Development Bank
of Southern Africa

Annual Report
1983·84

Mission

The mission of the Development Bank of Southern Africa is to promote economic development in its broadest sense and thus raise the standard of life of the people in the less developed areas of the Southern African economic region.

The objectives as formulated in the Articles of Agreement are:

- ☐ to reduce imbalances in the levels of economic development between the economically less developed and the more developed areas of the region;
- ☐ to provide finance to meet the important developmental requirements of participating governments on terms which are generally more flexible and bear less heavily on their available resources than those of conventional loans, thereby furthering the developmental objectives as set out;
- ☐ to provide technical assistance and training in the identification, preparation, evaluation, financing, implementation and management of development actions, including the study of priorities and the formulation of specific project proposals, when so requested, on terms and conditions to be decided by the Bank;
- ☐ to promote the investment of public and private capital for developmental purposes and to utilise capital funds raised by it in financial markets and other resources available to it, for financing development in the region, giving priority to those loans and guarantees that will contribute most effectively to economic development.

In a Joint Declaration to Promote Private Investment which preceded the establishment of the Bank, the member governments declared their belief:

"...that the private business sector can and must play a vital role in the economic development of our countries and in raising the standard of living of all our peoples."

In the Articles of Agreement effect is given to this principle by prescribing that, in carrying out its functions the Bank shall, where appropriate, strive to co-operate with other public or private entities involved in the development of the region and with the national development agencies and institutions, as well as with private sources supplying capital and other resources.

Contents

Development Bank of Southern Africa

Council of Governors

The Honourable O P F Horwood	RSA — Minister of Finance and President of the Council
The Honourable R F Botha	RSA — Minister of Foreign Affairs and Information
Dr G P C de Kock	RSA — Governor of the Reserve Bank of South Africa
Dr the Honourable D J de Villiers	RSA — Minister of Industries, Commerce and Tourism
The Honourable J C Heunis	RSA — Minister of Constitutional Development and Planning
Dr the Honourable P G J Koornhof	RSA — Minister of Co-operation and Development
The Honourable Chief M E P Malefane	CISKEI — Minister of Finance and Economic Development
The Honourable S M Qaba	TRANSKEI — Minister of Finance and Audit
The Honourable S L L Rathebe	BOPHUTHATSWANA — Minister of Local Government and Housing
The Honourable Gota F N Ravele	VENDA — Minister of Economic Affairs

Alternate Governors

The Honourable R Cronjé	BOPHUTHATSWANA — Minister of Manpower and Co-ordination
Mr I Melville	CISKEI — Director General, of the Department of Finance and Economic Development
The Honourable Gota E R B Nesengani	VENDA — Minister of Education
The Honourable K G Nota	TRANSKEI — Deputy Minister of Health

Board of Directors

Dr S S Brand	Chairman and Chief Executive of DBSA
Mr J A Botes	Chairman, Venda Development Corporation
Mr M T de Waal	Managing Director, Industrial Development Corporation
Mr G F Godden	Deputy Chancellor, Rep of Ciskei
Mr J B Maree	Executive Director, Barlow Rand Ltd
Dr P R Morkel	Managing Director, Volkskas Group
Mr G S Muller	Deputy Vice Chairman & Chief Executive Officer, Nedbank Ltd
Prof W L Nkuhlu	Vice Principal, University of Transkei
Mr R A Plumbridge	Chairman, Goldfields Ltd
Dr A P Scholtz	General Manager, Noordwes-Koöperasie Ltd
Mr W J J van Graan	Managing Director, Bophuthatswana National Development Corporation Ltd

Alternate Directors

Dr D H M Bridgman	Presidential Advisor on Development, Rep of Ciskei
Dr W J de Villiers	Chairman, Commission of Inquiry into Electricity Supply
Mr B E Keikelame	Secretary of Economic Affairs, Rep of Bophuthatswana
Dr D C Krogh	Executive Deputy Chairman, L & G V Insurance
Mr M R Madula	Secretary, Economic Affairs, Rep of Venda
Mr A S Nkonyeni	Managing Director, Job's Hardware
Mr P H Swart	Director, SAAU
Mr A J van den Berg	Chairman, Industrial Development Corporation

Highlights

November 22, 1979: Carlton Conference at which the Prime Minister of the RSA, the Hon P W Botha, mooted the idea of a development bank for Southern Africa.

July 23, 1980: Summit meeting between Heads of Governments of the Republics of South Africa, Transkei, Bophuthatswana and Venda, at which a Declaration was issued to Promote Private Investment. Subsequently ratified by the Republic of Ciskei.

During 1981 a regional development policy was adopted by participating governments according to which eight development regions in Southern Africa transcending national borders were defined.

November 12, 1981: Good Hope Conference, at which progress towards the establishment of DBSA was reported.

June 30, 1983: Agreement constituting DBSA was signed in Cape Town by the original member countries.

First meeting of the Council of Governors.

September 1, 1983: DBSA formally opened.

February 1, 1984: Commenced operations in offices in Sandton.

30 June 1983: The Articles of Agreement are signed by the five original member governments in Cape Town.

Pictured at the inaugural meeting of the Council of Governors in Cape Town on June 30, 1983 are (Front) The Hon Chief M E P Malefane, the Hon Gota F N Ravele, the Hon S M Qaba, the Hon P G J Koornhof, the Hon J C Heunis, the Hon O P F Horwood (President of the Council), Dr S S Brand (Chief Executive), the Hon K G Nota, Dr G P C de Kock (Back) Mr I Melville, the Hon R Cronje, the Hon D J de Villiers, the Hon Gota F R B Nesengani and the Hon R F Botha. Absent: The Hon S I L Rathebe.

Introduction

The Articles constituting the Development Bank of Southern Africa were signed in Cape Town on June 30, 1983 for the original member countries, the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei.

The signing ceremony was the culmination of extensive negotiations between the governments of the countries mentioned above and those of the self-governing states in South Africa; of planning for the rationalisation of their development institutions; and of innovative consensus on appropriate development strategies for the pluralistic economy of Southern Africa.

Almost four years earlier, the Prime Minister of the Republic of South Africa, the Hon P W Botha, addressed prominent members of the private and public sectors at the Carlton Conference and called for the clear formulation of an economic strategy for South Africa. In that strategy, the objective of economic development was to be emphasised in the structuring of economic co-operation in Southern Africa, thus enabling governments to make an important contribution to the development of the latent economic potentials of the less advanced regions.

At a subsequent summit meeting in Pretoria on July 23, 1980 the Heads of Government of the Republics of South Africa, Transkei, Bophuthatswana and Venda* agreed on a Declaration to Promote Private Investment. The framework of a regional development policy according to which eight development regions in Southern Africa transcending national borders were defined, was agreed to in 1981 by all the states now participating in the DBSA.

The establishment of the Development Bank of Southern Africa (referred to as DBSA or the Bank) was a direct result of the rationalisation of various development institutions which followed from these major initiatives towards co-operative economic development in Southern Africa.

