and Development Strategy of the Northern Cape, the Bank provided R193 000 for a **feasibility study** of the proposed extension of the **Kalahari East Pipeline**. The study assesses the financial and economic feasibility and potential benefits of extending the existing pipeline to supply water to the newly established but sparsely populated Mier Municipality. The extension aims to facilitate the creation of rural livelihoods that will reduce poverty and unemployment in an area home to some 6 800 people.

Building smart partnerships

Strategic partnerships are an important facet of deepening impact through integrated development solutions. The Division has built strong relationships with key regulatory authorities and delivery agents, which provide a platform for further support. The Sustainable Communities programme is a prime example of a joint approach at national level between the Bank, the government

Operations overview

and other stakeholders to maximise development impact by addressing needs comprehensively. Other formal cooperation agreements are in place with the government, several provincial governments, and other development institutions such as the Umsobomvu Youth Fund.

The Division contributed extensively to the DBSA's management of the Stadium Development Fund for the 2010 FIFA World Cup on behalf of the Department of Sport and Recreation. To date, the planning process has been completed, planning funding disbursed and all new stadia are under construction. Systems for monitoring expenditure and reporting progress have been developed and are being implemented by the Strategic Operations Division. The South Africa Operations Division offered all host cities a support package for planning and funding infrastructure related to the World Cup.

The Bank also supports development partnerships between municipalities and local private companies. Its loan of R24 million to the Northern Cape's **Gamagara Municipality** was designed to strengthen cooperation with the two major mining companies in the area, Kumba Resources and AssiMang. The programme provides a facility to co-fund the implementation of the Municipality's three-year capital expenditure programme, based on priorities identified in its IDP. It consists of six projects to develop new or upgrade existing bulk water, sanitation and electricity infrastructure services in Kathu, the fastest growing town in the province.



The **LaTraviata Residential Bulk Services Development** in Gauteng, launched by a R5 million DBSA loan, is an innovative approach to housing delivery. The project entails the installation of internal municipal services by a BEE company on its own land in Schoemansville, Hartbeespoort. It will market the land to individuals, who will use commercial loans to fund the construction of 30 townhouses by the selected builder.



Innovation

Finding appropriate ways to provide infrastructure on a sustainable basis remained a challenge. It is not only in small, poor communities that traditional funding and delivery mechanisms are often ineffective; even metropolitan areas encounter huge problems in this respect. Therefore, the Division continued to support innovative initiatives to further the Sustainable Communities programme.

An example of an innovative solution was the conceptualisation and funding of the KwaZulu-Natal Growth Fund, in which the Bank continues to participate. This fund, a partnership between the Bank, the provincial government and the private sector, has a capitalised value of R1,5 billion and provides finance to projects in excess of R30 million. It focuses on business and development initiatives that sustain growth and employment creation. Now that the teething problems have been resolved, the Fund is showing the potential to become a model for other provinces.

The year ahead

In the coming years, the Division will focus on expanding its technical and financial assistance, in order to catalyse and support strategic initiatives and related programmes and projects that accelerate service delivery. The emphasis will be on key sectors where backlogs remain, notably water and sanitation. A related focus area will be integrated rural and urban development, with the emphasis on creating and rehabilitating social and economic infrastructure in localities with a legacy of imbalanced spatial development and low levels of fixed capital formation. In this regard, the Division will work to uplift poor communities, both rural and urban, through spatial redevelopment and the creation of new opportunities for economic growth in depressed areas with potential.

Special attention will be given to the socio-economic infrastructure requirements of the emerging growth nodes around the country, in order to expand new and sustainable human settlements in these areas and facilitate the emergence of new centres of productivity and economic activity. The planning and expansion of infrastructure around the 2010 World Cup will also receive attention, with a view to promoting long-term tourism development and strengthening sport, transport and hospitality infrastructure.

At the same time, the Division will continue to provide anchor support for strategic infrastructure projects, especially where these have been identified in national, provincial and local initiatives such as AsgiSA, the provincial growth and development strategies, and municipal IDPs. An effort will also be made to identify and fill gaps in bulk economic infrastructure in key sectors such as energy, transport and water, especially where existing infrastructure is ageing and must be renewed or augmented to meet new demographics and settlement patterns.

These objectives will be achieved by innovating constantly, packaging development solutions with special purpose facilities, and replicating successful initiatives and models. The aim will be to synergise various capacity building undertakings, notably Project Consolidate and Siyenza Manje. This all implies that the Division, and the organisation as a whole, will have to play a greater role in originating projects, which it will do in close collaboration with the private sector and government. Indeed, this will become a defining feature of the Division's operations, in line with the Bank's new commitment to achieving greater development impact through innovation, pioneering initiatives, and hands-on partnerships.

Private Sector and International Investments

Executive Manager (Acting):
Mr Ernest Dietrich as from 15 February 2007;
previously Mr Lewis Musasike



Strategic overview

The Private Sector and International Investments Division supports infrastructure projects across the SADC region, including South Africa. Within South Africa, the Division's support is limited to private sector clients, but across the rest of SADC extends to public sector clients as well. The Division comprises four operating business units: Corporate Finance, Project Finance: South Africa, International Finance, and Africa Partnerships. The Corporate Finance Unit provides financial support to broad-based BEE transactions within South Africa and invests in third-party funds, primarily private equity funds, in the SADC region. The Project Finance Unit operates only in South Africa, providing project finance mainly for large-scale infrastructure projects and public-private sector transactions (public-private partnerships or PPPs). The International Finance Unit is the Bank's window for investments and lending activities in the rest of the SADC region. The SADC operations are limited to a third of the Bank's total investment and lending activities. Finally, the Africa Partnerships Unit gives impetus to Africa's socio-economic development by facilitating the implementation of the NEPAD programme.

Operations overview

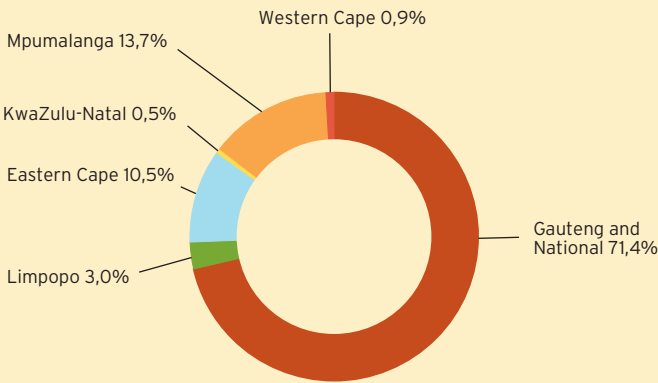
From an operational perspective, the Division performed exceptionally well during 2006/07. Total loan and equity approvals amounted to R4,67 billion. The previous year's total was R2,95 billion. This represents a 116% annual growth rate from a base of R1 billion in 2004/05. Whereas the value of approvals has increased significantly over the past three years, the number of approvals has seen more steady growth from 22 projects in 2004/05 to 35 projects in 2006/07. This implies a sharp increase in the average value per project over the last few years, which is a consequence of the focus on large-scale PPPs and regional integration (multi-country) projects. Another consequence of this focus is the higher co-funding ratio achieved, as individual project

values in many instances exceed R1 billion each, with the Bank's contribution ranging between R100 million and R500 million per project.

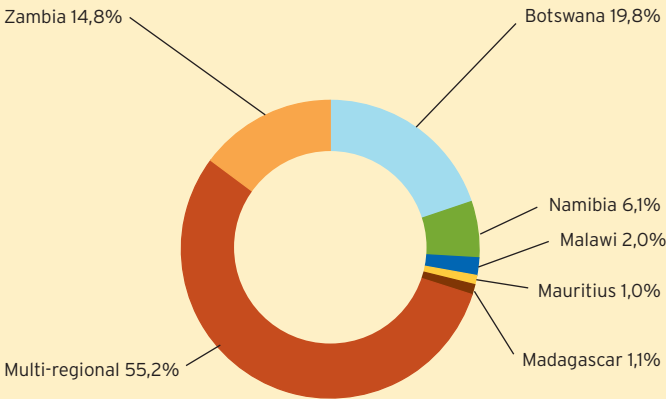
The regional focus of the Division in terms of new business remained on SADC outside South Africa, with 61,1% of approvals relating to potential investments in the region and 38,9% to potential investments in private sector business within South Africa. The graphs below illustrate the regional distribution of the current year's approvals.

The sector focus of the Division during the year remained consistent with the primary focus areas for financing outlined in

Approvals per province - South Africa



Approvals - SADC excluding South Africa



Vision 2014, such as information and communication technology (ICT), mining and capital markets development, transportation, tourism and energy. The sector distribution of projects approved in the current year is illustrated in the graph below.

Commitments for the year reached R2,62 billion against a target of R1,40 billion and the previous year's figure of R1,17 billion. This amounts to a 25% annual growth rate from a base of R1,69 billion in 2004/05.

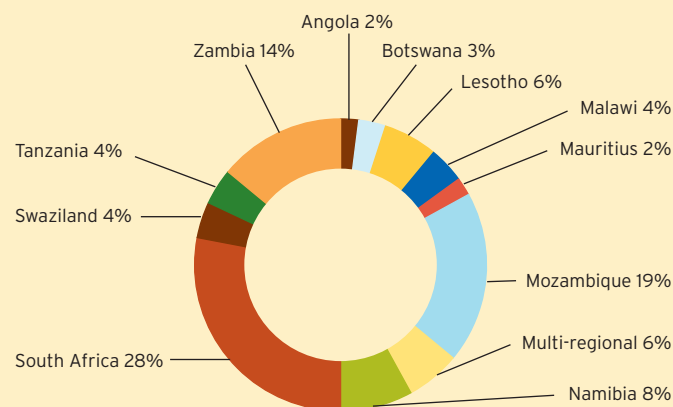
Disbursements also significantly exceeded the target set for the year. An amount of R1,57 billion was disbursed against a target of R1,30 billion and actual disbursements in the previous year of R1,10 billion.

To unlock the region's potential and address key constraints, the Division also provided technical assistance, capacity building and project development support, with R25 million approved for this purpose. The approvals included the renewal of a project preparation facility in partnership with the Agence Française de Développement (AFD) to the value of R20 million, which will be disbursed over the next three years to support regional and NEPAD projects in progressing from the conceptual to the bankable phase. An amount of R7,2 million was disbursed as technical assistance. During the year, the Division approved financial support for projects in six of the 13 SADC countries (excluding South Africa), as well as a number of projects that span more than one country. Cumulative disbursements to date into the SADC region (excluding South Africa) amount to R6,4 billion, comprising over 128 medium- to long-term projects for both public and private entities. In South Africa, disbursements to date amount to R4,4 billion, comprising 45 projects for private sector entities in a range of sectors,

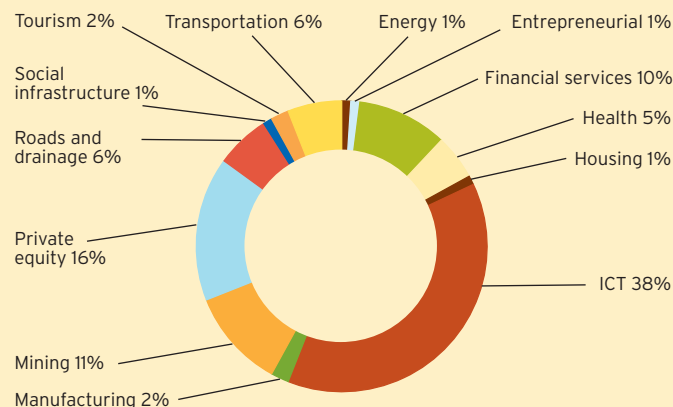
including energy, agro-industrial infrastructure, financial services, mining, tourism, industry and telecommunications. The regional and sector distributions of the Division's investment portfolio are shown in the graphs below.

Non-performing loans (including arrears) as a percentage of total outstanding loans declined from 7,09% in financial year 2005/06 to 6,59% at end March 2007. The Division continues to act in close cooperation with the Workout and Recovery Unit in exhaustive efforts to ensure rehabilitation of the impaired assets and to maximise recovery. In addition, measures have been put in place to strengthen the overall asset management function in order to give

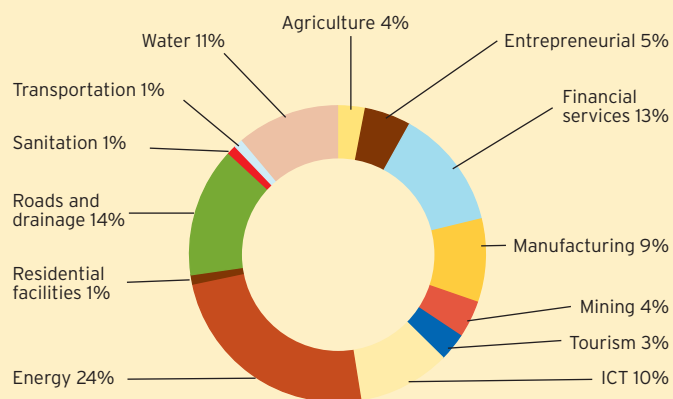
Investment portfolio - regional distribution



Approvals per sector - South Africa



Investment portfolio - sector distribution



greater effect to the Bank's strategic thrust of responsible risk taking and management.

The strategic objectives of the Division centre around six main themes. These are discussed below, together with examples of initiatives undertaken by the Division in pursuing its objectives.

Promoting regional integration

Regional markets have a better opportunity to attract investment and are more competitive globally. Although the African continent is rich in natural resources, many of the markets in SADC are small and landlocked. The vast resources in the region are often better utilised regionally. By increasing trade among individual member states, funds can be retained in the region, leading to better prospects for growth. Regional integration is important to the shareholder and is also one of the aims of the African Union. The Division promotes such integration by building on the strategic position of the Bank in the southern African region, NEPAD and SADC to:

- Co-fund investment programmes and act as anchor financier in selected cases
- Mobilise donor funding and co-fund project development and preparation work
- Strengthen implementing agencies
- Focus on bringing transactions to financial close
- Support the expansion of indigenous regional companies

Maximising private sector involvement in infrastructure development

Given that the public sector has insufficient funds and project management capacity to meet the infrastructure needs of the country and the rest of SADC, it is important to maximise private sector involvement in infrastructure development. This frees up public funds for other developmental services and is likely to introduce better management, technology and delivery practices, thus ensuring that projects are self-sustaining and remain attractive to private sector investors.

The Bank promotes the involvement of the private sector by emphasising the smart structuring of instruments and appropriate allocation of risks between project participants, supporting the development of financial markets in order to mobilise resources, and proactively pursuing project development and co-sponsorship.

Facilitating commercialisation of public sector initiatives

The public sector remains the key interface for the delivery of basic services to the majority of people, especially poor communities. Enhancing their efficiency could thus have a major impact on the quality of people's lives. Typical services that could be candidates for commercialisation include water, electricity, health care,

During the year, five **regional integration and cross-border investment projects** were approved, namely two large-scale ICT projects (EASSy and iBurst), two financial and capital markets development projects (PTA Bank and The Currency Exchange Fund), and an equity investment in the Pan African Infrastructure Fund. These projects, except for PTA Bank, are still in negotiation. Furthermore, MGS International in Tanzania (a project approved in 2005/06) successfully constructed a petroleum and liquid fuels depot in Dar es Salaam, which will greatly facilitate the importation of fuel to the Democratic Republic of Congo, Burundi, Rwanda and Zambia.



The **Nelspruit Water Concession** project illustrates how the Bank's financial support helped to move a company from a position where commercial institutions had no funding appetite to one where refinancing took place at lower rates. Another exciting project approved for funding and signed during the year is the **Limpopo-Lipadi Game and Wilderness Reserve**, a private ecotourism initiative to develop a conservancy in the Tuli Block of south-eastern Botswana.



The **Serala View** development in Polokwane is an example of successful commercialisation of public sector initiatives. Through a public tender process, the Polokwane Municipality sold Extension 28, known as Serala View, to a 100% BEE fixed property investment company. This was a clear expression of the Municipality's confidence in the ability of the private sector to provide much-needed housing in the middle-income market. During 2006, the Development Bank signed an agreement with the partnership for a R55 million bridging loan to implement the project. The loan, representing 52% of the financing plan, will be used to install municipal services such as roads, water, sewerage and electricity. The serviced stands, which will eventually number more than 700, will be sold to individual owners and builders for the construction of private homes.

In response to a growing emphasis on the indigenisation of projects in the region, empowerment components have been included in transactions where appropriate. During the year, the Bank concluded and started disbursing on a project that will see the expansion of the David Livingstone Safari Lodge along Zambia's Zambezi River. Part of the loan will be used to provide employees with the opportunity to own 9,9% of the company through an employee shareholder trust, and a further amount will facilitate the acquisition of a 30% stake in the company by a local empowerment group.

