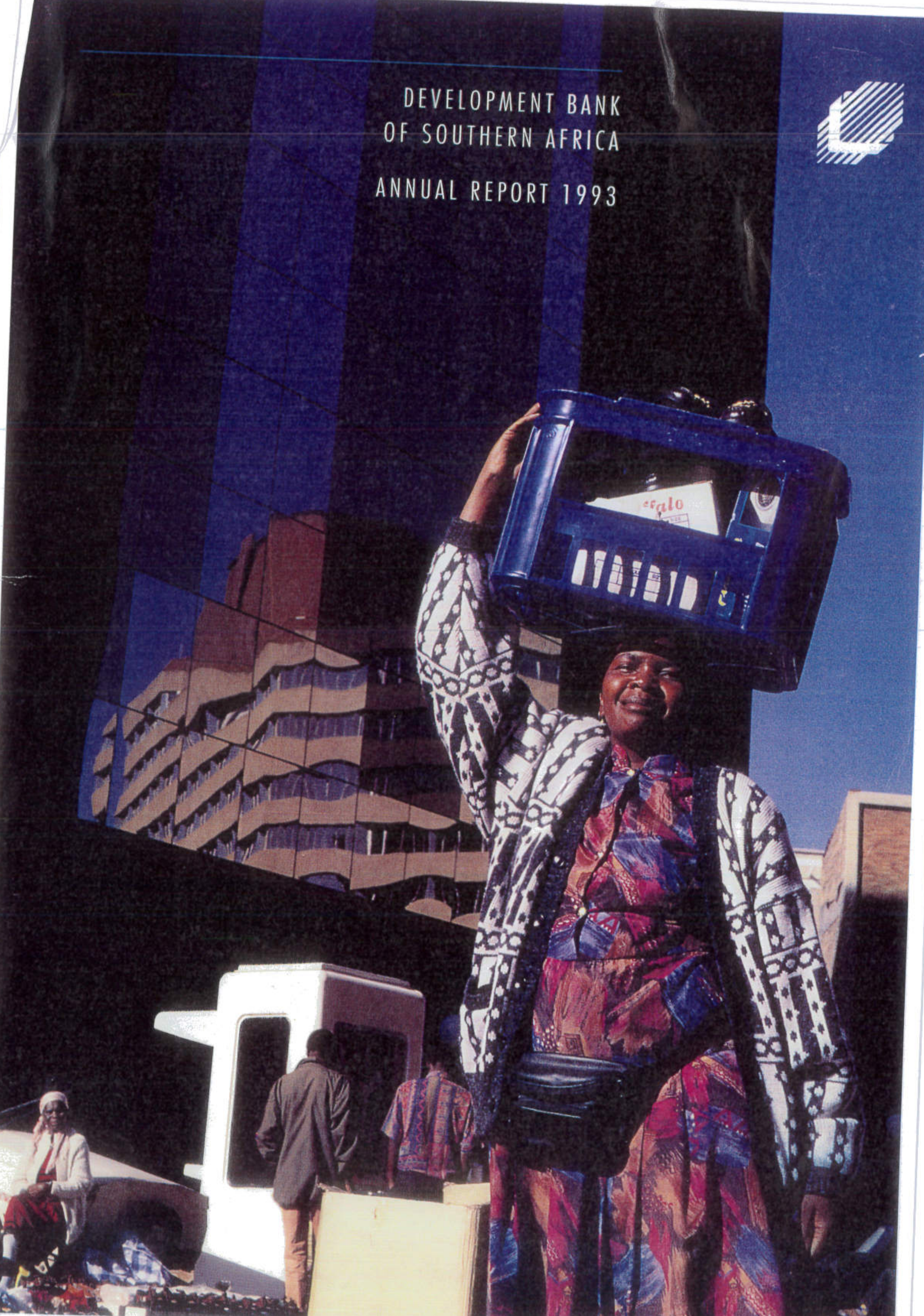
DEVELOPMENT BANK OF SOUTHERN AFRICA

ANNUAL REPORT 1993



A common sight on Diagonal Street, home of the Johannesburg Stock Exchange, is that of sidewalk traders who have hardly any access to the formal instruments of finance, reflecting one of the gaps in society and the economy that need to be bridged for growth and development to take place

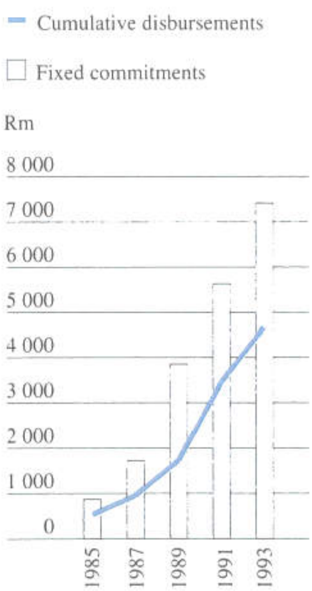
ECONOMIC RECONSTRUCTION AND DEVELOPMENT

The essential processes of economic restructuring in the modern sector and economic development of the disadvantaged community have to be integrated into one vibrant and reconstructed economic system.