DBSA is thus a multilateral development institution created by agreement between the five independent states mentioned above, the provisions of which are to be given effect to as necessary by legislation of the parliaments of these states. It was formally opened on September 1, 1983, and commenced operations on February 1, 1984, in offices in Sandton.

Article (1a) of the Bank Agreement stipulates as the primary function of DBSA "...to promote economic development in its broadest sense, increase productivity and thus raise the standard of life of the people in the less developed areas of the Southern African economic region included within the Bank's membership...". The self-governing national states in the RSA are not members in their own right but are represented in the Bank by the RSA. However, they have the same access as the member countries to the resources of and the services offered by the Bank.

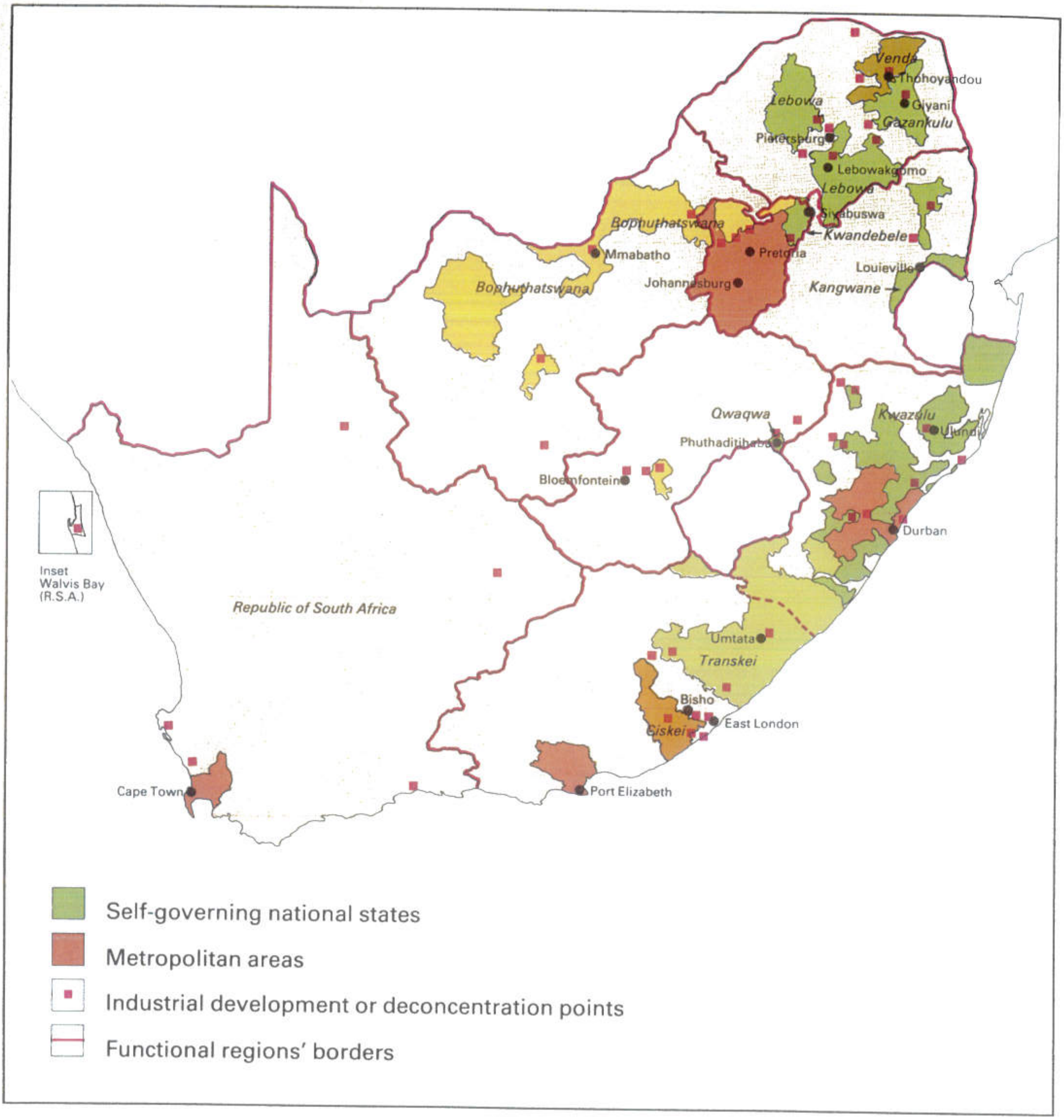
In terms of the Agreement, other independent countries in Southern Africa may join DBSA as members. Provision is also made for associate membership for countries outside Southern Africa which may wish to contribute to the resources of the Bank.

The framework within which the Bank functions is provided by the regional development policy referred to earlier. In addition to technical assistance, DBSA investments concentrate on physical and other infrastructural projects of participating states or their agencies, in accordance with the priorities assigned by the regional development policy to development in the eight development regions.

As the Bank was established formally only on September 1, 1983, this first report deals with only a part of a financial year, and will record the first steps of the Bank's operational activities. Some indication will also be given of the philosophy which may guide the operations of the Bank in years to come.

*The Republic of Ciskei subsequently subscribed to the Declaration

DBSA Participating States



Chairman's Report

Although this first annual report covers only part of a full financial year, it provides an appropriate opportunity to contemplate where DBSA stands in reaching the objectives identified during its long preparation period. It is also an opportunity to consider what the future may hold in store for DBSA.

The tasks set for DBSA, as encapsuled in the goals and functions set out in the Articles of Agreement, can be viewed in three dimensions.

- The first dimension involves achieving greater effectiveness in the utilization of resources for realising the development objectives of the participating governments.
- The second dimension is that of achieving greater effectiveness in mobilizing both financial and human resources for the development efforts of the participating governments.
- The third dimension relates to extending the scope of development co-operation — both within and beyond the present participating states.

As the first six months were occupied largely by actions related to setting up DBSA, this report concentrates mainly on the first of these three dimensions.

Dr S S Brand

Getting started

The Bank is now well established in its leased premises in Sandton. It has been fortunate in attracting expert staff from previous development institutions in the RSA and from the private sector, and 198 staff members had assumed duty by March 31, 1984.

The Board of Directors met monthly from July 1983, and at its early meetings much of the time was spent on establishing procedures and formulating criteria for the future operations of the Bank. The same applies to the activities of the management and senior staff. Taking into consideration that in many respects this involved pioneering work, what has been established in a relatively short period of time augurs well for early achievement of a smoothly functioning operation.

Close contact at the highest levels has been maintained by the Chief Executive and management members with participating governments. On the operational level, more than forty visits were paid to the participating states by various teams of the Bank.

These visits involved consultation with agencies of the participating governments on the identification and preparation of development projects for submission to the Bank with a view to their possible financing, on initiation of research on development possibilities of the various regions, on co-operation in the accumulation and maintenance of economic statistics, and to give advice on agricultural, industrial and other aspects of development. All in all, a constructive rapport has been established with all the participating states on activities related to the functions of the Bank.