Another example is the **Limpopo-Lipadi Game and Wilderness Reserve** project in Botswana, which will contribute to poverty alleviation by employing local labour and implementing community programmes. It should also catalyse growth in other sectors such as agriculture, horticulture and services.

education, housing and urban development. The Bank assists with the packaging of investments and provides appropriate, well-structured non-investment support, including technical assistance, capacity building support, and tailored training for public sector institutions through the Vulindlela Academy.

One of the main delivery vehicles for the commercialisation of public sector initiatives remains PPPs, where strong alignment with the relevant line ministries, provinces and municipalities is required. The Bank promotes such alignment through advocacy and sharing lessons learnt from its extensive experience, and also through the successful execution of commercialisation.

Promoting broad-based participation in economic activities

In South Africa, BEE transactions remained the key driver of corporate activity, as the government extended empowerment to all the sectors that are central to social transformation. The charters that touch directly on the role of the Division in

supporting infrastructure development are those in the financial services, energy, mining, ICT, tourism and transport sectors. They all require a significant level of equity ownership by previously disadvantaged individuals, and the equity transfer this entails provides funding opportunities for the Bank in line with its key strategic thrust of BEE. The Bank's experience so far shows that the interest of other financial institutions in empowerment transactions still revolves mainly around the more developed projects with a proven track record. The main driver of empowerment projects is still the implementation of sector charters, supported by a vibrant economy and historically low funding costs that ease the structuring of transactions. Empowerment projects are evident in almost all sectors of the economy, with retail a notable exception. However, the funding of start-up and expansion empowerment projects remains a challenge.

In the past year, an increased emphasis was placed on broad-based empowerment, in line with the codes of good practice issued by the Department of Trade and Industry. The participation of second-tier, non-listed companies in empowerment, as opposed to the traditional listed or large unlisted companies, opened up a new strategic avenue for the Bank, allowing it to play a more prominent role in empowerment transactions of the start-up or expansion kind. Furthermore, the DBSA is also optimising its BEE support role in limited recourse structures by providing loan financing to BEE parties to assist them in acquiring equity stakes in these transactions.

During the year, the Division approved 12 projects with BEE components, of which some involved balance sheet financing and others support to acquire equity stakes in PPP transactions. Two significant support packages were concluded with the BEE participants in the Gautrain and Neotel (second national operator) projects, both of which have started disbursing.

In the rest of the region, legislation regulating the participation of local groups in the economy is virtually non-existent. However, these countries, whose economies are heavily influenced by the West – and increasingly also by the East – face problems very similar to those in South Africa. Local black ownership and control of the economy is limited, often mainly to the political elite. With the Bank's extensive experience in the BEE sector, lessons learnt in South Africa could be translated and shared across the SADC region. The Bank focuses on three areas in this regard: first, providing policy input to interested governments in the region; second, influencing the participation of local groups in the various economies by leading the structuring of transactions and allocating part of its financing for indigenous groups; and third, supporting the development of financial markets in the region to strengthen the growth of indigenous firms.

One of the sectors in which infrastructure development is skewed towards urban areas at the expense of underserved areas is **telecommunications and ICT**.

The Bank is funding a number of BEE parties in the ICT sector in order to accelerate development in this area. For example, it is funding the expansion of iBurst, a black-owned broadband service provider; and the equity contribution of Nexus Connection, the BEE participant in Neotel, South Africa's second national operator and long-awaited competitor to Telkom. Both projects are key to the Bank's mandate of advancing economic growth and regional economic integration.

iBurst is a black-owned enterprise in the ICT sector, where transformation has been sluggish. The company already has 76 live base stations across the country, but expanding its transmission infrastructure has become a priority, both to meet a rapidly growing demand, with almost 1 800 new subscribers signing up every month, and to comply with its licensing obligations. In terms of these obligations, iBurst is expected to provide Internet connectivity to 1 000 public schools and FET institutions in previously disadvantaged areas. Helping the company to achieve this goal is in line with the Bank's own policy of extending the development impact of information technology to previously disadvantaged communities. The DBSA has funded half the total capital expenditure of R100 million earmarked for infrastructure expansion, with Investec financing the other half.

In 2006, the Board of the Development Bank approved a financing package for Neotel and its BEE shareholder Nexus. Neotel subsequently signed a loan facility worth R2 billion with the DBSA, Investec Bank Limited, Nedbank Capital and the Industrial Development Corporation (IDC). In partnership with the IDC, the Bank also financed Nexus, initially through a R14 million bridging loan facility. The subsequent funding of R484 million, of which the Bank provides R252 million, allows Nexus to pay in full for its 19% shareholding in Neotel.

The DBSA, Investec and Nedbank Capital were joint lead arrangers, underwriters and lenders in the Neotel transaction, and are lead arrangers for the long-term project finance facility allowing for capital expansion and network development. This marks the beginning of a momentous change in the telecommunications sector, which should provide more choice and greater access to consumers, and enhance service delivery. Nexus appealed to the Bank because of its extremely broad-based shareholding, enabling hundreds of individuals to participate.

In line with the strategic thrust of deepening development impact, the Bank will place greater emphasis in future on BEE funding related to new assets and expansions. The non-financial contribution to BEE development includes regular efforts to educate sponsors on the advantages of involving local parties. The Bank has already influenced the structuring of a number of projects to include or broaden BEE participation, and has also advised smaller BEE parties who are new to the field.

Facilitating capital markets development in SADC

A key focus area is to facilitate financial markets development by supporting long-term financing and capacitating local institutions. Healthy financial or capital markets significantly promote economic growth and stability, and are considered a prerequisite for true regional integration. Most financial sectors in the region remain underdeveloped, which limits economic prospects. The Bank developed a detailed financial sector strategy to guide future interventions in this regard. The strategy highlights interventions that will improve household access to financial services (such as mortgages) and the ability of the financial system to allocate capital

For the first time, the Bank made **local currency finance** available in Zambia and Tanzania, with the resulting currency risks offset through swaps executed with commercial banks. The need for the Bank to offer local currency finance is the underlying motive for approving the investment of US\$40 million in The Currency Exchange Fund, a new and unique financial institution that focuses entirely on providing long-dated local currency and interest rate derivatives in emerging market currencies. The Fund, which was originated by the Dutch development finance institution FMO, proposes to create a global partnership with a number of development finance institutions and investment partners, so as to build a robust vehicle through which to promote capital markets development in emerging economies, with a special emphasis on Africa. Specifically, the company will allow participants to transact directly and to provide long-term finance in local currencies in emerging and sub-emerging markets, while fully hedged through the various derivatives and hedging instruments on offer. The project is currently under negotiation, with financial close expected in July 2007.

efficiently. The Bank's focus is on accelerating and increasing the availability of longer term local currency financing, thus supporting economic growth led by the indigenous private sector. The Bank promotes the development of these capital markets by unlocking more sustainable sources of local financing, while also mobilising underutilised domestic resources. It also facilitates longer term financing by capacitating local financial and development finance institutions, as stronger local institutions are better at allocating scarce capital. These institutions are capacitated both financially, through credit lines, guarantees, etc.; and institutionally, through capacity building support and training.

In 2006/07, the Bank concluded credit lines to INDEbank in Malawi and PTA Bank in Kenya, which serves Malawi, Mauritius, Tanzania, Zambia and Zimbabwe. To date it has concluded facilities for eight regional institutions to the value of R780 million, of which R450 million has already been disbursed. These credit lines support local development finance institutions in providing local currency finance to their own economies. Alongside the financial products provided, the Bank also offered financial and other training through the Vulindlela Academy to strengthen the capacity of officials of a number of regional development finance institutions.

Strengthening the capacity of investee entities

To ensure that the Bank's interventions are sustainable, it seeks to strengthen the capacity of the implementers of these interventions, e.g. policy-making bodies, regulatory bodies and sponsors of projects. Investee entities and regional economic communities are provided with an appropriate combination of finance and knowledge products, such as technical assistance, capacity building support, assistance in preparing and implementing projects, leveraging of concessional funds where necessary, and effective service partnerships with the entities responsible for service delivery.

The year ahead

Going forward, the Bank will continue with its key strategic emphasis of supporting sustainable projects that are aligned with national and regional infrastructure development objectives, as well as projects with high development impact sponsored by the private sector. In this regard, several possibilities in the municipal sphere are being considered, and some ground-breaking municipal PPPs should be brought to financial close soon. The Bank also expects to play a major role in funding selected infrastructure elements proposed under AsgiSA.

During the coming year, corporate financing activity will largely be driven by broad-based BEE transactions, while PPP-driven

As part of its core mandate, the Division provided **capacity building** in targeted countries and regional economic communities in support of the NEPAD strategic framework. This included the following initiatives, which are all being implemented:

- Westcor is currently developing their business plan.
- The Common Market for Eastern and Southern Africa (COMESA) and Eastern Africa Regions (an informal group of ten countries) are developing infrastructure programmes.
- SADC is implementing its infrastructure programme.
- The Southern Africa Power Pool Tariff Study aims to standardise price setting for the exchange of power between its 12 members and regulate the cost of power to improve the financial viability of the initiative.

The partnership between the Bank and AFD in the Project Preparation and Feasibility Studies Facility has opened an opportunity for co-funding and cooperation with regional and other international financial institutions. To date, the Facility has financed 15 projects to an amount of R25 million. It has also enhanced the Bank's participation in the Infrastructure Consortium for Africa, which pools resources from the African Union and the G8 countries for the implementation of infrastructure projects.

The Bank assisted the NEPAD Secretariat to align the programmes of planning departments in regional and national governments with the NEPAD strategic framework. This led to the further development of both the Central and the Mtwara Corridors, linking the African interior to the eastern seaboard via Tanzania. The growing connectivity of the region, both among neighbours and internationally, was also supported by the Project Preparation and Feasibility Studies Facility, in the preparation of projects such as EASSy and the ICT terrestrial linkages.

Given the energy supply shortfalls expected as demand grows, the Bank has been active in supporting the development of energy interconnector projects across SADC and neighbouring regional economic communities. One of these is the transmission line that will connect Zambia, Tanzania and Kenya. Zambia's power utility, the Zambia Electricity Supply Corporation, will link the country to its neighbours and the Southern Africa Power Pool.

business is expected to increase as the various spheres of government, including state-owned enterprises, step up capital expenditure programmes to accelerate delivery. The AsgiSA initiative is likely to give rise to a number of large infrastructure projects in South Africa, with municipalities directing more effort towards these areas.

Outside South Africa, the focus will be on promoting the development of capital markets and financial systems, supporting the indigenisation of assets and facilitating the empowerment of local citizens in transactions where appropriate. The Regional Investment Strategy is expected to allow the Bank to expand its operations. Promoting the aims of NEPAD will continue to be a key goal of the Bank. This will be achieved through advocacy, capacity building at the level of regional economic communities (such as ECCAS and COMESA), project preparation, and acting as anchor financier to unlock other sources of finance. The Division will continue to strengthen its partnerships in the region, particularly with other African development institutions and with the growing number of specialist funds. It will also continue to work with the Southern Africa Power Pool in the effort to resolve the regional power shortage.

Strategic Operations

Executive Manager: Mr Gwede Mantashe
as from 1 July 2006;
previously Mr DeVilliers Botha



Strategic overview

During 2006/07, the Strategic Initiatives Division was renamed the Strategic Operations Division. Its mandate is to pilot and incubate projects, and build and maintain relationships with external stakeholders such as the government at national, provincial and local levels, business, labour and communities. To this end, the Division reorganised its internal structure: Strategic Projects focuses on national initiatives, the Local Government Resource Centre (LGRC), the Local Investment Agency (LIA) and the Sustainable Communities programme. In support of these initiatives, the Project Management Unit manages projects and builds internal and external project management capacity, while the Operations Evaluation Unit has a mandate to evaluate internal and external development initiatives and feed the operational knowledge it gains back into the activities of the Bank.

Operations overview

In managing these challenges, the realigned Strategic Operations Division strives to be the incubator and integrator of new initiatives in the Bank. Some of the key strategic initiatives are outlined in the following sections.

2010 FIFA World Cup

The Bank's involvement in the 2010 World Cup dates back to 2004/05, when it supported the South African government by carrying out a comparative review of the candidate host cities. Following the selection of the ten match venues for the event, the government chose the DBSA as its preferred service provider to manage the disbursement of funds for stadium infrastructure. The Bank entered into an agency agreement with the Department of Sport and Recreation to manage a Stadium Development Fund amounting to R241 million. In terms of the agreement, the Bank had to disburse the planning funding and initial capital, amounting to R220 million, to the nine host cities. The balance of the funding provided for the procurement of specialist legal, stadium and project management expertise to assess business plans, advise on institutional arrangements, and develop systems for managing and

monitoring the construction of stadia. It also provided for the Bank's overheads.

The DBSA demonstrated its efficiency and effectiveness by disbursing 82,1% (R180,6 million) of the allocated amount. The preliminary planning of all stadia was completed by August 2006 and the new stadia were under construction by 31 March 2007, a turnaround time of only seven months from the planning stage.

The monitoring and controlling systems developed for the construction phase were evaluated by the Department and the National Treasury. Hosted on the DBSA portal, the system provides authorised users with real-time data on funding flows and physical progress against milestones, as well as risk reports. Users include the three spheres of government, the 2010 Organising Committee, FIFA and other stakeholders with access to different levels of detail.

To operationalise the monitoring function, the Bank established a project office in the Department which monitors funding flows and progress against milestones. The office is staffed by the Department and supported by the consulting team that developed the system. The DBSA's information technology support staff helped to train data capturers and thereafter provided system support and maintenance.

Local Government Resource Centre

In the Bank's interaction with local government stakeholders, many expressed a critical need to share knowledge, pool resources and facilitate cooperation. Although numerous initiatives existed to improve the functioning of municipalities, they generally operated independently and used different sources of information; this resulted in substantial duplication and a waste of scarce resources. In partnership with SALGA and the Department of Provincial and Local Government, the Bank rolled out the LGRC in 2004/05. Municipalities can access the Centre through a virtual private network known as the LGNet. Fully operational, it serves as a one-stop support centre for municipalities on a range of issues, from by-laws to performance management, procurement and alternative service delivery. In addition, socio-economic information has been tailored for individual municipalities; all the socio-economic data on an area can be downloaded instantly, complete with graphs.

During the year, the LGRC achieved the following successes:

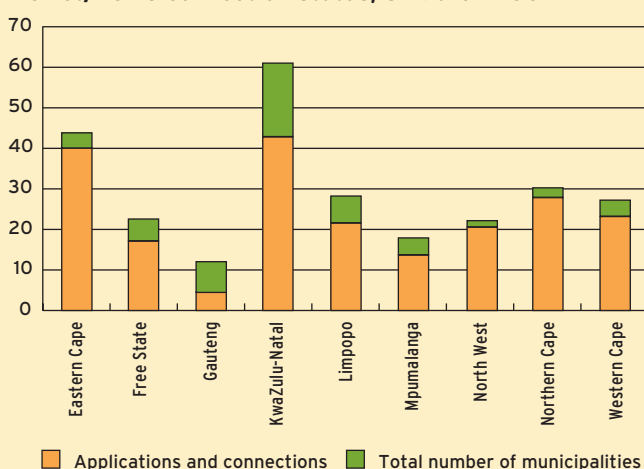
- No fewer than 240 of the 284 municipalities - a full 84,5% - applied for connectivity and 72,0% were connected by year-end; 32 other stakeholders applied, of which 90,6% were connected.
- The number of registered users reached approximately 3 900, a 21,9% increase on 2005/06.
- The LGRC portal received an average of 28 000 visits per month during 2006/07, a 75% increase on the previous year.

The government chose the DBSA as its preferred service provider to manage the disbursement of funds for stadium infrastructure.

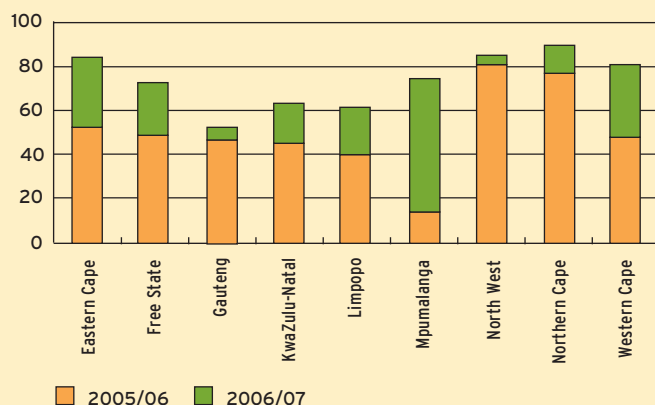


- The number of documents published on the portal increased by 56% to 2 446 by year-end.
- Value-added facilities include a regular electronic newsletter on issues such as new legislation and policy, upcoming municipal events, pending municipal deadlines and updates. A panel of municipal experts is also on standby to support municipalities, responding within 48 hours on any issue that is not yet on the LGRC. This email-based “live” advice service is known as the Muni-Expert.