There is little doubt that, without early attention to the building of bridges to connect the people in these two worlds, other programmes for economic growth and stability will continually founder upon unsatisfied expectations.

If socio-economic integration lags too much behind constitutional integration, the result will be political and social instability — and low economic growth. Constitutional development supported by socio-economic integration on the other hand offers the prospect of rapid economic growth together with job creation and improved patterns of personal income and wealth distribution. The task of bridging the divide between the modern sector and the developing community must be placed high on the national agenda.

It is for this reason that at this crucial time the theme of the annual report is integration of the South African economy through reconstruction and development.



THE YEAR AT A GLANCE

The Development Bank disbursed R448,6 million (including R2,8 million in grants) in the year to 31 March 1993, bringing the cumulative disbursements to that date to R4 644 million. The total amount committed to new projects approved by the Bank in the past year reached R1 754 million, the highest since the inception of the Bank, now in its tenth year.

By the end of March 1993 the Bank had approved a cumulative total of 1 199 programmes and projects worth R7 413 million, while a further 467 programmes and projects with an estimated loan value of R2 500 million were under consideration.

ANNUAL REPORT 1993

Contents

MISSION STATEMENT

The Development Bank of Southern Africa is a regional development institution whose primary aim is to facilitate development and to empower people in the region.

MESSAGE FROM THE PRESIDENT OF THE COUNCIL OF GOVERNORS

It is gratifying to note that the Development Bank of Southern Africa, established in June 1983, and therefore in its tenth year of operation, has had another year of solid achievement. The Bank is a major development agency in southern and South Africa and stands poised to assume an ever-increasing role in the socio-economic development of this region.

It is my sad duty to record the death during the year of Mrs Marina Maponya and Professor Hudson Ntsanwisi, members respectively of the Board of Directors and the Council of Governors. Their exemplary participantion will be sorely missed by colleagues and friends in the Bank.

At the end of 1992 I retired as Chairman of the Board of Directors, having been elected to the position upon the death of Dr Simon Brand, and was succeeded by Professor Wiseman Nkuhlu. I wish him well and I know that he will be able to rely on the full support of an able Board of Directors and a professional management team.

On 30 June 1993 I shall have completed ten years as President of the Bank. It has indeed been an honour and a pleasure to be President and, for a year, Chairman of the Board of Directors of so fine an institution. The loyalty, the friendship and the unstinted cooperation I have had from my friends and colleagues in the Council of Governors, the Board of Directors and the entire management and staff has been one of the most pleasant and worthwhile experiences of my career. The Bank and its staff are ably led by Chief Executive André la Grange.

We live in challenging times, but with the continued goodwill and cooperation of all concerned, I am confident that the Development Bank of Southern Africa will go from strength to strength in the years ahead.

Professor O P F Horwood

Council of Governors

Back row, from left: Councillor S R Makhuvha, Dr F T Mdlalose, Mr D L Keys, Vice-Admiral M A Bekker, Mr J C Heunis, Dr C L Stals, Mr M M Maki, Rev S C Kgobokoe, Mr M Titus, Councillor K B Magwaba.
Front row, from left: Brig E R G Keswa, Mr R Cronjé, Prof O P F Horwood (President), Prof H W E Ntsanwisi, Dr T K Mopeli.
Absent: Dr D J de Villiers, Mr R F Botha.

Professor Wiseman Nkuhlu

CHAIRMAN'S REPORT

There is little momentum in the development sphere partly due to the lack, as yet, of a new shared vision for the future economy of this country

In the past year the economies of the leading Western countries have failed to show signs of a long-awaited recovery. Europe is exhibiting an inward-looking tendency in anticipation of the final steps towards achieving European union, complicated by civil strife in eastern Europe and problems arising from the reincorporation of large parts of these areas into greater Europe. The United States is preoccupied with domestic socio-economic issues and Japan is struggling with its role of global economic leadership.

Closer to home, the fragile peace accords in Angola and Mozambique, although still leaving the region unstable, have raised new prospects of stability and growth.

In this country, attempts to reach a political settlement and to create conditions for the resumption of economic growth and for the programming of economic reconstruction have on a number of occasions come close to the brink of disaster. The poor state of the economy, coupled with the tragic and ongoing violence, has restrained local and overseas confidence and investment. This stop-start progress towards democratic elections has let international attention on South Africa blow hot and cold.

In the development sphere there is little momentum, due partly to the lack, as yet, of a new shared vision for the future economy of this country and partly to increasing pressure on the institutional capacity of current public sector departments, development corporations and other institutions responsible for implementing and managing development programmes. Emerging intermediaries for development assistance, such as non-governmental organisations and community-based organisations, represent an additional channel with great potential, but most of these still suffer severe capacity constraints.

The country and its institutions will have to come to terms with the fact that the impetus for restructuring and reconstructing the economy and securing the future will have to come largely from inside the borders of the country. If we achieve success it will be possible to have access to (and to attract) international resources and investment.