As its first involvement in project financing, the Bank on February 1, 1984 took over the administration of seventy-nine loan agreements to the value of R352 million which the TBVC states had previously concluded with the RSA Government. In addition, the Bank has also taken over the preparation and appraisal of thirty-eight development projects which were initially submitted to the RSA. Another fifteen projects have been submitted to the Bank as new projects. The projects mentioned range from road construction, power and water supply and telecommunications projects to agricultural and industrial programmes and, in some cases, also housing and educational projects.

Although much has therefore been achieved in setting up the Bank as an effective development institution, certain matters are still outstanding and will require continued attention in the new financial year.

While the Bank has been fortunate in the expertise that it has been able to attract through its staff appointments, there is a continuing need to orientate staff, who were recruited from many different backgrounds, to the objectives and style of operation of DBSA.

There is also a need to give guidance to participating governments on the effective utilization of the services the

The First Board of Directors of the Bank, from left to right (front): Mr M T de Waal, Prof W L Nkuhlu, Mr W J J van Graan, Dr S S Brand (Chairman and Chief Executive), Mr J A Botes, Mr G F Godden. (Back): Mr A S Nkonyeni, Dr A P Scholtz, Mr R A Plumbridge, Mr A J van den Berg, Dr D C Krogh, Mr P H Swart, Dr D H M Bridgman, Mr M R Madula. Absent: Mr B E Keikelame, Mr J B Maree, Dr P R Morkel, Mr G S Muller, Dr W J de Villiers.

Bank offers. This applies in particular to the self-governing states in the RSA, who have to cope with the implications of changing from a grant system to a loan system and simultaneously have to assume other new responsibilities such as taking control of their own development corporations.

Likewise, there is a need for the Bank, in close consultation with all participating governments, to achieve greater clarity on their development objectives and strategies and on appropriate criteria derived from these, on the basis of which to appraise loan applications.

There also remain some outstanding matters with regard to the rationalization of RSA development institutions that affect DBSA. Aspects that need to be finalized in the new financial year include the distribution of the assets and liabilities of the Corporation for Economic Development, most of whose functions are being transferred to the national development corporations and the private sector, and the revision of financial arrangements between the RSA and the Bank's other participating states. In particular, attention will have to be given to the division of financing responsibilities between DBSA and participating governments on matters like housing and education.

Although not a short-term priority, attention will have to be given to the planning of the permanent headquarters of DBSA on a site to be made available by the RSA. During the period covered by this report, agreement was reached in principle on a suitable site, and the relevant RSA agencies set in motion the steps necessary to acquire the land in question.

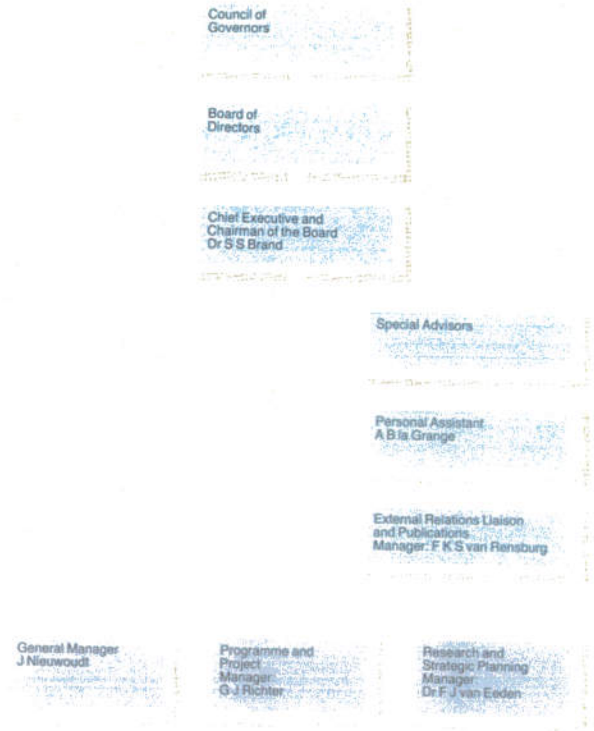
The process of getting the Bank started may on occasion have given rise to impressions of delays to outside observers. It should, however, be borne in mind that, although every endeavour was made to avoid laborious procedures, the Board and management of DBSA have considered it essential to give effect right from the start to the intention expressed in the Agreement that DBSA will not be influenced by political considerations in the allocation of its resources. One important way to ensure this is the establishment of systematic procedures and clear criteria for decision making.

In getting the Bank started as an effective development institution it has been the aim to establish a style of operation and conform to certain principles that must characterise the activities of DBSA:

- ☐ DBSA must play a supportive role vis-à-vis the private financial sector in that its projects must prepare the ground for projects that can meet the criteria set by private financial institutions. DBSA must play the role of a catalyst to mobilize private financing for projects that fall outside the scope of its own activities. Thus DBSA does not compete with the private financial sector in project financing since although the projects it finances must meet strict economic criteria, they cannot meet the financial criteria normally set by private financial institutions.

- ☐ DBSA must play a supportive role vis-à-vis the governments and official development agencies which have the primary responsibility for initiating and implementing development projects, but dies not assume the role of these entities.

- ☐ DBSA must play a supportive role to its borrowers by providing them with access to skills related to policy planning and the identification and implementation of development projects. This provides DBSA with the opportunity to play a creative role in the development of its participating states, and it is therefore not only a financial institution.



Mobilizing resources

While concentrating during this initial phase of its existence on assembling the required complement of skilled people and on putting to effective use the funds provided by its member states, DBSA has not yet become actively involved in the mobilization of external financial resources for development. At this stage the Bank is operating exclusively with the funds provided in the form of share capital by member states, the annual contribution of the RSA to its development fund, and other funds transferred to it in the process of rationalizing RSA development institutions.

The original scheduling of both share capital and development fund contributions had to be done without a firm basis on which to project administrative costs and future application possibilities for development funds. Consequently there are some inevitable divergencies between the initial scheduling and the actual flow of funds. The RSA pledge of R1500 million over five years for the development fund has, however, been reaffirmed by the RSA Minister of Finance and the Bank has kept in close touch with the treasuries of member states about the scheduling of funds — including the possibility of advancing share capital instalments of the RSA to the extent that development fund contributions may have to come in at a slower pace. In the latter respect it is already clear that, while the identifiable development needs of the participating states are huge, their translation into bankable projects and programmes that are viable in terms of both socio-economic benefits and the capacity to implement and manage them effectively, is one of the most urgent and difficult matters that will have to be addressed.