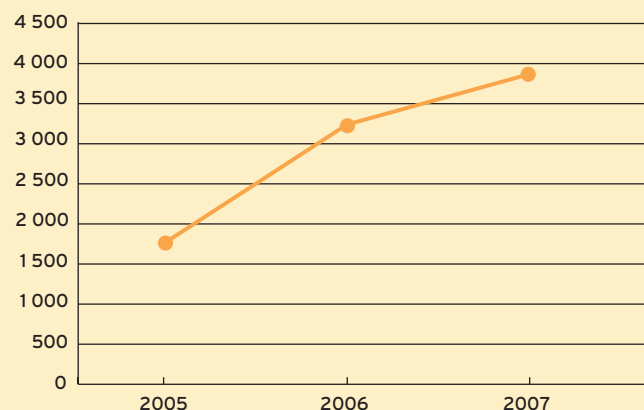
LGNet/LGRC connection status, 31 March 2007



Growth in applications and connectivity, 2005/06 to 2006/07



LGNet registered users, 2005/06 to 2006/07



The LGRC has already made a difference in reducing duplication and enhancing knowledge sharing through the LGNet. Future initiatives include connecting metros as contributors of content. Also, a partnership has been established with the Council for Scientific and Industrial Research (CSIR), the Satellite Application Centre, the State Information and Technology Agency and a number of other institutions to supply specialised GIS information such as satellite imagery, aerial photographs, cadastral maps and topographic scanned images. Colour images taken by the “Spot 5” French satellite, with a 2,5 meter resolution, are available for the entire country.

As the only network that connects municipalities and role players, the LGRC/LGNet has significant potential for developing and intensifying support to municipalities. Given its groundbreaking role, the network will have to innovate constantly and interact intensively with stakeholders to ensure that the content stays relevant to clients, capacitating them to improve the delivery of social and economic infrastructure.

Local Investment Agency

In partnership with Old Mutual, the LIA was conceived in 2005/06 to facilitate the origination of investment projects in depressed areas, thereby promoting economic growth, job creation and poverty reduction. The LIA harnesses the development knowledge and human and other resources of the partnership to leverage private sector investment. An initial amount of R508 million was

The DBSA is piloting a new way of dealing with development challenges in order to create "Sustainable Communities".



invested in the LIA, of which R500 million was earmarked for investment and the remainder for working capital.

The first focus area was the Wild Coast in the Eastern Cape, where the Hluma LIA was set up with equal shareholding. The Hluma Board was constituted during the year, and it approved a business plan for establishing governance arrangements and project preparation. The implementation phase saw several challenges, which were dealt with on a case-by-case basis, including the following:

- Institutional capacity limitations, especially at local government level
- Community conflict over the allocation of resources
- Insufficient coordination among departments and municipalities
- Uncertain land tenure affecting projects in the tourism sector

The challenges posed by the hands-off model of implementing this initiative have prompted a new approach, and work in the year ahead will be driven by a more dedicated model, possibly involving the establishment of a dedicated DBSA team to operationalise the LIA.

Sustainable Communities

In November 2005, the Board of the DBSA approved a strategic initiative to pilot a new way of dealing with development challenges in order to create "Sustainable Communities". The government has adopted a range of social, economic and environmental policies to promote the building of sustainable, integrated and inclusive communities, including the NSDP, the housing policy for sustainable settlements (Breaking New Ground), AsgiSA and the draft National Framework for Sustainable Development. The DBSA initiative is

directed at implementing these policies through the practice of “cooperative governance”.

The Bank established six pilot sites for the Sustainable Communities initiative: Motherwell and Ngangelizwe in the Eastern Cape, Ba-Phalaborwa in Limpopo, Lydenburg/Mashishing in Mpumalanga, Diepsloot in Gauteng and Grabouw in the Western Cape. A dedicated team has been established to drive the initiative, supported by skills from across the Bank.

In partnership with a range of stakeholders, the process is geared to achieve integration and a common vision for development, resulting in a social compact. Lydenburg and Grabouw have already reached this level. The initiative also intends to build a body of knowledge that could be replicated in other areas: the lessons learnt from the sites should provide an excellent foundation for extending the initiative to other developing communities throughout the country.

Apart from the social compacts, the preparation of the pilot sites yielded the following successes during the year:

- Significant progress towards a social contract on rural housing with the national Department of Housing, and memoranda of understanding with Unilever, Group 5, the Department of Land Affairs and various provincial governments
- An R88 million Neighbourhood Development Partnership Grant from the National Treasury for investment in Ngangelizwe and Motherwell
- An agreement with the Eastern Cape Department of Local Government, Housing and Traditional Affairs to integrate its R180 million initiative at the pilot sites with the Sustainable Communities model
- A contribution of R2 million from the Western Cape Department of Economic Affairs and Tourism towards exploring the role that cooperatives can play at the Grabouw pilot site

In the year ahead, operations will focus on implementing the initiative fully at the pilot sites, targeting LED, agriculture and capacity initiatives to strengthen municipalities. Two rural pilots will be added, promoting agriculture in Elliotdale (in partnership with the Eastern Cape) and the Hoodia project in the Northern Cape (in partnership with Unilever). The relationship with the Department of Land Affairs will be strengthened to develop a business model and business plans for land given back to communities.

Project management

Although its external focus received priority, the Division also completed a number of projects to improve internal efficiency. The automation of administrative processes such as leave, subsistence and travel, and user provisioning continued in partnership with the Human Capital and Technology Division and will be implemented during 2007/08. Work on the Documents and Records Management system progressed sufficiently for the project to be transferred to the Chief Risk Officer. A review of the procurement policy, which was necessitated by various internal and legislative changes, resulted in recommendations for improving procurement processes and management.

The year ahead

In 2007/08, the Strategic Operations Division will focus on building partnerships in its key initiatives. On the 2010 World Cup, for example, the Division will look beyond the construction of stadia: it has proposed that a national project office be established to monitor progress on other infrastructure initiatives, such as transport and ICT. The LGRC initiative will continue to enrich the content of the portal and extend connectivity, while priority will be given to operationalising the Hluma LIA. The Bank's role as implementor also poses new challenges to its project management capacity, especially in the Sustainable Communities pilot areas. This initiative will be expanded to include rural pilot sites focusing on agriculture. Through these activities, the Division will strongly support the Bank's Vision 2014, which calls for deepening development impact.

Capacity Development and Deployment

Executive Manager: Mrs Jeanette Nhlapo



Strategic overview

The Bank has been striving to accelerate the implementation of Vision 2014 and deepen its impact on development, particularly in Markets 2 and 3 in the local government sector. Parts of the Bank were restructured to bring together its different capacity building initiatives in the new Capacity Development and Deployment Division. The new Division incorporates the DBSA Development Fund's municipal capacity building programme, the Vulindlela Academy's external training activities and the Bank's agency operations, which have the following functions:

- The DBSA Development Fund provides capacity building grants and hands-on support to municipalities to facilitate the delivery of infrastructure projects and service delivery.
- The Vulindlela Academy offers specialised training to local government clients in the country and development finance institutions in the rest of the SADC region.
- The Agencies Unit supports capacity building for service delivery through providing management and administration services to third-party development programmes.

Operations review

From an operational perspective, the Division performed well during 2006/07. Highlights of its performance are reviewed below.

Development Fund

During the year, the DBSA Development Fund focused on accelerating the Siyenza Manje programme, which led to the scaling down of its traditional grant-making operations and related targets. Still, total grant approvals and commitments amounted to R20,4 million, exceeding the target of R14 million. In the previous year, the figure was R70 million, leading to disbursements of R67,3 million in 2006/07.

Siyenza Manje is a partnership programme involving the following main stakeholders: National Treasury, the DBSA, the Department of Provincial and Local Government, the South African Local Government Association and the Department of Water Affairs and Forestry.

The Siyenza Manje programme deployed experts in eight provinces at provincial, district and local municipal level. A total of 97 experts were deployed, of which 16 were young professionals thus extending the coverage of the programme to 86 municipalities. In the targeted municipalities, 471 projects are in the process of being implemented and 97 projects were completed. Siyenza Manje interventions augmented municipal and other government efforts and nearly 178 000 households were provided with access to water and about 126 000 with access to sanitation. Nearly 70 000 bucket toilets were replaced. These activities are explored in more detail in the Development Fund's own Annual Report.

Vulindlela Academy

During the year, the Vulindlela Academy reinvented itself to emphasise the external market, in line with the Bank's strategic thrusts. The Academy extended its support programme significantly: a total of 489 learners from key markets were trained in core skills, against a target of 400. An amount of R5 million was mobilised through the Local Government Sector Training Authority to fund the training of officials from municipalities that are connected to the LGRC/LGNet. Going forward, the Academy will provide tailor-made training programmes to local government as part of its strategy of positioning itself as a "Local Government Academy".

Agencies

The Agencies function continued to provide significant support for third-party development programmes. Its main activities included managing the programme of financial capacity building in municipalities funded by the World Bank and the UK Department for International Development through the National Treasury, as well as a major Treasury programme of capacity building for provincial service delivery in health, education and public works. In addition, total approvals on carbon/renewable energy projects amounted to R16 million, against a target of R10 million. New socio-economic programmes accounted for R3,5 million, while LIA projects amounted to R8 million. In total, the Agencies programme has partnerships with 15 national departments, a provincial government, four non-governmental organisations, five multilateral institutions and one private sector body.

The Academy extended its support programme training to 489 external students in core skills from key markets.



The year ahead

The Division will continue to play a key role in building capacity at regional and local government levels. The Development Fund will consolidate its support programmes to assist municipalities in developing systems that ensure the sustainability of their infrastructure, such as revenue enhancement, billing or operations and maintenance schedules. The Vulindlela Academy is strengthening its external training capability to assist Siyenza Manje

in delivering the coaching and mentoring programme for young graduates. The Agencies Unit has proven experience in managing third-party programmes and systems, which will be extended in support of both Siyenza Manje and other external development initiatives. As for business processes, foundations were laid for integration at both the customer and back office interfaces, and this will be strengthened during the year ahead.

Research and Information

Executive Manager: Dr Snowy Khoza



Strategic overview

As part of the strategic realignment exercise, the DBSA positioned knowledge management as a key strategic thrust throughout the Development Bank. To this end, the Knowledge Management Division was restructured and renamed the Research and Information Division. It has three key focus areas, namely research, information and advisory services:

- The research function generates knowledge from the environment to inform policy and planning, and suggests innovative development interventions.
- The information function analyses and interprets socio-economic and infrastructure-related data and information,

The high-level international conference on **Investment choices for education in Africa** was successfully hosted by the DBSA, the HSRC and Wits University in September 2006. Prominent international and African researchers and policy-makers contributed to this event, which helped to set a new agenda on investment policy choices for education in SADC and sub-Saharan Africa. A book will be published in 2007/08 to consolidate the insights gained.

integrates internal and external knowledge into an accessible repository and packages it in easy-to-use tools for internal and external clients.

- The advisory function is a Bank-wide resource of highly skilled professionals with different areas of specialisation, who promote best practice and provide sector analysis and scenario planning in support of the Bank's operational activities.

Operations overview

The Division is pleased to report significant progress on a number of initiatives. Highlights of the year are outlined below.

Research agenda

The research agenda, which was approved by the Board in November 2005, serves as the business plan for research work in the Bank. Set after wide-ranging consultation with internal and external stakeholders, the agenda was organised into four programmes: Social; Economic and Environmental; Finance and Institutional; and Infrastructure. The primary outputs from the agenda for 2006/07 were two conferences, publications and work on the NSDP and IDPs, as outlined below, as well as initial work on the *Infrastructure Barometer* and the *DBSA Development Report* to be published in 2007/08.

Concerning the Bank's support for the NSDP, South Africa's spatial economy remains the most glaring unresolved legacy of apartheid. The NSDP envisages a coherent basis for addressing these imbalances and aligning the flow of public resources. The Development Bank, in partnership with the Presidency, has been involved in two initiatives around the NSDP: the review and amendment of the original 2003 NSDP, and pilot projects in 14 district and metro municipalities to inform the planned nationwide rollout of the NDSP. The aim of the programme is to improve the quality of local planning (e.g. IDPs) and create a shared





The **Inclusive African cities: Mapping challenges and opportunities in contemporary urban Africa** conference was held in March 2007, in partnership with the City of Johannesburg, the South African Cities Network, the HSRC, Wits University and Urban LandMark. The conference contributed to the global debate around creating inclusive cities in the face of increasing urban diversity, by fostering a better understanding of African urban contexts and experiences. While African cities experience robust growth, they still face high inequality and exclusion. Infrastructure, service delivery and job creation lag far behind population growth, leaving policy-makers with serious challenges. By 2020, an estimated 46% of Africa's projected population will be living in cities; others argue that the 50% mark will be reached by 2050.

The conference explored inclusion and exclusion around three broad themes: access to urban resources and infrastructure – material inclusion and exclusion; constructing urban citizenship(s) in everyday lives; and emerging experiences of inclusion in African cities and what they teach us about cities. Importantly, the presentations at the conference, which draw on international and local discourses on these themes, emphasised the need to move beyond analysis to practice and implementation. Following the conference, a series of publications on the topic is being prepared to provide policy-makers and local governments with tools to create more inclusive cities.

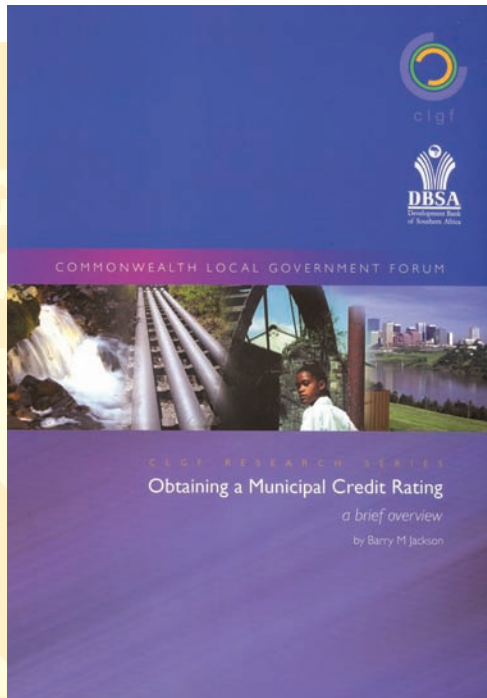
understanding, both within different parts of government and among different stakeholders, of the challenges and opportunities of each local area, thus generating a collaborative approach to development. The amended NSDP was published in May 2007, but the pilot rollout programme continues until late 2007. Key strategic lessons will then be identified in close collaboration with the Presidency to influence intergovernmental relations and related policy and legislation. In parallel with this process, the Bank also reviewed its own role in spatial transformation to inform its strategic interactions with its municipal client base.

A two-phased study was conducted on municipal funding. The first phase, Financial implications of IDPs, assessed variances between municipal and national statistics on municipal backlogs in an attempt to provide realistic estimates; and reviewed the capacity of municipalities to borrow, their indebtedness, and the dominant lenders in the municipal market. This study assisted in guiding policy decisions on the funding of IDP projects in line with the national targets for eradicating backlogs. The second phase, Funding for basic levels of service, addresses the lack of alignment between the different planning tools for development to identify bottlenecks and gaps in funding for basic service levels. This will be completed during 2007/08.

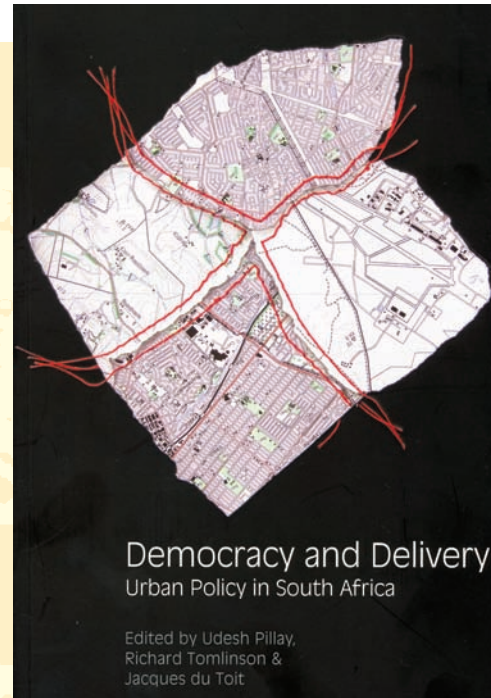
Data and information

The Division's information service specialises in socio-economic profiling at all geographical levels in South Africa and provides trend databases on demography, regional economics, labour and employment, poverty and income, and household infrastructure. Capacity for information on health, education, transport, energy, ICT, and water and sanitation is being strengthened. The service is available through a direct data enquiry service, information analysis, publications and a range of information portals, the main external one being the LGRC. The service provided information to 177 municipalities, and provided analysis, advice and support to 51 external organisations, including various government departments at national level, provincial governments and municipalities.

The Division also provides library and knowledge centre services to the DBSA staff, as well as electronic information services. During the year an Economic Gateway portal was developed to provide a single port of access to all economic information required for economic and investment planning in the Bank. The information services also managed and extended the Bank's Infrastructure and SADC Country information portals and the electronic socio-economic municipal profile system.