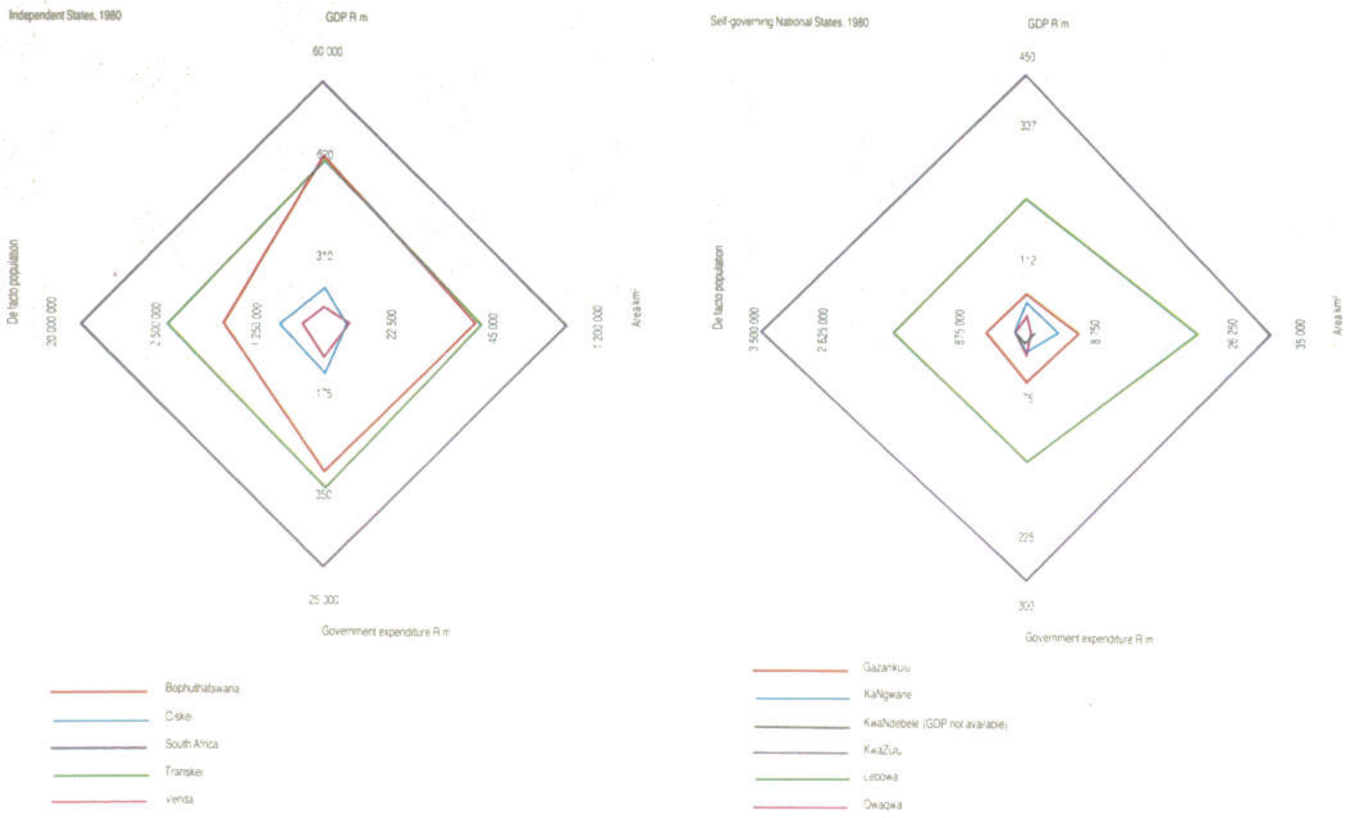
Against this background it is unlikely that DBSA will approach the local and foreign capital markets in the immediate future, except possibly for the roll-over of some of the liabilities that are to be taken over from RSA institutions. However, discussions with market parties, both locally and abroad, have been continuing with a view to testing the climate and preparing the markets for the Bank's entry. This could conceivably take place in time to affect the budget for the 1985/86 financial year of the Bank.

In these discussions attention has been given to issues related to timing, approach (e.g. public issues vs private placings), which markets to tap, and the nature of the security required by the markets and at the same time considered as appropriate from the Bank's point of view. Although initial indications are positive, it is the firm resolve of the Bank to approach the markets in such a way that success will be assured, as this must in the course of time become an essential source of funding for DBSA. An important aspect with regard to the timing is that once capital market funds are used, the average cost of the Bank's funds will rise, thus affecting its own lending terms, although these would still have to be appropriate to the nature of the projects financed as laid down in the Articles of Agreement of the Bank.

Scope of activities

With regard to the scope of its activities, the main issue for DBSA is that of where the emphasis of its development contributions should lie within the present participating states. The Agreement stipulates that it should be "...in the less developed areas of the Southern African economic region included within the Bank's membership". From discussions with participating governments and at Board

Some features of DBSA participating states



meetings, there is a clear indication that the priority lies in the TBVC countries and the self-governing states in the RSA.

The need to address the poverty problem in rural areas, as determined in various independent studies on development in Southern Africa, gives support to this emphasis. However, there is an awareness in the Bank that part of the solution to rural poverty lies in further urbanisation, including some in the existing metropolitan areas, and that there are also poverty problems in the urban areas. Moreover, the Bank Agreement does not preclude it from involvement in less-developed parts of the RSA outside the self-governing states, like, for instance, the Black urban areas. As with other participating states, borrowers in such areas of the RSA could be a variety of development agencies, including local authorities, but application would have to be channelled through the RSA designated agency, and backed by RSA Government guarantees.

The purpose of this procedure, which is prescribed in the Bank Agreement, is to effect co-ordination within the participating states and to avoid using the Bank's funds where other sources of financing are available on reasonable terms, considering of course the nature of the projects in question. In particular it is essential to avoid overlapping and duplication where private initiatives, like those of the Urban Foundation and the Small Business Development Corporation, have already proved their ability to play an important role as development catalysts. The procedures to be followed by official agencies in the RSA (excluding those in the self-governing national states) and by non-profit private groups aimed at development which wish to approach DBSA for funding, are under discussion with the RSA designated agency.

With regard to the scope of the Bank's activities beyond the borders of the present participating states, recent political and security developments in Southern Africa, such as the Nkomati Accord, have naturally raised questions about its role.

These developments have certainly improved significantly the political climate within which possibilities for economic co-operation in Southern Africa can be pursued. They may also have brought forward the time at which the broadening of the base of DBSA activities in Southern Africa could be realistically considered. Membership of the Bank is, according to its Articles of Agreement, open to any independent state in Southern Africa in accordance with such terms as may be prescribed by the present members.

The first priority of the original member states is, however, clearly within their own borders, and the functions of DBSA have thus far been structured accordingly. As is evident from the needs already identified, not only by the Bank but also in other organizations' studies, the Bank will be hard put to make a significant impact on these needs.

The Headquarters in Sandton.

Nevertheless there are good reasons for the present participating states to work towards a broader involvement in Southern Africa.

Such a broader involvement would not only enhance the international status of DBSA, but would also improve its access to private and other sources of overseas funding, as well as the possibilities for constructive co-operation with other international development institutions and groups.

From the viewpoint of all states in Southern Africa, the potential advantages of economic co-operation are so self evident that it would be strange if a development institution like DBSA were not to be affected thereby. Indeed, the Bank could, with the concurrence of all its member states, well become an instrument through which the economic strength of the RSA, and in particular its ability to attract foreign resources, could be harnessed to the benefit of the whole subcontinent.

Appreciation

In conclusion of this first report on the activities of DBSA to its Council of Governors, I wish to thank, firstly, the participating governments for their faith in this new venture, their farsightedness in bringing it into being, and their willingness to commit substantial resources and support to it, including valuable time given at the highest government level to myself and other officials of the Bank, to discuss policy issues.

My sincere thanks are also due to the members and alternate members of the Board of Directors who, despite a multitude of commitments, agreed so readily to serve on the Board. I am especially grateful that all members and alternates have approached their Board activities with the enthusiasm that they have, and continue to give of their time and effort to enable DBSA to benefit from their insight and experience.

I also thank the staff of the Bank who, having come from diverse backgrounds, have already come a long way in identifying with the new institution, attuning themselves to its objectives and style of operation and giving their best to get it started.

Lastly, my appreciation is due to members of the public in all the participating states and to the media for the widespread interest shown in the Bank and the objective coverage given to its establishment and subsequent activities.

Brief descriptive reports of the divisions of the Bank, and abbreviated financial accounts, can be found elsewhere in this report.

S S Brand
Chairman and Chief Executive

General Manager's Division

Finance and Administration

As at March 31, 1984 the paid-up share capital of the Bank amounted to R20 million, which amount was invested at market rates. The interest earned on this investment, together with recoveries due to the Bank by certain RSA government departments and institutions, was utilised for defraying administrative expenses. The Board has adopted a policy of investing funds at market related rates whilst striving to spread its investments over various financial institutions. During the period under review banking accounts were opened for general administration and for handling development funds.

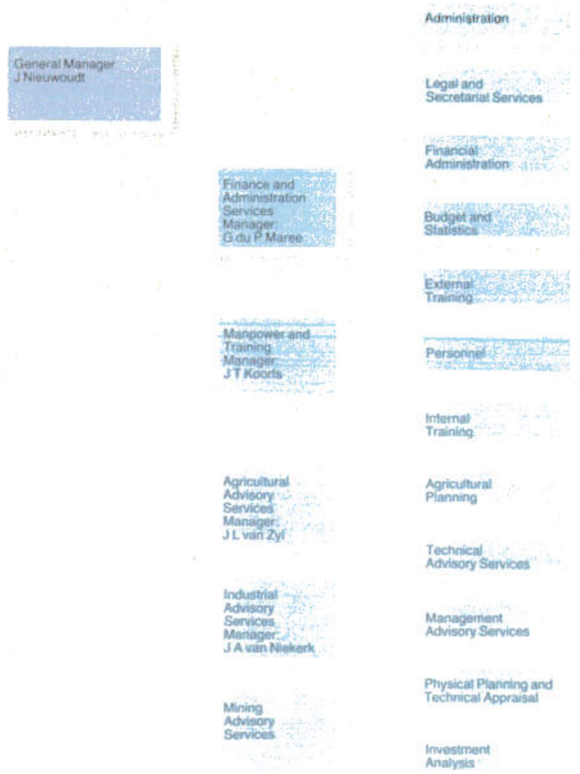
Up to March 31, 1984 an amount of R56 937 000 was received from the RSA Department of Foreign Affairs, for the credit of the Development Fund. This amount represents the unexpended portion of funds voted by the RSA Government in respect of 79 projects now taken over by the Bank from the RSA. Together with funds actually disbursed by the RSA on development projects in the participating states during 1983/84, this constitutes the RSA's first instalment over the five-year period to the Development Fund of the Bank.

An amount of R160 million, to be paid in 12 equal monthly instalments, has been provided in the RSA's 1984/85 budget for the Development Fund of the Bank, with an assurance that this can be increased to R200 million. Share capital totalling R36 million is also expected from the member states. It is not anticipated that the Bank will find it necessary to approach the capital market for additional new funds in the near future.

Towards the end of the financial year Board approval was obtained for the computerisation of certain activities. Tenders were called from a number of interested suppliers, and it is expected that an integrated system will become operative during the second half of 1984.

The Bank's head office has been established in leased premises in Sandton. Attention will soon have to be given to the erection of the Bank's own building. The question of a suitable site is already receiving attention in consultation with the RSA Department of Community Development, which will acquire the site and put it at the Bank's disposal. No branch offices have as yet been established.

During the period under review a healthy relationship was established with local suppliers of goods and services. This enabled the administrative division to render the full range of functions necessary for the Bank's operation.



Manpower and Training

By March 31, 1984, 198 appointments had been made to the staff of the Bank. In view of the unique situation of such a substantial number of new employees from a variety of backgrounds joining forces to form a new organisation, particular attention is being given to the training and development of employees. A number of courses have already been held, including team effectiveness training for the top management team and operational training for the Programmes and Projects Division.

The Manpower and Training Division, although extensively involved in the short-term creation of the necessary systems and procedures, is also in the process of developing long-term strategies to optimize the career potential of every employee and offer a manpower development service to member countries as a tangible expression of Article 1 of the Bank's Articles of Agreement. This article, which sets out the Bank's developmental functions, includes in Section V the provision of technical assistance and training in pursuance of development actions.

Advisory Services

Agricultural Advisory Services

The purpose of the division is to promote agricultural development in its broadest sense through the provision of a comprehensive and advanced technological advisory service.

The function of providing expert technology can be divided into external and internal activities.

External services are directed to members of the Bank, namely participating states and their development agents, and include all aspects of agricultural development.

Internal services provide expert advice to both the Programmes and Projects Division and the Research Division of the Bank.

Both externally and internally the activities of the division can be classified as follows:

1. Identification of new projects.
2. Physical planning of projects.
3. Viability studies.
4. Financial and economic advice.
5. Technical advice.
6. Managerial advice.
7. Project evaluation.
8. Monitoring of agricultural activities.

The division has at its disposal a broad spectrum of appropriate disciplines in the various fields of agricultural development, with specialist experience ranging from involvement in initial detailed planning to the final management of agricultural projects. The Bank's staff will, however, not take responsibility for the management of projects, but will act in a consulting capacity to the responsible governments or agencies in the participating states.

Industrial Advisory Services

This division provides specialised knowhow in the industrial sector to participating governments and development corporations on a consulting basis. It undertakes economic viability studies at the request of the various corporations. The division has at its disposal the industrial expertise of civil, electrical and production engineers, architects, marketing economists and financial investigators.

All aspects of a proposition are analysed during an investigation, namely the structural, production, marketing, financial and management aspects, and a comprehensive report, including the financial implications, is presented to the government or corporation concerned. Economic viability studies are also undertaken into industries which have decentralised, the infrastructure of industrial areas, business centres and agro-economic projects.

The division also provides a service to the corporations during the construction of factory buildings, by monitoring the work of outside contractors on their behalf.