The DBSA collaborated with the Commonwealth Local Government Forum (UK) to prepare **Obtaining a municipal credit rating: a brief overview**. In simple English, this publication explains why credit ratings are useful to municipalities and sets out the general procedure for obtaining them. The booklet starts with the reasons for borrowing for infrastructure and the different forms of long-term debt. It then explains the benefits of a credit rating, not only as a way of reducing the cost of borrowing but also as a management tool for identifying weaknesses that should be addressed before approaching the financial market. Finally, it outlines the typical procedures and approaches of rating agencies, and offers guidelines on how to prepare for a rating.



The DBSA co-funded the HSRC's study on **Democracy and delivery: urban policy in South Africa**. This volume analyses urban policy, its formulation, implementation and evolution in South Africa during the first ten years of democracy. It describes the creation of democratic local governments from the time of the 1976 Soweto uprising and the intense township struggles of the 1980s, the formulation of "developmental" planning and financial frameworks, and the delivery of housing and services in the new democratic order. It examines the policy formulation processes and their underpinnings, debates the role of research and the influence of international development agencies, and assesses successes and failures in policy implementation. Looking to the future, the book provides suggestions based on experience with implementation and changing political priorities. This important resource publication was launched to policy-makers, government officials, practitioners and academics, as well as representatives of civil society, in a series of informative seminars during August 2006.

Operations evaluations

In line with the strategic thrust of a Bank-wide knowledge management approach, the Bank repositioned the monitoring function as an integral part of all business unit activities. Accordingly, the former Monitoring and Evaluation Unit was renamed as the Operations Evaluation Unit and moved out of the Division to the Strategic Operations Division on 1 April 2007.

The function of the repositioned Unit is the independent evaluation of development interventions, both internally and externally on request, and the building of capacity in this regard. However, it continues to oversee the monitoring function; to this end, it has reviewed the monitoring and evaluation module in the Bank's CORE operations management systems.

Since the year marked the end of the first generation of five-year municipal IDPs, the Division focused on evaluating the capacity building and development interventions by the Bank, including planning support, information systems development and capacity building on financial management in the first IDP period. Some of the key results are outlined on the next page.

The Division conducted two evaluations for external parties. The first, undertaken at the request of Cabinet and in collaboration with the Department of Provincial and Local Government and the Independent Development Trust, studied the impact of the implementation of the Integrated Sustainable Rural Development Programme and Urban Renewal Programme; the second, undertaken for the Department of Public Works, entailed a data evaluation of the Expanded Public Works Programme. The Unit also sponsored a discussion among technical experts and practitioners during the inaugural South African Monitoring and Evaluation Association conference in March 2007, on the subject of "The Millennium Development Goals: Challenges for country-level monitoring and evaluation".

Finally, with regard to its capacity building function, the Division revised its three-day introductory training workshop on monitoring and evaluation, and submitted it for accreditation. In partnership with the Vulindlela Academy, the Unit conducted two training workshops, the first being a public course for delegates from municipalities and other government departments, and the second being customised for members of the Eastern Cape Legislature. It also published the *Lessons Learnt Report 2006* and the *Development Effectiveness Report 2006*, as well as the quarterly newsletter, the *Barometer*, on topical issues around monitoring and evaluation in development finance.

During the year, the Division started work on new publications on **Interprovincial socio-economic comparisons** and **Provincial population projections**. The first publication highlights the changes in the socio-economic profile of South Africa between 1996 and 2005 and assesses demographic indicators, including the impact of HIV/AIDS, health, education, poverty, income, employment, unemployment and access to basic services, as well as economic growth per sector and provincial trade. The second publication includes demographic indicators and population estimates to 2025 at national level and 2011 at provincial level. One of the more prominent users of these estimates is the NSDP project, which was provided with population data that includes the impact of HIV/AIDS and migration at different levels. Given the size of the datasets, this information is available to users in electronic format.

The Division also developed a web-based **national skills database** for AsgiSA and JIPSA. The skills database will provide a facility for job-seekers, nationally and internationally, to register their skills, thus assisting employers to find suitably qualified candidates.

In response to requests from provincial governments, the Division, in collaboration with South Africa Operations, is managing the compilation of a **Social Accounting Matrix (SAM)** model for each province. Following the development of SAMs for three provinces last year, the Eastern Cape, Gauteng, Limpopo and Mpumalanga models were completed during 2006/07. The remaining two are scheduled for 2007/08. In addition, the Division managed the development of a SAM for Swaziland and for the Department of Provincial and Local Government. The R2 million provincial SAM project is co-funded by the Department, the Bank and each provincial government. The Vulindlela Academy provided training for 55 provincial staff in the management and interpretation of the models.

The information services supported the IDP nerve centre of the Department of Provincial and Local Government in developing **electronic IDP formats**. The aim of the project was to enable the Department to summarise all national, provincial and district-level IDPs into a major national IDP that will assist the government in planning, in aligning policies to actual needs and in improving budget allocations to the different departments and municipalities.

In the review of the **Bank's support for IDPs**, the following findings emerged:

Community participation in the development of IDPs led to a higher level of engagement throughout the IDP period, with communities expecting regular updates on progress. In Buffalo City, communities wanted to build swimming pools so that young people could be trained as lifeguards for the holiday season. Some of them have since been selected for development as professional swimmers.

Typical service contracts with consultants did not include specific and measurable *skills transfer* provisions. Buffalo City was again an example of good practice in this regard, and is now in a better position to manage the process independently.

Stakeholder participation is crucial. In the Free State, the DBSA provided technical assistance to the provincial Department of Local Government and Housing, which was used to enhance the institutional and administrative capacities of the provincial municipalities. When problems arose in the implementation of the programme, all parties (SALGA, the Department and the State Information Technology Agency) met to discuss them. They signed a detailed memorandum of understanding, which resolved the issues.

The severe shortage of *skilled personnel* was underlined by the study. Mafikeng, for example, requires engineers, financial managers and information technology specialists, while the Greater Tzaneen Municipality has been unable to review its IDP or implement its LED programme properly due to a lack of skills.

The **Integrated Sustainable Rural Development Programme and Urban Renewal Programme** study assessed four nodal sites across the country to inform decisions on policy and operational issues. The report was tabled at the July 2006 Cabinet lekgotla and recommended that a comprehensive monitoring and evaluation system be developed to enable managers to respond speedily to implementation problems; that sector departments be re-sensitised on their roles in these programmes; and that measures of their performance regarding these programmes be included in the performance contracts of sector-department managers. The study has since been followed by a detailed lessons learnt study of all the rural nodes in line with these recommendations.

The Bank conducted an independent evaluation of the data reported by the **Expanded Public Works Programme**, focusing on data flow processes in relation to various data quality parameters. A final report has been submitted to the Department of Public Works. The report identified areas to be strengthened in respect of data collection, verification and management. More importantly, it provided the political principals with confidence in the information on the number of job opportunities created as a result of the Programme.

Knowledge Management Africa (KMA)

The Development Bank continues to provide substantial support to the KMA initiative. The first KMA conference, held in Johannesburg in March 2005, was initiated by the Bank and brought together various policy-makers, knowledge institutions, sector professionals, researchers, business and civil society leaders from across Africa. They developed a vision of a knowledge engine that drives appropriate development solutions for Africa. The next conference will be held in Kenya in July 2007, with the objective of:

- Bringing together key public and private knowledge research, policy-making and other institutions

- Showcasing the major African centres of excellence
- Deliberating on innovative opportunities from the research and practice of African institutions
- Considering global and external initiatives to transform Africa and its people
- Sharing knowledge about managing the development challenges of the continent

In January 2007, a memorandum of understanding was signed with the government of Kenya on the co-sponsorship and joint organisation of the 2007 KMA conference in Nairobi. In March 2007, partnership agreements were signed with the Department of Science and Technology to implement a project on indigenous knowledge systems in southern Africa and with the NEPAD Secretariat to develop a conceptual framework on African centres of excellence, including the creation of a database of African experts. Both agreements were part of the overall strategy to mobilise stakeholders for the KMA conference.

In September 2006, the KMA commissioned a study in Mozambique to assess the impact of knowledge in enhancing best practices for **waste management**.

The study identified opportunities for investments with long-term economic and environmental benefits, including new business ventures with a capacity for skills transfer, knowledge and information centres, and employment opportunities through recycling. The results of the study will be used to train students in environmental and resource economics. The study showed that the reason for the decay in infrastructure for solid waste management in Mozambique, despite World Bank and GTZ capitalisation, lies in the lack of local knowledge regarding maintenance.

The study suggests the following:

- Increasing the knowledge base on best practices, to promote better ways of managing waste and increase awareness of systemic shortcomings
- Increasing partnership capacity, in particular public-private partnerships, to harness resources effectively
- Increasing innovation capacity to enable communities and authorities to improve their systems continuously
- Increasing capacity to identify and attract resources, based on strategic partnerships and innovation

KMA has approached the African Development Bank to participate in the Nairobi conference and to support broader KMA initiatives. The Bank embraces the ideals and objectives of KMA and has therefore undertaken to mobilise appropriate resources in support of the conference.

Regional knowledge networks in eastern, southern and western Africa will be supported to grow KMA across the continent. A profile of existing knowledge networks across Africa will be compiled, to encourage collaborative relationships and create effective linkages to the growing KMA website.

The year ahead

The Research and Information Division aims to position the Bank as a centre of excellence in development and infrastructure knowledge. The Division will focus on quality, targeted deliverables with high development impact and effectiveness through:

- Delivering far-sighted, targeted, quality research according to a structured research agenda
- Coordinating scenario planning, best practice and sector strategies at a high strategic level
- Interpreting data and coordinating Bank-wide data sources to create a reliable data repository

As a provider of credible, timely and relevant information across the entire development value chain, the Division aims to contribute to improving service delivery and stakeholder relationships, to solving complex development challenges through innovation, and to strengthening institutional and human capacity internally and externally.

On the whole, the divisional strategy underpins the centrality of knowledge in the Bank's pursuit of Vision 2014. It is aimed at enabling the Bank to improve its capacity to deliver sustainable development interventions and increase the development impact of such interventions.

Knowledge cannot function in isolation; it is only through the coordinated generation and sharing of knowledge across the organisation that these outcomes can be achieved.

Human Capital and Technology

Executive Manager: Ms Loyiso Pityana



Strategic overview

Phase 1 of the organisational refinement process focused on high-level strategy and structure, and indicated strongly that the human capital structure of the organisation required review. In this light, the Human Capital Operational Model was developed and implemented. Three Units were established in the Human Capital Group – Human Capital, Organisational Leadership and Talent Search, and Remuneration and Executives Management – to provide specific focus and expertise in these critical areas. The leadership of these Units is in place and all three are now fully functional.

In Phase 2 of the organisational refinement, the Human Capital Group undertook four strategic projects, focused on the culture architecture, governance framework, performance management and reward, and skills and competencies, in order to align the organisation with the refined strategy. These projects reviewed culture change in the organisation, its governance and execution mechanisms, the performance and reward system, and the skills and competencies required for delivery on the Bank's Vision 2014.

The Cluster championed the process of culture change and agreed on values and principles that would be supported by demonstrated behaviours. As a performance-driven organisation, the Bank is committed to regular reviews of its performance management and reward and recognition system to support the client-focused delivery culture espoused in the refined strategy. Across the board, the organisation is ensuring that it involves, informs and engages its valuable human capital.

Operations overview

Continuous improvement services

With regard to efficiency and effectiveness, the Continuous Improvement Services Unit was established during 2006/07 to

drive the improvement of business processes. Previously known as the Business Process Management Office, the Unit was created to establish the internal capacity and capabilities required to increase awareness of business process management in the DBSA. This year, it focused on improving the Bank's value chain to enhance the value it delivers to its clients, and on strengthening its enabling business processes to increase internal efficiencies and effectiveness. Baseline performance measurements were established for value chain processes and improvement initiatives were prioritised for implementation in 2007/08. Considerable progress has also been made on the automation of key enabling processes, and this will be finalised in the year ahead. These initiatives were complemented by the business process modelling conducted for the Siyenza Manje programme of the DBSA Development Fund. During 2007/08, the focus will be on the integration of business processes, facilitated through the establishment of business process ownership to ensure that initiatives aimed at improving business processes are delivered consistently throughout the Bank.

Information technology

The new strategy for the information technology operational support system guided the redevelopment of the Bank's main operational support system or CORE. During the year, the architecture and prototypes were developed. These were informed by the updated Solution Migration Model, which shows the linkages between the information technology architecture and the strategic initiatives alignment process, in line with the Bank's performance targets for 2007/08 and the revised strategic thrusts. This process-driven architecture also informed the automation of four key processes. Work has started on the automation of several other processes, which will be completed in the year ahead.

For the last two years, the Cluster has focused on improving information technology governance and aligning it with the overall enterprise risk management ethos. To entrench operational best practice, the Microsoft Operations Framework included the completion of the five service management functions:

- Problem management
- Incident management
- Service level management
- Security administration
- Service desk

In 2007/08, an independent audit of the Bank's compliance with the Microsoft Operations Framework will be conducted.

The new information technology strategy guided the redevelopment of the Bank's main operational support system.



The year ahead

Given the current skills shortage and the challenge of behavioural alignment, there is intense competition for the specific capabilities required by development finance institutions. Accordingly, these skills need to be developed in an innovative way that transcends immediate short-term requirements.

The Human Capital Strategy execution framework will be the main focal point for the coming year. In particular, its 5E Model outlines how human capital can be extended, enriched, enabled, enacted and engendered. In striving to fulfil its Vision 2014 and

increase its true human capital, the Bank will decentralise human capital management to the different Divisions, while keeping a central facilitation, coordination and monitoring function.

To facilitate physical alignment between its people, systems and processes and to prepare for the potential growth in staffing numbers over the next few years, the Bank is exploring different options for using the space in its main building. It is also upgrading its technological base towards service orientation, based on the improved business architecture. In this way, the Bank will continue to entrench a culture that espouses its core values.

Finance

Executive Manager and
Chief Financial Officer (Acting):
Mrs Leonie van Lelyveld



Overview of financial results

In the past financial year, the Bank booked record year-on-year growth of 16,8 % in the development loans portfolio. The balance sheet has grown by 10,0% from the previous financial year.

This growth is mainly attributable to the following factors:

- There was a net increase in gross development loans of R2,9 billion as a result of the continued acceleration of development financing activities in line with the targets set in the business plan.
- The ratio of disbursements to repayments (excluding capitalised interest) is 268% (2005/06: 183%), which reflects the extent of capital growth in the loan book as a result of disbursements.
- The current year's funding for development loan disbursements has been from the following sources:
 - Cash and cash equivalents of R564 million
 - Financial market assets of R1,3 billion
 - Financial market liabilities of R248 millionThe balance was funded from the internally generated cash flows, mainly loan repayments. This resulted in a reduction in short-term investments for the benefit of the longer term financing activities, as well as an increase in liabilities.
- The net increase in equity investments of R321 million (46%) is driven largely by upward revaluation on most of the investments, additional drawdowns and foreign exchange gains resulting from the devaluation of the rand.
- Trade and other receivables have increased by 68% compared to the last year.

The year-on-year increase in the profit from operations of R182 million (17%) is attributable mainly to the 13% increase in interest income in respect of development loans. Interest expense has increased by R184 million (17%) mainly due to steady increases in market interest rates.

The impairment charge in respect of development loans of R19 million was partially offset by a write-back of R1 million in respect of other debtors, leaving a net amount of R18 million compared to a credit of R56 million in the previous year.

The increase in other operating income of R68 million is attributable mainly to dividends received from equity investments. The unrealised forex loss on funding is offset by unrealised forex gain on development loans due to the natural hedge that exists.

The overall reduction in the revaluation of financial instruments by R83,4 million is attributable to treasury derivative instruments, mainly due to the higher interest rate environment which reduces the yields/value of the financial instruments.

Both the return on assets (4,6%) and the return on equity (8,8%) are at their highest levels in four years, mainly as a result of the strong financial performance posted during the current financial year. The Bank has managed to grow its retained earnings and balance sheet in a higher interest rate environment. This picture is likely to be sustained, given the strong development loan pipeline that has been built in the past two years.

There has been no transfer to the Development Fund, as the projected funding requirements were in surplus at year-end.

The financial results are set out in more detail in the Annual Financial Statements on pages 65 to 132.

Overview of operations

The Finance Cluster provides integrated and enabling financial services in pursuit of the Bank's vision and mission. The Cluster comprises the Financial Management Unit and the Contracts Administration Unit.

Financial Management

The Financial Management Unit develops, implements and maintains sound financial processes and controls, and ensures full compliance with accounting and relevant regulatory requirements. The main functions of the Unit are financial administration; financial management and reporting; budgeting; tax compliance and advice; and accreditation and payment of service providers.

During the past year, the Unit has remained focused on supporting the strategic direction of the Bank through the provision of its enabling services. This was achieved by constantly improving the efficiency of its service delivery and business processes, while promoting greater awareness of the principles and practices of good financial discipline and control.

The Trust was established to promote the development of a sustainable community in the area. The project, which employs 250 people, produces high-quality hand-woven rugs and tapestries mainly for export and sale in the United States of America.



Contracts Administration

The Contracts Administration Unit administers, controls and reports on the loan assets of the Bank. Its primary responsibility is to ensure that the disbursements made, interest raised and repayments received are in accordance with the approved loan agreements.

During the year, the Unit administered disbursements totalling R3,7 billion and repayments received totalling R3,0 billion, including capital and interest.

The Unit is also responsible for financial administration and reporting for the agencies administered by the Bank on behalf of third parties. The Bank was administering 30 agencies as at 31 March 2007.

The year ahead

In the year ahead, the focus of this Cluster will be on strengthening the financial management and forecasting capabilities of the different business divisions, in order to leverage the Bank's financial strength innovatively as it seeks to broaden and deepen its development impact without compromising its long-term financial sustainability.

Treasury

Executive Manager: Mr Ernest Dietrich



Market conditions

The South African economy continued to perform well in the year under review, extending the current economic upswing into its seventh year. This occurred despite growing concerns about higher inflation, the current account deficit and the depreciation of the rand.

Monetary conditions tightened following the South African Reserve Bank's 200 basis point increase in the repo rate to 9%. The Reserve Bank remained watchful, warning that further action would be taken if the higher inflation trajectory persisted. For the DBSA, tighter liquidity conditions effectively reduced the number of prepayments from its clients, a more frequent occurrence in the previous financial year.

The investment environment remained conducive to infrastructure development. Real GDP grew by 5,0% in 2006, only slightly lower than the 5,1% recorded in 2005. Business and consumer confidence remained at historically elevated levels. However, rising interest rates and growing concerns about high levels of consumer debt eventually dampened consumer spending in the second half of the financial year. The growth in fixed capital investment, on the other hand, remained solid. Fuelled by an uptake of private and public sector initiatives, fixed investment expanded at double-digit rates and accounted for 19% of total GDP in 2006, up from 15% five years ago.

Growth in CPIX inflation quickened to 4,9% in 2006/07, from 4,1% in the previous financial year. Although this was still within the Reserve Bank's 3-6% target range, mounting food and oil prices led to the upper limit of the target range being breached shortly after the end of the financial year.

The rand weakened in the year under review, adding to concerns about a build-up in domestic inflation. On a trade-weighted basis, the currency lost 21% of its value, more than reversing the 4% appreciation in 2005/06. It fell by 16% against the United States dollar, compared to a rise of 2% in the previous financial year. The bulk of the rand's depreciation occurred at the beginning of the financial year, amid a correction in global emerging market equities

and bonds. The current account deficit (and, by implication, the need to attract capital inflows) was singled out as a key vulnerability for the currency.

Higher inflation expectations contributed to pushing up the yield on the R157 (the benchmark long-term government bond) by 34 basis points, to end the financial year at 7,84%. Tight government bond supply, however, helped to keep yields in check. In contrast, non-government credit issuance, including securitisations, experienced significant growth. This provided additional diversification for investors and borrowers, and aided the development of the domestic non-government market.

Funds mobilisation

New borrowing, amounting to R705 million, was drawn down from existing credit lines. While euro-denominated funds were swapped to rand for on-lending within South Africa, United States dollar-denominated borrowing was used for lending and investment in the rest of the SADC region.

Total liquidity - comprising operational liquidity and strategic liquidity - averaged R1,49 billion, with a year-end figure of R1,03 billion. The operational liquidity pool is primarily invested in cash and near-cash assets for management of the Bank's short-term cash requirements. Strategic liquidity consists of investments in longer term assets and is aimed at reducing the cost of carry and enhancing the return on liquidity funds. In addition to the designated liquidity pools, the Bank holds a portfolio of liquid government bonds that serves as a source of contingent liquidity.

As at 31 March 2007, the Bank's portfolio of government bonds consisted of investments (in nominal terms) in the R195 (R263,4 million), R196 (R263,4 million), R153 (R658,4 million), R157 (R1 086,7 million) and R204 (R306 million). The R195 and R196 bonds are remnants of the R194, which was split into three tranches: the R007, R195 and R196. The R007 matured in February 2007 and the proceeds (R263,4 million) were used to finance development loans.

Credit ratings

In October 2006, Moody's Investors Service upgraded the DBSA's long-term foreign currency rating to A2 with a stable outlook, moving the Bank's rating further up in the investment-grade category. The Bank's rating by the two other main rating agencies was maintained on par with that of the Republic of South Africa. Standard and Poor's kept the Bank's long-term foreign and local currency credit ratings at BBB+ and A+, respectively. The short-term foreign currency rating was maintained at A-2 and the short-term local currency rating at A-1. The outlook is stable. Fitch affirmed the Bank's long-term AAA(zaf) and short-term F1+(zaf) national scale ratings, with a stable outlook.

Corporate governance

Corporate Secretary: Dr Paul Kibuuka



Governance principles

The DBSA Board of Directors is committed to complying with the recommendations of the King II Report and the Protocol on Corporate Governance in the Public Sector. The Directors also subscribe fully to 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 is committed to the highest standards of integrity and ethical conduct, and to open and transparent governance that gives its shareholder and other stakeholders the assurance that it is being managed ethically in line with best practice, applicable legislation and predetermined risk parameters.

Organisational repositioning

A new Chief Executive Officer and Managing Director, Mr Paul Baloyi, was appointed on 1 July 2006. The Bank subsequently initiated a strategic realignment programme to evaluate its structures and internal capacity. As part of the Bank's strategic realignment, it is reviewing its governance framework and committee structures to enhance flexibility in decision-making and operational efficiency. It is also evaluating its framework for delegation of authority, issued in terms of the Development Bank of Southern Africa Act, No. 13 of 1997. This process should be finalised and the new governance framework presented to the Board in 2007/08.

Strategic objectives and performance management

The Board sets the Bank's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of those objectives, in line with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies through a comprehensive system of monitoring and reporting to the Board and its committees. Although the South African government is its sole shareholder, the Bank enjoys operational autonomy in the management of its day-to-day operations. In terms of the DBSA Act,

read together with the Public Finance Management Act (PFMA), No. 1 of 1999, the Board is accountable to the shareholder for implementing the Bank's mandate. The Chief Executive Officer and management are responsible for the operational implementation of the mandate and strategy. To enhance accountability in line with the PFMA, the Board has concluded a Shareholder Compact with the government, which sets the key targets against which the shareholder annually assesses the Board and the Bank's performance.

The Bank uses the Balanced Scorecard (BSC) methodology to implement, monitor and report on its performance against these targets, as discussed in the Directors' report. The Bank's performance was assessed by executive management at year-end, under the guidance of the Board, against the targets set in the three-year Corporate BSC approved in February 2006, as well as the Corporate Plan. The results of this evaluation are shown in the Directors' report. Subsequently, the Remuneration Committee of the Board evaluated the performance of the Managing Director and the executive management team.

Ethics management

The Bank reviews its Code of Ethics annually in view of new business and legal developments. The Code commits Directors, executive management and staff to high standards of ethical conduct in their dealings with clients and stakeholders. It also covers the Bank's contractors and suppliers of goods and services. During the year, training workshops were conducted to sensitise staff to the importance of complying with the Code, and all new members of staff received mandatory ethics training as part of the induction programme. As last year's ethics survey highlighted areas of concern around employees' perceptions of compliance with ethical standards, the Bank implemented an ethics support facility for employees and increased the resources devoted to ethics management. This includes a dedicated ethics function, overseen by the Corporate Secretary, to enhance monitoring and reporting. The Bank also employed two governance specialists to strengthen the function. In addition, the staff performance management system now also includes adherence to the Bank's ethical standards.

The Bank's policy on declarations of outside interest helps to safeguard the organisation against the reputational risks of actual or perceived conflicts of interest on the part of the Board, management and staff, in line with the PFMA. As part of its ongoing application of this policy, the Bank automated the declarations of interest, making them accessible to the whole organisation. In addition, its procurement policy contains stringent control

measures to minimise abuse, fraud and corruption; these are constantly monitored by the Internal Audit function. A review of the procurement process has commenced, and the recommendations will be implemented in 2007/08.

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 of 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. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting against approved budgets and adherence to policies, processes and guidelines. Executive management is accountable for determining the adequacy, extent and operation of these systems.

The Bank revised its risk management arrangements during the year, as reported elsewhere in this Annual Report. The Internal Audit function also 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 periodically by 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 independence of the function and the escalation of any significant audit matters requiring immediate Board attention.

Regulatory environment and statutory compliance

In line with section 51(1)(h) of the PFMA, which requires the Board of a public entity to ensure compliance with applicable legislation, the Bank has an independent compliance function headed by a Group Compliance Officer. During the year, as part of the strategic realignment programme, the function was transferred from the Corporate Secretariat to the Group Risk Assurance Cluster to facilitate integrated reporting on operational risk, of which compliance risk is a significant component. The compliance function reports to the Audit Committee through the Chief Risk Officer.

The Bank developed compliance risk management plans at business unit level and complied fully with the letter and spirit of the framework for levels of materiality and significance that was set in terms of sections 55 and 54 of the PFMA. Further, in compliance

with the Financial Intelligence Centre Act, No. 38 of 2001, it adopted a money laundering control policy and appointed a Money Laundering Control Officer to monitor and report unusual and suspicious transactions to the Financial Intelligence Centre as required by the Act. As part of project due diligence, the Bank implemented mandatory Know Your Client checklists to facilitate timely screening of clients.

During the year, the shareholder approved the inclusion of Madagascar as part of the Bank's region of operation following the country's admission as a member of SADC.

Fraud prevention and whistle-blowing

Bank employees are encouraged to report any suspected corrupt, fraudulent or unethical practices to the Ethics and Fraud hotline, which is managed by an independent external service provider. This complies with the requirements of the Protected Disclosures Act, No. 26 of 2000, by creating an environment in which it is safe for employees to report impropriety. The whistle-blowing policy adopted in 2005 articulates the procedures for raising concerns where employees have reasonable grounds for suspecting fraud, corruption, corporate crime or impropriety within the DBSA group. During the year, the Ethics and Fraud hotline received seven reports. These were thoroughly investigated by Internal Audit and reported to the Audit Committee, and corrective action was taken. None of the events reported through the hotline indicated material breaches of internal controls.

In November 2006, the Audit Committee approved a revised Fraud Prevention Plan, which outlines a framework and strategy for preventing, investigating and reporting on fraud and corporate crime at the Bank. It establishes a process for the Audit Committee to oversee fraud risk through periodic management reporting and spells out responsibilities to minimise the Bank's exposure to fraud risks.

Governance structures

Shareholder linkages

As noted, the Bank is accountable to its shareholder, the South African government, and to Parliament in terms of the DBSA Act. As Governor of the Bank, the Minister of Finance represents the shareholder's interests, determines the Bank's mandate, and holds the Board of Directors accountable for managing the Bank to deliver on this mandate. In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in February

2006. This serves as an agreement between the Bank and the shareholder and documents the key performance measures and targets against which the organisation is assessed.

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 in the PFMA and the Companies Act. The Board is appointed by the shareholder representative and consists of a minimum of 10 and a maximum of 15 members. Currently, the Board consists of 15 members, of whom 14 are non-executive and 11 independent. The Chief Executive Officer is the sole executive Director. The Board is chaired by Mr Jay Naidoo, an independent non-executive Director.

The Board reports to the shareholder by way of annual and interim reports, and regular meetings are held between the Chairperson, the Chief Executive Officer and the Governor. The Charter for the Board 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.

Representatives from the National Treasury, the Director-General: Department of Provincial and Local Government, and the Chief Operating Officer in the Office of the President serve on the Board. The Board was reconstituted in July 2006, coinciding with the appointment of the new Managing Director. In October 2006, a shareholder representative Director was replaced due to portfolio changes at the National Treasury. The shareholder also extended the tenure of a non-executive Director to July 2009. The current composition of the Board and brief résumés of the Board members can be found on pages 8 to 11.

Directors' appointment and evaluation

The DBSA Act charges the shareholder with appointing the Directors of the Board based on their abilities in relation to socio-economic development, development finance, business, finance, banking or administration. The Board needs to provide a range of skills and expertise to assist the Bank in meeting its objectives, while also being demographically representative. The Board invites nominations for appointments and makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on performance. The Act also allows the Board to co-opt persons with special knowledge to its committees.

Board committees

In terms of section 10 of the DBSA Act, the Board should form the subcommittees necessary for carrying out its fiduciary responsibilities. In line with principles of the King II Report, it must set formal terms of reference for these subcommittees to ensure effective decision-making, monitoring and reporting. These must be reviewed periodically, along with the overall effectiveness and performance of the committees.

In February 2006, the Board finalised an assessment of its effectiveness and that of its committees. It found effective leadership both at Board and committee level, but noted that improvements were required with regard to the provision of information and training on business and accounting developments.

The five committees, discussed individually below, all have formal, written terms of reference that are reviewed periodically. As part of the strategic realignment programme, the Bank is currently reviewing these committees. The proposals will be submitted to the Board in 2007/08 for consideration, and are likely to affect the role and focus of the Credit, Remuneration and Knowledge Strategy committees in particular.

In terms of the DBSA Act, all the Board committees may transact on the Board's behalf. In line with best practice, they all report to the subsequent meeting of the Board and table any resolutions for ratification by the Board. The Board Charter and the terms of reference of all the committees require members to declare their interest in any matter at the beginning of each meeting. Should they have actual or potential conflicts of interest, they must recuse themselves and take no further part in the proceedings. The Directors believe that, apart from declarations in the register, the Bank has not undertaken any transaction in which the Directors had a material, financial or significant interest during the year. A list of related party transactions involving Board members is provided on pages 119 and 120.

Audit Committee

The Audit Committee has eight members, three of whom are co-opted. The Chief Executive is the only executive Director; the remaining members are non-executive, including the (independent) chair, Dr D Konar. The Bank's executive management and external auditors attend all Committee meetings. The Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations, 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 Committee also considers annual and interim financial statements and recommends their approval to the Board. Its role is closely aligned with the functions of audit committees of public entities prescribed by the PFMA. 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 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. Generally, the Committee provides strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen its financial position in pursuance of its development mandate. The composition of the Committee is identical to that of the Audit Committee and it is also chaired by Dr D Konar. It is supported by the Asset and Liability Management and Financial Management Committees.

Credit Committee

This Committee comprises five members, four of whom are non-executive Directors. The Committee is chaired by Dr I Abedian, an independent non-executive Director. The Committee facilitates credit extensions up to a value of R300 million and is accountable to the Board for portfolio management and the review of significant credit exposures. The Committee reviews the Bank's credit strategy; credit risk management programme; credit extension to entities in which officers or Directors have an interest; significant credit exposures; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board. The Committee is supported by the Corporate Credit Committee (formerly the Operations Review and the Operations Management Committees).

Knowledge Strategy Committee

This Committee consists of four Directors and three co-opted members. It oversees the implementation of the knowledge management strategy approved in 2001, focusing on human capital transformation, human resources development and knowledge

management. The Committee reviews all relevant knowledge management reports before submission to the Board. The terms of reference of the Committee are being reviewed, and its envisaged role is to oversee the implementation of the enterprise knowledge function and dissemination of lessons learnt. Matters related to human resources will be transferred to the Remuneration Committee. The Committee is chaired by Dr L Gwagwa, a non-executive Director, and is supported by the Corporate Knowledge Management Committee.

Remuneration Committee

This Committee is chaired by an independent non-executive Director, Mrs W Lucas-Bull, and has four other members – three non-executive Directors and the Chief Executive Officer. It oversees the human resource policies and remuneration of non-executive Directors, staff and management, assists the Chief Executive Officer with the appointment of executive managers, and monitors their performance.

Board and committee composition and record of attendance

During 2006/07, the Board met seven times. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown on page 60, while the Bank's committee decision-making structure is reflected on page 59.