Apart from these external services, it also provides expert industrial information internally to the Programmes and Projects Division.

The division has been operational since March 1, 1984 and since then a number of economic viability studies have been finalised for various corporations, and assistance given with the taking over of various factories from the Corporation for Economic Development.

Mining Advisory Services

The Board has approved in principle the establishment of a Mining Advisory Services Division, and the possible structuring of such a function in the Bank is being investigated and possible appointments considered.

Programme and Project Division

The Programme and Project Division is responsible for the management of the Bank's lending and technical assistance programmes. In addition, the division handles applications to the Bank for guarantees on loans offered by the private sector to participating governments and their development agencies.

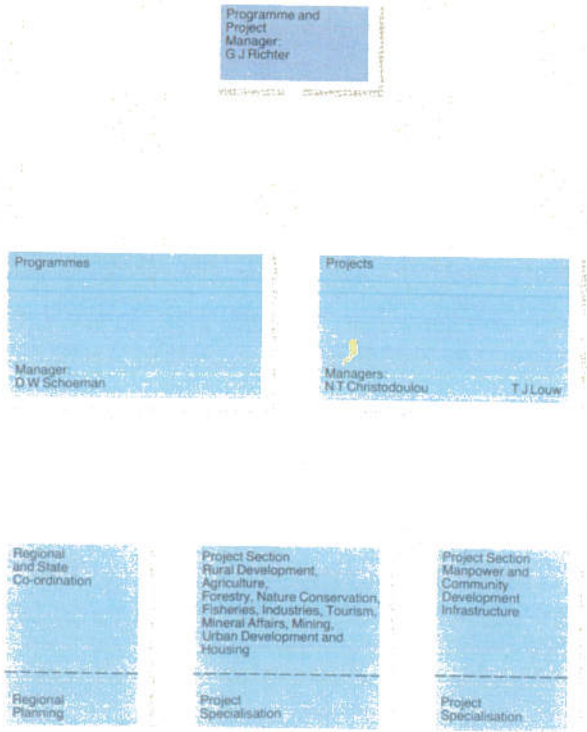
The lending programme involves loans to participating governments and their development agencies for the financing of high priority development projects in terms of the development strategy for a development region. Each loan is earmarked for a specific development project

The technical assistance programme involves finance made available by the Bank to enable participating governments and their development agencies to mobilize expertise required for specific purposes — usually macro-development planning or the preparatory planning of capital projects prior to their implementation. This can include the investigation of specific development issues and issues in respect of development projects. (Technical assistance by the Bank can also take other forms, such as research into development issues, the rendering of advice on request, advisory services on a consultancy basis, etc.)

The relationship between this division of DBSA and its clients (participating governments and their development agencies) is based on the systematic process internationally known as the *project cycle*. This entails close co-operation and communication between DBSA and client through the various stages of planning and implementation of a development project. These stages or phases, which also apply to technical assistance projects and to applications for guarantees, are as follows:

Identification Phase

Development projects accorded high priority in terms of the development strategy for a region or a state within a region are identified during the development planning process by the responsible agencies in their particular states. DBSA stands ready to advise or assist in this process when requested. On receipt of a project application through the designated agency of the state involved, the Programme and Project Division prepares a pre-appraisal report to Management. The main purpose of such a report is to determine whether a project can be regarded as a "bankable" project in terms of DBSA's policy guidelines. Such a report, furthermore, spells out the basic principles and guidelines to be applied during the later phases of the project. On accepting the first phase of a project, the Bank nominates a project team to act on its behalf and establish a close working relationship with the borrower's responsible project agent.



Preparation Phase

The ideal is that a project application be made to the Bank in the early identification stage and that the planning of the project take place during the preparation phase, in close consultation with the Bank's project team. Responsibility for the preparation work lies with the borrower, but the project team stands ready to assist and advise wherever necessary.

If the borrower is not in a position to finance fully the expenditure required on the preparation stage, DBSA can be approached for technical assistance.

During this phase the project team builds up a "project ledger" with all necessary data on the project and the region concerned, to enable it to do a thorough appraisal of the project.

At the beginning of this stage, the possible loan finance for the project is included in the lending programme, without however committing DBSA at this stage. The project is therefore "in the pipeline".

Appraisal Phase

The appraisal phase is initiated by the project team when the preparation of the project has advanced to the point at which the input data necessary for the appraisal process become available. The appraisal report reviews particularly the following aspects:

Economic Appraisal:
The most important consideration is the envisaged development impact of the project, determined by a cost-benefit approach. Special attention is given to the effective contribution of the project towards the development goals and objectives spelled out in the development strategy.

Technical Appraisal:
All technical aspects are appraised to ensure the technical viability of the project. Appropriate standards also receive special attention, to ensure the cost-effectiveness of the project.

Institutional Appraisal:
This refers mainly to the capacity of the responsible institution to implement and manage the project. The need for training or obtaining specific expertise by such an institution is of special importance.

Financial Appraisal:
The total financing required is determined — that is, all the expenditure necessary to make the project viable. Possible sources of finance are investigated, and a financial proposal is made which includes a recommendation on the loan finance to be made available by the Bank and spells out other sources of finance. The financial proposal also includes the financial programming of the project during implementation and the effect of this on DBSA's lending programme. During financial appraisal attention is also given to the financial credit worthiness of the borrower and the guarantor.

Negotiation Phase

The appraisal report is considered by the Bank's Management Committee and Board of Directors, and negotiations then take place with the borrower on the loan offered and the agreements to be entered into.

Implementation Phase

After the conclusion of the loan agreement and guarantee agreements, where appropriate, the borrower is responsible for initiating tender procedures and appointing contractors. During the process of procuring goods and services, close consultation takes place with the project team, and in certain instances DBSA approval must be obtained. During implementation the project team is responsible for monitoring the process, and plays an active supporting role in resolving issues that might arise.

Evaluation Phase

After a project has been fully implemented and the loan fully disbursed, the project team is responsible for evaluating the foregoing phases to determine whether the objectives as originally established have been effectively met. This evaluation takes place in close consultation with the borrower, and valuable lessons are learned and experience gained.

Consideration is being given to the establishment of a division to be directly responsible to the Chief Executive, to evaluate projects in addition to the evaluation reports of the project teams. These reports would be made available to the Management Committee and Board of Directors.

The Programme and Project Division has been operational from February 1, 1984. From September 1, 1983 attention was focussed on establishing an organisation for the division, recruiting staff and implementing systems as well as spelling out procedures. As a new organisation, this division is still at the stage where special attention is needed in establishing all necessary systems and clarifying the most important policy issues with the Management Committee and the Board of Directors.

Since February 1 an intensive programme has been launched in which participating governments and their development agencies are visited to initiate the process of co-operation and establish the close contact necessary to its success.

The division is organised into two departments, namely the Programme Department and the Project Department. The Project Department is responsible for all phases of the project cycle with special emphasis on those subsequent to the identification phase. This department is organised along functional lines, and includes the following sections:

- ☐ Rural development
- ☐ Agriculture, forestry and fisheries
- ☐ Industry, commerce, tourism, mineral and mining development
- ☐ Infrastructure (transport, water supply, power supply and telecommunications)
- ☐ Urban development and housing, and
- ☐ Manpower development

There is close interaction between this department and the Programme Department as well as with other divisions of the Bank, with the emphasis on the operation of a project team for each project. All the special expertise necessary for a specific project is included in a project team, including expert consultants.

The Programme Department attends to all aspects of development planning on a regional basis, handles the lending and technical assistance programmes, and acts as main channel of communication with the designated agencies of the participating governments.

Technical Assistance

It is important to realise that technical co-operation forms part and parcel of the service and support offered by the Bank and may in many circumstances be of greater value and importance than the financial support provided by the Bank.

Technical assistance provided by the Bank can be categorized as follows:

- ☐ In terms of its normal operations the expertise of staff and consultants of the Bank is continuously available to participating governments and their development agencies in different forms
- ☐ The project cycle provides that project teams of DBSA are continuously available to project agents of borrowers to play a supportive and advisory role during the various phases of the project cycle.
- ☐ The Bank takes an active interest in all matters pertaining to development planning. Staff members (especially the Programming Department of the Programme and Project Division and the Research and Strategic Planning Division) are continuously available to advise and participate in discussions on request. The same applies to budgetary planning and programming.
- ☐ Advisory services in respect of agricultural development, industrial development and mining development are available from the Bank on a consultancy basis, at fees that can be ascertained from the relevant divisions of the Bank.
- ☐ The research capacity of DBSA is available to advise on and undertake or initiate studies in respect of priority development issues.
- ☐ DBSA is in the process of establishing training courses for priority development needs.
- ☐ DBSA is in the process of establishing a system of placing data on record in respect of expertise available in Southern Africa and overseas. This information will be available to participating governments. Furthermore, DBSA has an important catalyst role to play in motivating the private sector and the academic world to play a more significant role in respect of development.
- ☐ Expertise is especially necessary for purposes of development planning and the planning and implementation of specific development projects. In making finance available for these purposes, the Bank has an important supportive role to play. This form of financial support is referred to as the technical assistance programme.

Project lending and technical assistance to which the Bank was committed as at March 31, 1984 and the functional allocation are reflected in tables 1 and 2.

Table 1 Functional allocation of the project loans as at 31 March 1984

Functions	Number of projects	Bank funding involved R'000	Per cent
1. Rural Development	—	—	—
2. Agriculture, Forestry & Nature Conservation	33	101 020	28,7
3. Industries, Commerce, Tourism, Mineral Affairs and Mining	6	39 300	11,2
4. Urban Development and Housing	8	26 148	7,4
5. Manpower Development	8	77 600	22,0
6. Infrastructure	24	107 977	30,7
Total	79	352 045	100,0

Table 2 Functional allocation of technical assistance as at 31 March 1984

Functions	Number of projects	Bank funding involved R'000	Per cent
1. Rural Development	—	—	—
2. Agriculture, Forestry, Nature Conservation	6	167	6,6
3. Industries, Commerce, Tourism, Mineral Affairs and Mining	2	65	2,5
4. Urban Development and Housing	3	242	9,5
5. Manpower Development	2	1 007	39,7
6. Infrastructure	4	1 058	41,7
Total	17	2 539	100,0

Research and Strategic Planning Division

Introduction

It is the experience of many organisations that short-term operational needs are so pressing that long-term research and planning do not receive their rightful priority. In the development sphere, where long-term structural changes are of the essence and where no ready-made development strategy exists, a misplaced emphasis can be disastrous. The Research and Strategic Planning Division was therefore specially instituted to provide the necessary balance within the Bank's structure.

The proper execution of its functions demands that the division should both be linked to and protected from the day to day activities of the Bank. It should in other words be "insulated" from the operations, but in order to be relevant and responsive it cannot be isolated. The research to be done will always be measured in terms of its relevance to the Bank's and its participating states' operations and strategic planning, and will therefore be of an applied rather than a basic nature.

Purpose and Objectives

The purpose of the division is to undertake strategically and operationally relevant research on all aspects of development to meet the needs of the Bank and participating states and to compile a strategic plan for the Bank.

To this end the main objectives of the division are to

- gain insight into the development process and policies that affect it;
- support all aspects of the Bank's operations, including the assessment of the development progress of participating states;
- improve the Bank's capacity to provide development advice to participating states; and
- assist in strengthening the research and planning capacities of the participating states.

Research and Strategic Planning
Manager:
Dr F J van Eeden

Agriculture and Community Development
Co-ordinator: Dr P H du Preez

Industrial and Tertiary Development
Co-ordinator: Dr F V Viljoen

Public and Private Finance
Co-ordinator: Dr S F Coetzee

Urban and Regional Development
Co-ordinator: Dr S F Coetzee

Population and Human Development
Co-ordinator: A A Ligthelm

Development Policy and Strategy
Co-ordinator: A A Ligthelm

Economic Analysis and Projections
Manager: Dr D T du Plessis

Strategic Planning
Co-ordinator: A B la Grange

Tasks

The activities of the division can be divided into four broad categories, namely:

- Applied research
  This task involves research which can be utilized for specific practical purposes. In this respect special attention is given to agricultural and community development, industrial and tertiary development, public and private finance, urban and regional development, population and human development, and development policy and strategy.
- Data bank and library services
  Important in this respect are the collection, processing, analysing and projection of information for internal and external requirements as well as the provision of internal library services.
- Operational support
  Operational support includes activities such as participation in project appraisal and ex post evaluation teams, participation in advisory and other committees of the participating states, the provision of statistical and other information, and lecturing at Bank training courses.
- Strategic planning
  This task encompasses the compilation and monitoring of the Bank's strategic plan.

Organisation

In the division's organisational structure ample provision was made for the appointment of specialists in the field of development. Although the total number of professional posts is only 27, virtually all of them are, or can be converted into senior posts so that specialist researchers and planners can be accommodated. A number of specialists in the field of development have also been appointed as outside consultants to the division and will support its activities on an ongoing advisory basis.

Research will normally be done by the division's own researchers, but work can also be given out on contract. The division is, however, not a research financier for external research institutions or individuals.

Activities from September 1, 1983 to March 31, 1984

Since commencing operations on September 1, 1983 considerable progress has been made in the general planning of the division's activities. Staff have been appointed and visits made to all eleven participating states. During these visits fruitful discussions were held on future relations and co-operation in the field of research and data collection.

As far as applied research is concerned, 33 research projects have provisionally been identified. A start has already been made on the compilation of "position papers" which will review the most recent development approaches as well as actual development experience in Southern Africa and make proposals on an appropriate strategy to promote development in the various fields.

The data section has also made considerable progress with the collection and processing of information, and has already provided an invaluable service to the other divisions of the Bank. The first draft of an introductory economic and social memorandum for Bophuthatswana has also been compiled by this section. Such a memorandum is to be compiled for each of the Bank's participating states.