Chief Executive Officer and Managing Director

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

Corporate Secretary

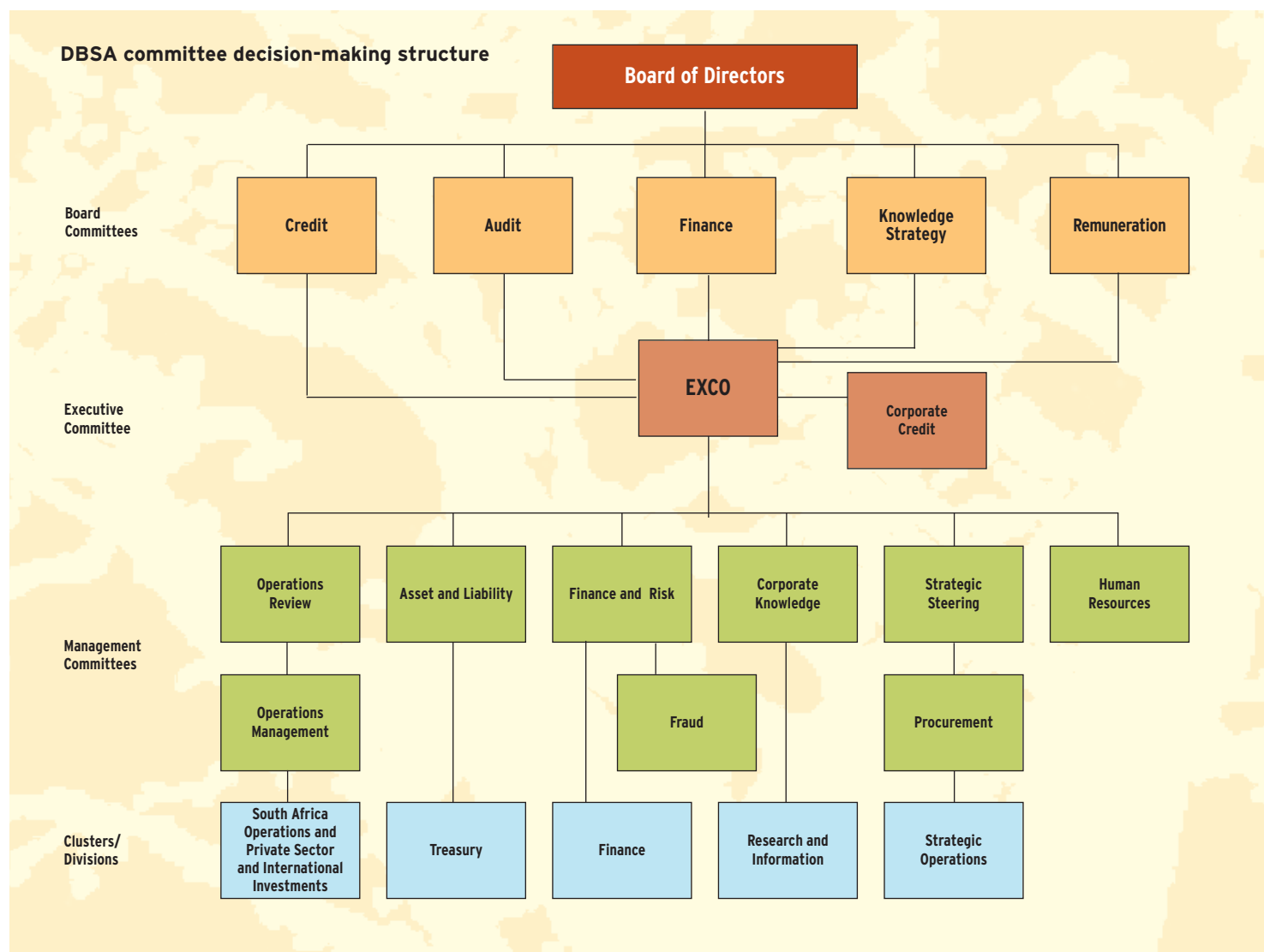
All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act. The DBSA has lodged with the National Treasury all such returns as are required of public entities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

The Corporate Secretary is responsible for ensuring that Board procedures and applicable rules are fully observed and comply with legislation and corporate governance tenets. In addition, Board

members may obtain independent advice at the expense of the Bank. New Directors are informed of their fiduciary duties during inductions organised by the Corporate Secretary. Executive management and senior Bank officials also brief them on matters of strategy and their respective functional operational areas. The Bank encourages Directors to undergo training to keep abreast of industry and financial developments; the programme is coordinated and monitored by the Corporate Secretary.

Directors' remuneration policy

The Minister of Finance, in his capacity as the shareholder representative, approves the remuneration of non-executive Directors on recommendation of the Remuneration Committee. With the exception of the Chairman of the Board and chairpersons of Board committees, Board members are paid on the basis of their contribution and attendance of meetings. As prescribed by the DBSA Act, Board members are remunerated for providing strategic



guidance to management outside normal Board and committee meetings. Additionally, they are compensated for expenses incurred on account of the Bank's business. The Chairman of the Board and the chairpersons of committees are paid an approved monthly retainer in addition to attendance fees. With respect to shareowner representative Directors (ex officio), no remuneration is payable.

Board remuneration is benchmarked periodically against comparable financial services organisations, in order to ensure that the Bank can attract and retain the skills required to deliver on its mandate. Details of all the fees and expenses paid to Board members during the year are shown from page 121.

Committee composition and record of attendance at meetings, 2006/07

	DBSA Board		Audit Committee		Finance Committee		Credit Committee		Knowledge Strategy Committee		Remuneration Committee	
No. of meetings		7		7		2		4		1		3
Mr J Naidoo	Chair	7	✓	4	✓	2					✓	3
Dr I Abedian	✓	4	✓	6	✓	2	Chair	4				
Mr P Baloyi ¹	✓	5	✓	3	✓	1	✓	3	✓	N/A	✓	1
Mr A Boraine	✓	6							✓	1		
Ms T Chikane	✓	6	✓	4	✓	2						
Prof. B Figaji	✓	6					✓	2	✓	1	✓	1
Mr T Fowler	✓	6										
Mr L Fuzile ²	✓	1										
Mr M Gantsho ³	✓	2	✓	3	✓	0	✓	1	✓	1	✓	2
Ms N Gasa	✓	7							✓	N/A		
Dr L Gwagwa ⁴	✓	5							Chair	1		
Dr D Konar	✓	6	Chair	7	Chair	2					✓	3
Mrs W Lucas-Bull	✓	6					✓	1			Chair	3
Dr C Manning	✓	4					✓	3				
Mr I Momoniat ⁵	✓	4										
Ms L Msengana-Ndlela	✓	1										
Mr S Nondwangu	✓	2										
Co-opted members												
Ms T Dingaan			✓	5	✓	2						
Dr R Kfir									✓	0		
Mr JB Magwaza							✓	3				
Mr O Mlaba									✓	0		
Mr JR Modise			✓	5	✓	2						
Mr N Payne			✓	4	✓	1						
Mr M Silinga									✓	1		
Mr Z Titus							✓	4				

1. Appointed to the Board as Managing Director from 1 July 2006.

2. Appointed to the DBSA Board on 1 July 2006.

3. Term of membership expired on 30 June 2006.

4. Appointed to the Committee on 22 February 2007.

5. Ceased to be a member on 30 June 2006.

Risk management

Chief Risk Officer: Mrs Leonie van Lelyveld



Towards responsible risk taking and effective risk management

The Bank's risk appetite has been growing in recent years as it responds to the call to deepen the development impact of its activities. This "hands-on" approach to development introduces new dimensions of risk, to which the Bank is responding by strengthening its risk management capacity. Other factors that have influenced the dynamics and risk exposures in the Bank's operating environment are the Targeted Infrastructure Programme and the new pricing model.

The following key activities are being undertaken to deal effectively with risks arising from the refocused business strategies:

- Capacity is being created to build, acquire and deploy risk management skills on a decentralised basis, thus making it possible to mitigate, manage and report on all risk exposures throughout the Bank. Business ownership of risk management is promoted within the organisation, so that the operational divisions implement risk management as an essential management tool, with the support of the central risk function.
- The Bank is reviewing its enterprise-wide risk management framework and the risk management policies and procedures underpinning it.
- Emphasis is being placed on monitoring risk exposures and reporting to management and the Board, to ensure that risk management is thorough and effective.

Risk management governance structure

As part of the strategic realignment programme initiated in mid-2006, the Bank's risk management activities have been restructured significantly. Risk management was previously housed centrally in the Corporate Finance and Administration Cluster, under the guidance of the Chief Financial Officer. As indicated in the corporate governance section of this Annual Report, the Bank has now created a separate Group Risk Assurance Division headed by an

executive-level Chief Risk Officer to provide greater focus in this area. The new Division includes the staff of the former Portfolio Management and Risk Management Units, which have been reconfigured as Credit Risk and Operational Risk Units. The existing Legal Services Unit has also been incorporated, together with the renamed Workout and Recovery Unit, which was transferred from South Africa Operations to facilitate the fulfilment of its Bank-wide responsibilities.

The Bank is focusing increasingly on enterprise risk management, which involves:

- The Bank-wide assignment of appropriate responsibility and accountability for all risks and resulting returns
- The adoption of a framework for integrated risk management that applies across all activities and risk types
- Comprehensive risk assessment, measurement, monitoring and reporting
- Formal risk governance processes
- Independent review
- The protection of the Bank's reputation

The Division is taking the lead in setting up enterprise risk management, developing the relevant policies, ensuring that the correct skills are in place throughout the organisation and addressing all aspects of change management.

The Bank has identified three high-level areas for risk management, namely market, credit and operational risk, with the latter including strategic and reputational risk. In conjunction with the structural changes indicated above, the activities involved in managing these risks are also being redefined. Appropriate functions throughout the Bank will be responsible for identifying, measuring, managing, mitigating, monitoring and reporting on the various elements of risk, while the aggregation of the Bank's risk profile will be done centrally.

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. An authorisation structure has been established for the approval and renewal of credit facilities within the limits of the delegated authority. Authorisation limits are allocated to business unit managers, the CEO and the Corporate Credit Committee. Large projects require approval by the Board Credit Committee or the Board of Directors, as appropriate. The Credit Risk Unit, reporting to the Chief Risk Officer, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures

- Limiting concentrations of exposure to counterparties, countries and sectors
- Reviewing the compliance of business units with agreed exposure limits, including those for selected sectors and country risk, reporting regularly to the Corporate Risk and Compliance Committee and the Audit Committee of the Board on the credit quality of the loan book, and taking appropriate corrective action
- Pre-signature risk analyses, post-signature risk analyses (asset management) and portfolio analyses

The Bank has also obtained collateral in different forms for certain loans. The estimates of the fair value are based on the values assessed at the time of borrowing, and are generally not updated except when the loan is individually assessed as impaired. Furthermore, the Bank renegotiates the terms of the loans where this is appropriate. The Bank's total loan portfolio remains well within the acceptable tolerances for credit risk. When the portfolio is evaluated over several years, there are neither significant changes in the quality of credit nor noticeable strategic risk migration trends. The short-term fluctuations remain insignificant. Borrowers classified as non-performing or in default are responsible for 4.9% of the total outstanding book debt at 31 March 2007 (5.4% in the previous year).

As the Development Bank grows into its new role as an integrator and implementer, it can expect an evolving set of risk exposures. The focused approach of the Operational Risk Management Unit is designed to improve the Bank's ability to manage these exposures. The Bank's significant operational risks include those related to human resources, legislative and regulatory requirements, reputation, systems and business continuity. During the year under review, the Bank implemented its Business Continuity Management strategy to improve its capabilities in this regard, and dedicated resources will be devoted to this strategy in future. The Operational Risk Management Unit coordinated a risk identification exercise across the Bank. Capacity to manage regulatory risk was also strengthened.

The DBSA is not regulated under the Banks Act and is therefore not formally obliged to comply with the capital adequacy regulations applicable to registered banks. However, as a leveraged financial institution, prudence requires it maintain levels of capital adequate to support both the credit risk assumed in its lending and the market and operational risks inherent in its business. Accordingly, the Board approved a Capital Adequacy Management framework, which is under review following the finalisation of

Basel II. In aligning itself with this framework, the Bank will pursue the following approaches:

- Standardised approach to credit risk
- Basic indicator approach to operational risk
- Internal models approach to market risk

As the Bank develops its capabilities, the costs and benefits of using more advanced measurement approaches will be considered.

Given the nature of the DBSA's activities, the greatest market-related risk arises from interest rates. The Board has recently approved the Bank's interest rate limits structure, which introduced limits for net interest income and market value of equity. In addition, a detailed risk management strategy was developed and approved, defining in precise terms the strategies and instruments to be used in containing interest rate risk exposures within acceptable boundaries.

The Workout and Recovery Unit recovered R81 million from defaulting clients during the year. R14 million was written off, with two rescheduling agreements approved and two more under consideration by clients. Six workout clients were transferred back to their respective operations units, while seven new clients were transferred to Workout and Recovery for assessment and turnaround.

The roles and operations of the Workout and Recovery Unit have also been reviewed to align them with the new strategy of the Division and the Bank more broadly, and to give effect to Vision 2014. The Unit will increase its capacity to deal with non-municipal clients, and its professional staff will provide support to distressed clients in the operational units more proactively, in addition to rehabilitating defaulters.

The Bank's risk exposure remained within acceptable limits over the past year. Details are contained in the Annual Financial Statements on pages 124 to 126.

This programme is aimed at the provision and rehabilitation of bulk and internal services and social infrastructure in the eThekweni Municipality.



Annual financial statements

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Directors' responsibility for financial reporting

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

In preparing the financial statements:

- The Development Bank of Southern Africa Limited Act, No. 13 of 1997, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adopted.

To enable the Directors to meet their financial reporting responsibilities:

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

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

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

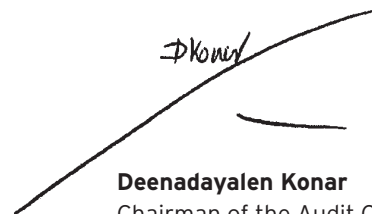
The financial statements that appear on pages 69 to 132 were approved by the Board of Directors on 22 June 2007 and signed on its behalf by:



Jayaseelan Naidoo
Chairman of the Board



Paul Cambo Baloyi
Managing Director



Deenadayalen Konar
Chairman of the Audit Committee

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee members and attendance are reflected on page 60 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 Regulation 27.1.7 and 21.1.10(b) and (c).

s51(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
 - (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 Accounting Authority and the Bank during the year under review.

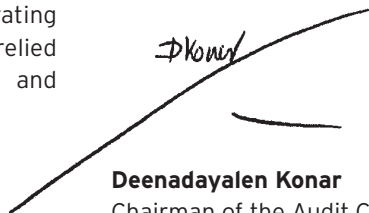
For the past financial year, the Bank has functioned without a dedicated Chief Financial Officer, the functions being performed by the Chief Risk Officer. For purposes of sound internal control and to meet the requirements of the PFMA and Treasury Regulations, it is essential that a Chief Financial Officer be appointed expeditiously.

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.



Deenadayalen Konar
Chairman of the Audit Committee

Report of the independent auditors to the Minister of Finance

Report on the financial statements

We have audited the financial statements of the Development Bank of Southern Africa Limited, which comprise the balance sheet at 31 March 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 69 to 132.

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 and the Companies Act of South Africa, sections 284 to 303 and schedule 4. 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 Development Bank of Southern Africa Limited at 31 March 2007, 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, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act.

Continued on page 68

Report on other legal and regulatory requirements

Reporting on performance information

We have completed our assurance engagement regarding the performance information as set out on pages 70 to 73.

Responsibilities of the accounting authority

The accounting authority has additional responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the performance against predetermined objectives that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

We conducted our assurance engagement in accordance with section 13 of the Public Audit Act, 2004 read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 (the General Notice).

In terms of the foregoing our engagement included performing procedures of an assurance nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. Our procedures performed included those contained in the General Notice and such other procedures as we considered necessary in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our findings reported below.

Findings

Based on our work performed, we have not identified any material shortcomings in the processes, systems and procedures of the entity's reporting against predetermined performance objectives.



KPMG Inc.
Registered Auditor

Per ME Magondo
Chartered Accountant (SA)
Registered Auditor
Director
22 June 2007

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria



Gobodo Inc.
Registered Auditor

Per MP Mainganya
Chartered Accountant (SA)
Registered Auditor
Director
22 June 2007

1st Floor, Block B Empire Park
55 Empire Road
Parktown
Johannesburg

The Directors have pleasure in presenting this report as part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2007. The report deals with the performance of the Bank and meets the relevant statutory information requirements. The Bank's Directors recognise and subscribe to the principles of good corporate governance. Further details regarding the Bank's corporate governance structures and practices are provided on page 55 of this Annual Report.

The Directors draw attention to the fact that this report contains estimated performance information on the impact of the Bank's participation in the economies of South Africa and other SADC countries through its funding in the region. This information is generated via Social Accounting Matrix (SAM) economic models, which are internationally accepted as good practice for macroeconomic impact analysis. The 2004 SAM for South Africa, which is based on published data from Statistics South Africa and the South African Reserve Bank, as well as the SAMs for the other SADC countries were adjusted to reflect current prices. The investment portfolio of the DBSA was used as an input into the SAMs. The resulting performance information is therefore subject to any limitations of the data used in the models.

The Bank achieved considerable success in the 2006/07 financial year, meeting or exceeding the large majority of its strategic objectives. This reflects its commitment to delivering on its vision of a region progressively free of poverty and dependence. In regard to sustainable development impact, the primary performance focus for the Bank, all but one of the performance targets were met or exceeded. Within South Africa, the Bank consolidated its support to disadvantaged (Market 3) municipalities through financing a larger number of smaller projects. In the rest of the SADC region, funding was focused on large and multi-country infrastructure projects. The Bank again increased the extent of its capacity building, training and research initiatives.

A key organisational intervention at the DBSA during the year was the strategic realignment programme. The initial two phases of this programme, which were completed by March 2007, first reviewed the Bank's strategy, structural alignment and organisational culture, and then focused on capacity, governance and institutionalising the new culture. The third and final phase will continue the implementation of the programme, deepening the values and entrenching the new culture architecture. Concurrently, the brand renewal and repositioning process was completed, culminating in the launch of the new DBSA brand in March 2007.

The functions of the Bank and nature of its business

The DBSA is a development finance institution wholly owned by the South African government. The Bank aims to deepen development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. The Bank supplements government and private finance through smart, knowledge-based partnerships with various role players in the public and private sectors, both nationally and internationally.

The DBSA's strategy and objectives

The Bank's strategy emphasises the importance of achieving development impact while maintaining its financial sustainability. The core strategic implementation system used is the Balanced Scorecard (BSC) methodology, where corporate strategic objectives and targets for a rolling three-year period are developed and approved by the Board of Directors, updated annually and submitted to National Treasury as part of the Corporate Plan. The corporate strategic objectives and targets reported on in this document were approved and submitted during the first quarter of 2006.

Subsequent to the approval of the 2006/07 BSC, the Board recommended that certain refinements be made. After the realignment programme started in mid-2006, further adjustments were made to ensure that the BSC correctly reflected the current strategic priorities. The following strategic objectives were replaced in an effort to align the BSC with the refocused strategy: the delivery of client-centred products and services, the building of a strong market awareness for DBSA products and services, the creation of new value propositions through innovative products and services, continuing transformation by employing staff in line with employment equity requirements, and the maintenance of high standards of corporate governance. The first two were replaced by a measure to set a baseline for customer satisfaction, which will be monitored annually, and the third by the corporate venturing process, which will enable more direct measurement of actual innovation outputs.

A comparison of planned and actual performance on high-level corporate objectives for the year under review is provided in the table overleaf. For ease of reference, performance during 2005/06 is shown in brackets, unless the target is new, in which case "Not a target in 2005/06" is noted. Auditing of performance information is required in terms of section 28(1)(c) of the Public Audit Act, No. 25 of 2004. This requires the Auditor-General to determine the standards that must be applied to the audits of the predetermined objectives. Government Gazette Notice 544 of 2006 gave notice that in the absence of auditing standards at this stage, the Auditor-General has adopted a phase-in approach, which is detailed in that Notice, until such time as the necessary standards have been developed.

The DBSA's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Enhance delivery of socio-economic services and infrastructure		
Approvals: Total value of loan and equity approvals (excludes guarantees): R3,8 billion	R8,3 billion (2005/06: R8,1 billion)	Target exceeded
Disbursements: Total value of loan and equity disbursements: R3,3 billion	R3,7 billion (2005/06: R3,1 billion)	Target exceeded
Total number of approved projects: 128	163 (2005/06: 145)	Target exceeded
2. Strategic objective: Build human and institutional capital for sustainable development		
Implement the approved research agenda at high quality: 75%	Research agenda revised and implemented, 75% at high quality	Target achieved
Number of learners from key markets (non-DBSA) trained in their core skill gap areas: 400	489 (Not a target in 2005/06)	Target exceeded
Total rand value of all major capacity building streams:		
• South Africa Operations and Private Sector and International Investments: R29,2 million	Total rand value of all major capacity building streams in South Africa Operations and Private Sector and International Investments: R42,1 million	Target exceeded
• Grant to the DBSA Development Fund: R100 million	No discretionary grant allocated to the DBSA Development Fund	
3. Strategic objective: Promote broad-based economic growth and regional integration		
Percentage of total loan and equity approvals value granted to BEE (excludes SADC): 15%	38% (2005/06: 31%)	Target exceeded
Percentage of total goods and services procured from or awarded to BEE: 55%	BEE spend was 48,3%; BEE contracts awarded were 55,7% (2005/06: 52%)	Target achieved

The DBSA's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Financial sustainability		
4. Strategic objective: Maintain sustainable financial health		
Cost of new debt:		
• Fixed ZAR: 40-45 bps above government benchmark	Fixed ZAR: 80 bps below government benchmark	Target exceeded
• Floating ZAR: swap equivalent of fixed benchmark	Floating ZAR: 117 bps below JIBAR, equivalent to 158 bps below government benchmark (Not a target in 2005/06)	
Cost to income ratio: 35%	34,3% (2005/06: 33,7%)	Target achieved
Growth in interest income: 6%	13,4% (Not a target in 2005/06)	Target exceeded
5. Strategic objective: Ensure high standards of risk, and management and quality of assets		
Total adjustments for impairments as a % of loan book: 6-8%	5,1% (2005/06: 5,2%)	Target exceeded
6. Strategic objective: Mobilise funds and partnerships		
Co-funding ratio (DBSA: co-funding): 1:2	1:5,32 (Not a target in 2005/06)	Target exceeded
Local rating and international credit ratings: Maintain sovereign ratings	Fitch (local): AAA(zaf) (2005/06: AAA(zaf)) Moody's (international): A2 (2005/06: Baa1) S & P (international): BBB+ (2005/06: BBB+)	Target achieved

The DBSA's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Effective business processes		
7. Strategic objective: Optimise business development, product and service delivery, and deliver higher levels of client service excellence		
Turnaround time for the loan and equity approval process (working days):		
• 15% improvement on baseline - South Africa Operations loans	South Africa Operations average turnaround on loan approvals 4,1 months (50% improvement on prior year)	Target exceeded
• 15% improvement on baseline - Private Sector and International Investments loans	Private Sector and International Investments average turnaround on loan and equity approvals 4,1 months (52% improvement on prior year)	Target exceeded
• 15% improvement on baseline - Private Sector and International Investments equity	(Not a target in 2005/06)	
Customer satisfaction rating: Set baseline rating	Customer satisfaction survey report completed: Baseline rating set at 83% (Not a target in 2005/06)	Target achieved
8. Strategic objective: Improve enabling processes to support better client outcomes		
Improved efficiency levels of prioritised supporting processes: Set baseline efficiency levels	Baseline efficiency levels set for automated enabling processes (Not a target in 2005/06)	Target achieved
Balanced Scorecard perspective: Learning and growth		
9. Strategic objective: Attract, develop and retain human capital		
Staff trained in line with their Division/Cluster core capability training programme: Core capability training programmes for each Division/Cluster signed off by Vulindlela and Executives	Staff trained in line with core capability training programmes determined by signed personal development plans submitted and additional training needs arising during the year; rated at 85% satisfaction by delegates (Not a target in 2005/06)	Target achieved
Fixed term contracts with Young Professionals: 20	22 (Not a target in 2005/06)	Target exceeded

The DBSA's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Learning and growth		
10. Strategic objective: Engender a culture of corporate entrepreneurship and development activism which lives the Bank's values and behaviours		
Number of innovative ventures submitted and screened under the corporate venturing process: 10	34 (Not a target in 2005/06)	Target exceeded
11. Strategic objective: Align and leverage information technology to enable knowledge-based decision-making		
Information available for Corporate, Cluster and Unit performance management reporting: BSC automation system rolled out and signed off	BSC automation system rolled out and signed off (Not a target in 2005/06)	Target achieved

In line with the Bank's commitment to ensuring that its development activities are sustainable, it not only appraises the financial, economic, technical and institutional aspects of proposed projects, but also appraises and reports on their environmental and social aspects. This report evaluates the Bank's performance in terms of the "triple bottom line", i.e. its impact in the economic, environmental and social spheres.

Economic report

Investment loans and equity

During the year under review, the Bank approved new projects to the value of R8,3 billion, which is R200 million higher than the previous record levels of 2005/06. In South Africa, approvals in the public sector amounted to R3,6 billion while approvals to private sector clients (corporate and project financing) reached R1,7 billion. The balance of R3,0 billion was in respect of projects in the rest of the SADC region.

In total, 128 project elements were approved for public sector clients and a further 35 for South African private sector clients or SADC private or public sector clients. This represents a growth of 12% in the number of approvals in 2005/06.

Within the South African public sector, the growth in the number of projects approved for Market 3 (poorly capacitated) municipalities continued. While 13,6% of the total number of approvals involved Market 3 clients during 2005/06, this increased to 41% of all municipal approvals and 25% of all approvals to public sector clients in South Africa during 2006/07. The bulk of the value of approvals to public sector clients, as in the previous year, was to

metropolitan authorities. These authorities represented 64% of the rand value of all municipal approvals and 41% of the total public sector approvals. Utilities remained prominent, with 21% of approvals to these clients.

Within the private sector and SADC arena, the total value of projects approved during the year increased by 58%. This was mainly the result of eight large-scale multi-country projects or PPPs with total project values in excess of R1 billion each. The Bank's contribution towards these eight projects amounted to R3,05 billion. The implementation of these projects will take place over a number of years and disbursement schedules will naturally follow these rollout plans.

Broad-based black economic empowerment

Black economic empowerment (BEE) continued to be a priority during the year and the Bank's operational divisions promoted BEE principles in their investments. The South Africa Operations Division aimed to influence their public sector clients' tender processes to give small contractors and BEE companies more exposure to the funded projects. During 2006/07, R778 million of the total amount approved was for BEE and small contractors. The Bank also approved R786 million worth of corporate and project financing BEE deals during the year.

Leveraging private sector and international investments

During 2006/07, the Bank mobilised funding from other sources equal to R5 for every rand it approved of its own development investments. This sharp increase from the 1:1 ratio of the previous financial year stemmed mainly from the approval of the eight large

projects referred to above. Within South Africa Operations, especially in respect of utilities and metros, a co-funding ratio of 1:1,25 was achieved, also indicating the increased availability of funding for development.

Managing risks in delivering sustainable services

Responsible risk taking is vital for the Bank to maintain a balance between delivering sustainable development impact and ensuring its financial viability. The DBSA's sound risk management practices comply with the Generally Accepted Risk Principles (GARP), in terms of which the Board is responsible for understanding the risks taken by the Bank and ensuring that they are appropriately managed. The Audit Committee considers risk policies on delegated authority and recommends them to the Board for approval.

During the year, the strategic realignment programme identified the need for the Bank to assume the roles of implementer and integrator of development solutions; it also emphasised the importance of focusing on poorly capacitated Market 3 municipalities. Since this brings new challenges in risk management, a Group Risk Assurance Cluster, headed by a Chief Risk Officer, was created to coordinate all the Bank's approaches to risk management. Implementation of the new enterprise-wide risk management framework is under way and will continue into the new financial year.

The Board of Directors is satisfied that the Bank's risk management processes enabled it to manage its risk exposures appropriately. The Board is also not aware of any breakdown of risk management processes or controls. The risk profile of the Bank's total loan portfolio remained within acceptable levels in the year under review, with 2% (1% in 2005/06) considered as high risk, 24% (18%) as medium risk and 70% (75%) as low risk. The defaulter category improved from 6% in 2005/06 to 4% in 2006/07.

Customer satisfaction survey: preliminary results

In the course of the year, the Bank defined a BSC measure to establish a customer rating benchmark and assess client satisfaction regarding its products and services. A customer survey was subsequently conducted on behalf of the Bank, covering a range of clients including municipalities, provincial and local governments, utilities, SADC clients and other development finance institutions. The survey rated the DBSA's performance in three key areas: putting the client first, empowering the client and informing the client. The survey found high levels of satisfaction: on a scale of 1 to 5, the DBSA was rated at 4,3 on the first measure and 4,4 on the

other two. Clients indicated that the Bank could improve turnaround times, feedback and efficiency. While the survey revealed general satisfaction with its client relationships, the Bank is committed to maintaining or improving its performance in this regard.

Monitoring and evaluation

The Bank prioritised the monitoring function during the year. The renaming of the Monitoring and Evaluation Unit as the Operations Evaluation Unit underlined the importance of tracking the effectiveness of the Bank's development interventions. Several monitoring and evaluation workshops were conducted to build institutional capacity in this regard, and the monitoring and evaluation module in the Bank's CORE operations management system was reviewed and will now be redesigned.

Work commenced on developing robust macro tools for measuring the Bank's aggregate socio-economic impact. A total of 15 evaluations were conducted on Bank projects, of which 12 were in South Africa, and the Bank continues to disseminate critical development experiences through publications such as the *Lessons Learnt Report 2006* and the *Development Effectiveness Report 2006*. The Bank also sponsored a panel discussion at the inaugural South African Monitoring and Evaluation Association conference in March 2007, titled "The Millennium Development Goals: Challenges for country-level monitoring and evaluation".

Social report

Building human and social capital

The Bank's commitment to building the human and social capital of its clients and the wider development community is reflected in the following activities during the year:

- **Education:** The Bank co-hosted a successful conference on "Investment choices for education in Africa" from 19-21 September with the HSRC, Wits University and NEPAD. The conference attracted a large number of high-level delegates and speakers from South Africa and the region, and a selection of international education specialists. The Bank also presented papers, for example at the 16th Conference of Commonwealth Education Ministers and at the HSRC colloquium on Poverty and Education.
- **Health impact assessment (HIA):** The Bank approved an HIA paper that defines the nature and scope of HIA for development projects that may pose a risk to human health. HIA provides the framework for preventing, minimising or mitigating health risks, and details mechanisms for maximising

health opportunities. Guidelines are being developed to mainstream HIA into existing appraisals.

- *Municipal health:* To highlight the challenges that municipalities face in establishing municipal health services, the Bank presented discussion papers at conferences, provided advice to provinces dealing with the devolution of services to district municipalities, and commissioned research on municipal health. The results of the research will be available in 2007/08.
- *Upgrading of voluntary counselling and testing (VCT) facilities:* In collaboration with the national and provincial departments of health, the Bank manages a programme to upgrade infrastructure for voluntary counselling and testing. Through a financial cooperation agreement between the German and South African governments, the upgrading or rehabilitation of approximately 150 health facilities is currently under way in three provinces, largely using emerging and BEE-compliant contractors.
- *Infrastructure Delivery Improvement Programme (IDIP):* In terms of a partnership agreement with the National Treasury and the Construction Industry Development Board, the DBSA guides the management of infrastructure delivery and supports provincial departments in planning, managing and sustaining infrastructure delivery. The Minister of Finance has commissioned a review of the Infrastructure Delivery Improvement Programme, which the Bank will lead.
- *Knowledge sharing and advocacy:* The Bank hosted Health Development Dialogues on a range of topics: the Global AIDS Report, JIPSA and the health sector, Health Inequality, and Health Highlights in the 2007 Budget. It also supported two health infrastructure conferences: Designing for Sustainable Healthcare Facilities in Africa, hosted by the CSIR; and the 11th International Conference of the International Society for Telemedicine and eHealth, co-hosted by the South African Medical Research Council, the South African Department of Health and the Presidential National Commission.
- *Gender issues: Women in construction:* The DBSA continued to incubate South African Women in Construction (SAWiC), which has formed strategic partnerships with the Independent Development Trust (IDT) and the South African Federation of Civil Engineering Contractors. In November 2006, the Bank co-hosted the first Convention for Women in Construction in South Africa, which attracted local and international delegates and speakers, and yielded strategic partnerships, sponsorships and a pilot project.

Human capital

The Bank continues to honour its social responsibility towards its staff. It regularly reviews the relevant policies to ensure compliance and best practice, and provides an Employee Assistance Programme that supports staff on a range of issues, including HIV and AIDS.

During 2006/07, the Human Capital Strategy was reviewed as part of the strategic realignment programme. This resulted in the approval of a new Human Capital Model and Operational Framework. In terms of the framework, the Human Capital Group now consists of three units: Human Capital, Organisational Leadership and Talent Search, and Remuneration and Executives Management. These changes became operational on 1 April 2007.

In support of the new culture architecture, the Human Capital Group embarked on the following four projects aimed at supporting the realigned DBSA strategy:

- *Culture architecture:* The Bank adopted a new culture architecture in line with the strategic realignment. Supported by the brand renewal process, it will be propagated within the Bank through culture activation workshops and continuous change process engagement.
- *Governance framework:* This project aligned the Bank's good governance ethos to the new strategy, which assessed current governance and discipline of execution to inform an enhanced governance model.
- *Performance management and reward:* This project aimed to build synergies and enhance integration between performance management and reward and recognition across the Bank.
- *Skills and competencies:* In order to derive the appropriate human capital and skills configuration for achieving the Bank's strategy and vision, this project assessed the skills and competencies required to align the Human Capital and Bank strategies and inform ongoing capacity building.

Employee turnover

As at 31 March 2007, the Bank had 514 employees, excluding those appointed on a contract basis. During the year, 48 permanent staff members left the Bank, compared with 47 in the previous year. During 2006/07, the Bank's approved staff complement (including Development Fund employees) increased from 597 to 618.

Employee profile

The Bank continues to strive for a balanced staff complement within the employment equity strategic framework. On 31 March 2007, the profile of its permanent employees was as follows:

Job category	Black		Asian		Coloured		White		Total
	Female	Male	Female	Male	Female	Male	Female	Male	
Executives/Management	9	16	0	1	0	1	3	5	35
Professional	81	85	10	8	5	2	44	93	328
Support	80	27	3	0	5	4	29	3	151
Total	170	128	13	9	10	7	76	101	514
Percentage (%)	58		4		3		35		100

In addition, the DBSA employs 59 contractors, 81 Development Fund contractors, 30 young professionals, one intern and a staff member seconded to another institution. This brings the overall staff complement as at 31 March 2007 to 686.