In the field of strategic planning, the division assisted in the compilation of strategy guidelines for the Bank. A fully fledged strategic plan will be completed during the new financial year.

Balance Sheet

at 31 March 1984

		Notes	R
Capital employed:			
Share Capital		(2)	20 000 000
General Reserve		(3)	317 517
Shareholders' interest			20 317 517
Development Fund	(1.1)	(4)	242 315 584
			262 633 101
Employment of capital			
Development Fund		(1.1)	241 329 214
Loans for development projects		(5)	186 669 171
Investment of surplus funds with financial institutions			54 660 043
General Funds			21 303 887
Investments			20 830 168
Share capital invested			20 000 000
Other		(10.2)	830 168
Net working capital		(6)	473 719
			262 633 101

This Balance Sheet should be read
in conjunction with the notes.

Signed on behalf of the
Directors by:

S S Brand *(Chairman)*
J B Maree

Income Statement

for the period ended 31 March 1984

	Notes	R
Income		
Interest received		
General Funds		2 099 288
Development Fund		7 187 614
Loans	(7)	5 942 804
Financial Institutions		1 304 820
		7 247 624
Less technical assistance given		60 010
Sundry revenue		1 143 613
		10 430 515
Less appropriation of income earned by Development Fund	(4)	7 187 614
Net income before administration expenses		3 242 901
Deduct administration expenses		3 123 124
Audit fees		10 000
Furniture and equipment less recoupments written off		476 874
General expenditure including salaries, directors' fees and other charges less recoupments		2 636 250
Surplus income transferred to General Reserve	(3)	119 777

This Income Statement should be read in conjunction with the notes.

Statement of Source and Application of Funds

for the period ended 31 March 1984

		R
Source of funds		
GENERAL FUNDS		20 317 517
Share capital issued	20 000 000	
Assets taken over (Benso)	197 740	
Surplus Income Statement	119 777	
DEVELOPMENT FUND		64 124 614
Allocation of funds	56 937 000	
Appropriation from Income Statement	7 187 614	
Total funds available		84 442 131
Applied as follows		
DEVELOPMENT FUND		63 138 244
Increase in loans	8 478 201	
Net increase in investments	54 660 043	
GENERAL FUNDS		21 303 887
Increase in administrative assets	473 719	
Net increase in investments	20 830 168	
		84 442 131

Notes to the Financial Statements

The Bank was established in terms of an agreement signed on 30 June 1983 on behalf of the Governments of the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei. Arrangements are being made to have the Bank officially recognized by the RSA Minister of Foreign Affairs in terms of the Diplomatic Privileges Act, which will have the effect of conferring on it those immunities, provided for in the Agreement and not waived by the Council of Governors.

It has further been arranged with the RSA Department of Finance to have the Bank reimbursed in respect of customs and excise duty and general sales tax and exempted from income tax and stamp duty. Other member states are to be consulted to ensure that similar arrangements will apply in their territories.

1. Accounting policies

The principal accounting policies adopted by the Development Bank are:

1.1 Financing of administration expenses

Financing of administration and operational expenses is funded from the interest on share capital invested intact as it is received. As an interim arrangement the amount of R986 370 of the Development Fund was utilised to defray administrative expenses.

1.2 Administrative assets which include furniture, office equipment and motor vehicles are written off in the year of acquisition.

	R
2. Share capital	
2.1 Authorised and subscribed capital	
200 000 shares at a par value of R10 000 each	2 000 000 000
2.2 Issued capital	
20 000 shares at a par value of R10 000 each	200 000 000
2.3 Paid-up capital	
2 000 shares at a par value of R10 000 each	20 000 000
3. General reserves	
Net assets taken over from Benso	197 740
Transfer from Income Statement	119 777
	317 517

4. Development Fund

		R
Transfers from the RSA Department of Foreign Affairs		
— Loans to participating governments as at 1 February, 1984		178 190 970
Capital	177 843 763	
Capitalised interest	347 207	
— Additional funds		56 937 000
		235 127 970
Transfer from Income Statement		7 187 614
		242 315 584

5. Loans for development projects

Loans to participating governments for development projects		
— Amounts transferred from the RSA Department of Foreign Affairs on 1 February 1984		178 190 970
Capital	177 843 763	
Capitalised interest	347 207	
— Loan advances 1 February 1984 to 31 March 1984		2 535 397
— Interest capitalised (note 7)		5 942 804
		186 669 171

The tripartite agreements in terms of which the Development Bank will take over these loans are still to be signed. Capital commitments of R58 289 570 will be taken over once the abovementioned agreements have been signed.

6. Net working capital

Current Assets	1 894 114
Loans and advances	49 430
Accounts receivable	1 181 704
Bank balances and cash	662 980
Less Current Liabilities and Provisions	1 420 395
Accounts payable	1 037 848
Provisions	382 547
	473 719

7. Interest received — loans

Of the total amount of interest charged against loans, an amount of R5 351 000 was raised by the Development Bank, in terms of the various loan agreements to be taken over, for periods prior to 1 February, 1984, and an amount of R591 804 accrued for the period after 1 February 1984.

8. Liability for normal income tax

No provision has been made for income tax as it is the intention of the member states that the Bank be exempted from income tax.

The necessary steps to give effect to this intention are being taken by RSA

9. Corporation for Economic Development Limited

In establishing the Bank it was agreed that certain assets and liabilities of CED would be taken over by the Bank. These figures are not reflected in the accounts of the Bank, as the final winding-up of CED is still pending.

10 Staff housing

10.1 Financing of the staff housing scheme is partly done through a banking institution. A guarantee of R139 350 will be issued by the Development Bank in due course.

10.2 Investment with financial institutions

An amount of R76 800 of the Bank's investments with building societies serves as collateral security for certain bonds granted by building societies to personnel of the Bank.

10.3 Capital commitment

The Bank has incurred a capital commitment of R85 000 in respect of a dwelling in the process of being purchased on behalf of a staff member

11. Contingent and contractual liabilities

11.1 Financing of the staff motor schemes (both senior and subsidised) is done through a financial institution. The Bank has incurred a contingent liability of R1 897 220 in this regard.

11.2 Contractual commitments in respect of the unexpired portion of lease agreements for equipment leased by the Bank amounted to R95 472 and for the five year lease of the building in Sandton amounted to R8 822 142.

12. Comparative figures

As this is the Bank's first year of operation no comparative figures are available.

Auditors Report

Report of the auditors to the President and the Council of Governors of the Development Bank of Southern Africa

We have examined the annual financial statements set out on pages 17 to 22 Our examination included such auditing procedures as we considered necessary.

In our opinion these statements fairly present the financial position of the Development Bank of Southern Africa at 31 March 1984 and the results of its operations for the period then ended, in conformity with generally accepted accounting practice.

THERON VAN DER POEL

Chartered Accountants (SA)

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