Environmental report

The DBSA continues to place particular emphasis on the environmental impact of its products and services, as well as its own operational activities. Examples of the products and services that the Bank delivered in support of the natural environment during the year include the following:

- A *Handbook on Environmental Impact Assessment* covering the legal and regulatory requirements in the SADC region was developed by the DBSA, in partnership with the Southern African Institute for Environmental Assessment (SAIEA).
- The Bank has developed an *Environmental Management System* manual for its facilities in line with the international standard, ISO 14001.
- The DBSA Board approved the *environmental strategy* and recommendations for implementation in April 2007.
- The *Environmental Fund* was launched as an innovative additional facility to leverage the Bank's activities and efforts in promoting sustainable development.
- The *Sustainability Reporting Framework* was completed and will enhance the application of best practice in mainstreaming environmental work in the Bank's operations.

Development impact

Through its funding of infrastructure projects, the Bank contributes indirectly to the economy of South Africa and the broader region. In line with its mandate, the Bank focuses on development interventions that will improve the quality of life of its client

communities and promote economic growth and job creation. It estimates the impact of these interventions annually by applying Social Accounting Matrices (SAMs). These models not only assess the direct impact of the Bank's activities but also estimate the indirect and induced effects of linkages with other parts of the economy, such as the production of construction materials used on these projects, or wages and profits that are spent elsewhere in the economy.

The following table underscores the extraordinary nature of the 2006/07 financial year in terms of approvals (DBSA and co-funders). Mainly as a result of the eight particularly large projects referred to above, total approvals were 117% higher than in 2005/06 (87% higher in South Africa and 380% in other countries). The DBSA's contribution to the total approvals was only R8,3 billion, which was slightly lower in real terms than its contribution in 2005/06. Signed agreements by the Bank grew by 33% overall, with South African investments growing by 39% and investments in other countries by 11%. Total funds disbursed by the Bank increased on average by 15% real growth, with South African investments increasing by 5% and those in other countries by 53%.

The significant change in the magnitude of the funding portfolio also affected its sectoral composition. Most notably, transportation as a proportion of total approvals by the DBSA and its co-funders increased significantly from 1,1% in 2005/06 to 57,6% in 2006/07, with the other sectors, specifically water, falling correspondingly. This should not be seen as an indication of a change in funding policy, as it is rather related to the magnitude of these particular investments. For total disbursements in South Africa, the relative share of residential facilities increased from 3,7% to 22,7%, while the water sector declined from 29,4% to 9,9% in 2006/07.

The table on page 79 compares the estimated economic impact in the southern African region in 2006/07 with that of 2005/06, at 2006 prices.

Funds approved and disbursed

DBSA funding	2005/06 Current prices (R billion)	2005/06 Constant 2006 prices ¹ (R billion)	2006/07 (R billion)	Real growth (%)
Total funds approved: DBSA and co-funders	23,0	24,1	52,2	117
South Africa	20,6	21,6	40,2	87
Other countries	2,4	2,5	12,0	380
Funds disbursed: DBSA	3,1	3,2	3,7	15
South Africa	2,5	2,6	2,7	5
Other countries	0,6	0,6	1,0	53

1. Figures for 2005/06 converted to 2006 prices by adjusting for inflation (CPI) to enable meaningful comparisons of the two financial years.

The SAM models suggest that the total funding approved by the Bank and its co-funders in 2006/07 could create an additional 298 200 employment opportunities in the southern African region (of which 223 600 would be in South Africa). This would be 91% higher than the previous year, largely owing to the extraordinary approvals this year. Note that these are only potential impacts, as the funds have not been spent as yet. Only the disbursement part of the funding portfolio will have had an actual impact on employment: it is estimated that the Bank's disbursements created 25 000 employment opportunities in the region, of which 18 200 were in South Africa.

The models further suggest that the potential impact on GDP of the total funding approved by the Bank and its co-funders could be R44,8 billion, of which R32,8 billion would be in South Africa. This would constitute approximately 1,9% of South Africa's GDP at market prices in 2006/07 (1,2% in 2005/06). The actual impact of the Bank's own disbursements on South Africa's GDP is estimated at R2,3 billion, compared with R2,0 billion in 2005/06.

A third impact would be on the use of capital. To support the economic activity initiated by the Bank's disbursements, a capital amount of R6,8 billion (R4,8 billion in South Africa) would need to be employed directly and indirectly in the southern African region. The R4,8 billion would be made up of R2,7 billion in disbursements plus R2,1 billion in capital employed indirectly, i.e. invested by other industries to supply the additional materials and goods required, and would amount to 1,5% of South Africa's total gross fixed capital formation in 2006/07 (1,9% in 2005/06).

These estimates can also be used to gauge the performance of the DBSA against the national average. For example, the GDP to capital ratio for total approvals by the DBSA and its co-funders in South Africa is 0,40 (down from 0,43 in 2005/06), as against the national ratio of 0,53. The ratio of employment per R1 million capital employed is 2,7 (3,4 in the previous year), compared with the national figure of 3,2. The relatively lower ratios result from the fact that the Bank invests in sectors of the economy that have relatively low GDP and labour multipliers. This follows largely from its mandate, which directs its funds towards basic infrastructure rather than directly productive sectors. However, such basic infrastructure supports the functioning of the rest of the economy, and hence contributes indirectly to economic growth and job creation.

Finally, the projects funded by the Bank have an indirect impact on taxes: greater economic activity provides the government with additional tax revenue. The potential tax impact of the projects approved by the Bank and its co-funders in South Africa in 2006/07 is estimated at R9,1 billion. Should the government spend this revenue in the same manner as the national budget, it could potentially do all of the following over the medium term:

- Appoint 12 800 additional educators
- Provide an additional 2 200 fully serviced hospital beds
- Appoint 230 new doctors
- Pay R470 in additional grants per beneficiary per year
- Construct 12 000 low-cost houses

Sectoral composition of funding portfolios (%)

Sectors	Approvals: DBSA and co-funders		Disbursements: DBSA	
	2005/06	2006/07	2005/06	2006/07
Agriculture	2,4	1,6	1,7	0,7
Entrepreneurial and manufacturing	6,9	4,0	11,0	7,3
Mining	1,5	0,0	0,6	0,0
Tourism	5,0	1,0	5,2	0,9
Communication	7,7	7,1	1,0	2,6
Education: formal, recreational and residence	0,8	1,0	2,4	2,8
Education: non-formal and vocational	0,0	0,0	0,1	0,0
Energy	3,5	0,8	5,8	5,7
Data, research and information analysis	0,0	0,0	0,1	0,1
Institution building	0,1	0,1	0,4	0,8
Policy	0,0	0,0	0,0	0,1
Residential facilities: formal and non-formal	12,8	7,4	3,7	22,7
Roads and drainage	18,5	7,8	9,5	10,7
Sanitation	1,1	0,5	7,1	2,1
Social infrastructure	20,8	10,1	21,5	31,1
Transportation	1,1	57,6	0,5	2,5
Water	17,8	1,0	29,4	9,9
Total	100	100	100	100

Estimated economic impact in southern Africa

Indicator	Approvals: DBSA and co-funders		Disbursements: DBSA	
	2005/06	2006/07	2005/06	2006/07
GDP (R billion)	21,9	44,8	2,5	3,6
South Africa	18,9	32,8	2,0	2,3
Other countries	3,0	12,0	0,5	1,3
Employment (number)	156 500	298 200	17 100	25 000
South Africa	141 500	223 600	14 100	18 200
Other countries	15 000	74 600	3 000	6 800
Capital employed (R billion)	48,6	98,8	6,2	6,8
South Africa	43,6	81,6	5,1	4,8
Other countries	5,0	17,2	1,1	2,0
Low-income households (R billion)	3,1	6,8	0,4	0,5
South Africa	2,8	5,2	0,3	0,4
Other countries	0,3	1,6	0,1	0,1
Total government revenue (R billion)	5,9	12,3	0,7	0,9
South Africa	5,3	9,1	0,6	0,6
Other countries	0,6	3,2	0,1	0,3

Information required under Schedule 4 of the Companies Act

Share capital and dividends: The callable capital of the Bank is R4,8 billion and the paid-up capital R200 million. A nil dividend has been declared for the current financial year (2005/06: nil).

Directorate and Secretariat: The names of the members of the Board of Directors and the Secretariat appear on pages 8 to 11.

Board committee memberships: Details appear in the corporate governance statement on page 60.

Directors' emoluments: Details appear from page 121.

Balance sheet at 31 March 2007

<i>in thousands of rand</i>	Notes	2007	2006
Assets			
Cash and cash equivalents	7	890 357	1 453 997
Trade and other receivables	8	168 839	100 334
Non-current assets held for sale	9	-	3 187
Financial market assets	10	5 265 217	6 555 917
Post-retirement medical benefits investment	11	74 175	68 643
Home ownership scheme loans	12	21 203	22 697
Equity investments	13	1 025 485	704 069
Development loans	14	20 197 036	17 299 175
Intangible assets	15	3 716	5 490
Property and equipment	16	279 996	205 205
Total assets		27 926 024	26 418 714
Equity and liabilities			
Trade and other payables	23	497 463	598 724
Liability for funeral benefits	24	3 371	3 253
Liability for post-retirement medical benefits	25	172 204	130 902
Financial market liabilities	26	12 714 755	12 467 179
Total liabilities		13 387 793	13 200 058
Share capital	17	200 000	200 000
Permanent government funding	18	3 792 344	3 792 344
Revaluation reserve on land and buildings	19	191 079	115 109
Hedging reserve	20	13 251	19 511
Reserve for general loan risks	21	613 420	531 775
Fair value reserve	22	(18 632)	14 275
Retained earnings		9 746 769	8 545 642
Total equity		14 538 231	13 218 656
Total equity and liabilities		27 926 024	26 418 714

Income statement for the year ended 31 March 2007

<i>in thousands of rand</i>	Notes	2007	2006
Operating income		1 818 698	1 591 205
Interest income	27	2 540 813	2 240 054
Interest expense	28	(1 243 424)	(1 059 888)
Net interest income		1 297 389	1 180 166
Movement in impairments	29	(17 925)	56 118
		1 279 464	1 236 284
Other operating income	30	189 110	120 931
Net foreign exchange gain/(loss)	31	159 291	(40 193)
Revaluation of financial instruments	32	190 833	274 183
Technical assistance grants		(32 102)	(32 980)
Operating expenses		(503 824)	(457 843)
Staff costs	33.1	(346 798)	(315 644)
General and administration expenses	33.2	(151 378)	(135 396)
Depreciation and amortisation	33.3	(5 648)	(6 803)
Profit from operations		1 282 772	1 100 382
Grant to the DBSA Development Fund		-	(172 000)
Profit for the year		1 282 772	928 382

Statement of cash flows for the year ended 31 March 2007

<i>in thousands of rand</i>	Notes	2007	2006
Cash flows from operating activities		464 475	620 758
Interest received from development loans	36.1	1 641 582	1 741 958
Interest received from equity investments	36.1	–	8 195
Interest received from investments	36.2	559 072	476 779
Interest paid	36.3	(1 233 131)	(1 059 834)
Dividends received		86 227	199
Cash utilised by other operations	36.4	(589 275)	(546 539)
Cash flows from development activities		(2 315 404)	(1 259 325)
Development loan disbursements		(3 557 786)	(2 924 652)
Development loan principal repayments		1 325 819	1 597 232
(Increase)/decrease in equity investments		(51 335)	101 075
Technical assistance grants paid		(32 102)	(32 980)
Cash flows from investment activities		245 924	379 310
Replacement of property, equipment and intangible assets		(2 695)	(32 199)
Proceeds on disposal of non-current assets		5 913	–
Financial market assets		242 706	411 509
Cash flows from financing activities		980 964	(246 214)
Financial market liabilities repaid		(66 452)	(328 291)
Financial market liabilities raised		1 047 416	82 077
Movement in cash and cash equivalents before exchange rate effect		(624 041)	(505 471)
Effect of exchange rate changes on cash and cash equivalents		60 401	5 545
Movement in cash and cash equivalents after exchange rate effect		(563 640)	(499 926)
Cash and cash equivalents at the beginning of the year		1 453 997	1 953 923
Cash and cash equivalents at the end of the year		890 357	1 453 997

Statement of changes in equity for the year ended 31 March 2007

<i>in thousands of rand</i>	Notes	2007	2006
Share capital	17	200 000	200 000
Permanent government funding	18	3 792 344	3 792 344
Revaluation reserve on land and buildings	19	191 079	115 109
Opening balance		115 109	87 422
Surplus on revaluation of buildings		75 970	27 687
Hedging reserve	20	13 251	19 511
Opening balance		19 511	47 994
Fair value adjustments of cash flow hedges		(6 260)	(28 483)
Reserve for general loan risks	21	613 420	531 775
Opening balance		531 775	554 915
Transfer from retained earnings		81 645	(23 140)
Fair value reserve	22	(18 632)	14 275
Opening balance		14 275	49 463
Movement in valuation of financial instruments: Fair value adjustment of available-for-sale financial market instruments		(32 907)	(35 188)
Retained earnings		9 746 769	8 545 642
Opening balance		8 545 642	7 594 120
Profit for the year		1 282 772	928 382
Transfer to reserve for general loan risks		(81 645)	23 140
Total equity and reserves at the end of the year		14 538 231	13 218 656

1. Reporting entity

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

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved by the Board of Directors on 22 June 2007.

2.2 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.
- Non-current assets held for sale are stated at the lower of carrying amount and fair value less cost to sell.
- Post-retirement medical benefit and funeral benefit obligations are stated at actuarial values.
- Equity investments are measured at fair value.

The methods used to measure fair values are discussed further in note 4.

2.3 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.

2.4 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 are described in the following notes:

- Notes 10 and 26 - valuation of financial instruments
- Note 13 - valuation of equity investments
- Note 14 - measurement of the recoverable amounts of development loans
- Note 16 - valuation of land and buildings
- Notes 24 and 25 - measurement of post-retirement medical benefit and funeral benefit obligations

The Bank's risk management policies and procedures are disclosed in the risk management section starting on page 61 of the Annual Report.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as detailed in note 5.1 in respect of IAS 39 changes.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 5).

3.1 Financial instruments

Financial instruments recognised on the balance sheet include derivative instruments, investments in debt securities, loans and accounts receivable, cash and cash equivalents, liabilities, accounts payable, and interest bearing debt. Financial instruments are initially measured at fair value including transaction costs, except those at fair value through profit or loss, when the Bank becomes a party to contractual arrangements. The subsequent measurement of financial instruments is dealt with in subsequent notes. Where the Bank can legally do so and the Bank intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset within the balance sheet amounts.

Cash and cash equivalents comprise cash balances and fixed and call deposits.

3.1.1 Classification of financial instruments

Management determines the appropriate classification of financial assets at initial recognition.

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

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. The Bank manages these instruments with a documented risk strategy.

Assets carried at fair value through profit or loss consist of money market and capital market instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are created by the Bank by providing money to a debtor other than those created with the intention of short-term profit taking. Loans and receivables comprise development loans and advances to customers as well as bonds purchased and collateralised debt transactions.

Held-to-maturity investments

Held-to-maturity assets are non-derivative financial assets which include investment securities with fixed or determinable payments and fixed maturity dates and the Bank has the intent and ability to hold to maturity. If the Bank was to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets and the difference between amortised cost and fair value will be accounted for in equity. Financial instruments are not classified as held-to-maturity for a period of two years after tainting.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not loans and receivables, held at fair value through profit or loss or held-to-maturity. They are held for an indefinite period of time and may be sold in response to needs for liquidity. Available-for-sale assets consist of money market placements and certain debt and equity investments.

Financial liabilities

Financial liabilities that do not form part of an effective hedging relationship are classified as either liabilities held at amortised cost or liabilities carried at fair value through profit or loss, depending on the Bank's designation election.

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

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

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 policy, the Bank does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as financial instruments held at fair value through profit or loss.

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 not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at their fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy on hedge accounting).

3.1.2 Recognition and measurement of financial instruments

Regular way purchase and sale transactions in respect of financial assets that require delivery of financial instruments within the timeframe established by market convention are recorded at trade date.

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

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

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

Held-to-maturity loans and loans and receivables are recognised on settlement date.

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

All loans and receivables, held-to-maturity investments and all financial liabilities, except for those held at fair value through profit or loss and those that form part of an effective fair value hedge, are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Impairments of financial assets are recognised in separate impairment accounts (refer to impairment policy below).

3.1.3 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 accounting note 3.1.2).

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 balance sheet and are reported as either positive or negative fair values.

Fair value hedges

Where 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 hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate 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 hedges

Where 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 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).