The Development Bank has a crucial role to play in shaping the developmental future of the country. As one of a number of players in the development field, it acknowledges the need for a greater synergy among these players and has been actively engaged in bringing developmental institutions closer together. It also acknowledges two further realities: when overseas development finance flows commence after a political settlement has been reached, there will be a real danger of dissipating the potential effects of such flows if they are not channelled within the framework of a broad but focused economic and social development agenda; and, if future development strategies are not felt by the broad mass of historically disadvantaged communities as delivering a real improvement in the quality of their daily lives, and doing so in a democratic and participative manner, disillusionment and frustration may lead to violent, counter-productive and unpredictable reactions.

A development vision for the immediate and medium-term future is urgently required and must include a quantification of the needs and aspirations of the broad community

Challenges for the Development Bank will evolve around the issues of membership, new constituencies and clients, new regional and local configurations, relations with the African Development Bank, the World Bank and other multilateral, bilateral and non-governmental development agencies and, last but certainly not least, the new constitution and economic priorities of a democratic government.

A developmental vision for the immediate and medium-term future is urgently required and must include at least the following:

— a quantification of the needs and aspirations of the broad community, derived participatively and suggesting realistic priorities

— an overall developmental approach, derived from the above, which rests on a shared national vision among all levels of government, the private sector and the non-governmental sector and which shapes their approach to development

— an approach to marshalling and channelling the resources available for development in the quickest possible way to the eventual beneficiaries and with the least wastage; inevitably there will have to be a rationalisation and transformation of institutions currently engaged in developmental activities.

The Development Bank does not necessarily view itself as the main player in such a strategy. However, it realises that it has the immutable responsibility of supporting the developmental process through its abilities in the policy field, its experience in the operational aspects of development and its interaction with major overseas development-financing institutions.

I wish to thank Professor Owen Horwood for his guidance as Chairman of the Board of Directors from January to December 1992, standing in the breach after the untimely death of Dr Simon Brand. Mr André la Grange was appointed Chief Executive of the Bank in July 1992 after filling the position in an acting capacity since the beginning of 1992. Settling in well to his new position, he has brought about significant changes in organisation over the past year, and I wish to thank him on behalf of the Board of Directors. I also wish to thank the management and staff of the Bank for their continued professionalism and hard work as champions of development in our country.

Professor W L Nkuhlu

André la Grange

CHIEF EXECUTIVE'S REPORT

This year marks the tenth year of existence of the Development Bank of Southern Africa. While there are numerous achievements to record over these ten years, we find ourselves in a vastly changed environment to that in which the Bank came into being. The Bank has increasingly found itself developing a role which transcends that of a pure development financing institution. This process of adapting to changes in the environment will continue in future. I would therefore like to look to the future in this report, not the past, since that is where the Bank's role lies.

Evolving strategic requirements

The political, social, economic and international events of the year have served to shape the strategic requirements of the Bank. The following are some of the main issues with which the Bank had to contend during the year and which are influencing our strategic direction:

More than ever before the Bank needs to ensure that development momentum is not lost during drawn-out constitutional negotiations

— More than ever before the Bank needs to ensure that development momentum is not lost during drawn-out constitutional negotiations, lingering and debilitating violence and increasingly serious capacity constraints among our borrowers. The Bank's development expertise can serve South Africa and southern Africa by ensuring that the development momentum is indeed increased.

— World-wide changes in development thinking and a new spirit of democracy and participation require that we become ever more responsive to the needs of our borrowers and beneficiaries. The Bank has successfully broadened its range of borrowers and clients and has also established a useful relationship with a number of important international development institutions.

— Many new players are appearing on the development scene from the communities themselves and from overseas interests. We are adapting to support those which are in a position to contribute to the country's social and economic development and we are actively promoting coordinated development and partnership between development institutions. A number of successes achieved so far are highlighted in the Directors' report.

— Where there are still gaps between existing and emerging structures and differences of viewpoint, approach and framework, the Bank has a role to play in bridging these and so opening up a new and unified vision and approach. We have participated in and facilitated most of the national and regional development forums and have provided capacity-building support to participants at all levels.

— The Bank has adapted both its products and its processes to respond to the needs of people at grassroots level.

Preparing for future challenges

To meet these challenges, in the year to March 1993 the Bank designed a comprehensive organisation development programme. This concentrated on internal capacity and efficiency by reducing costs and improving performance.

A fresh look at our products seeks to promote more actively those programmes and projects which will lead to job creation and economic empowerment

Some examples are:

— A fresh look at our products seeks to promote more actively those programmes and projects which will lead to job creation and economic empowerment. On the policy front, emphasis is being placed on those current issues of economic and social development and reconstruction which are of immediate importance in shaping development thinking. The development information function of the Bank is also being aimed much more clearly at information which is required by all players in the social and economic fields to assist them in policy formulation.

— The Bank has been organisationally restructured along regional rather than sectoral lines. This will enable regional management teams to build a more lasting and responsive relationship with their clients and will enhance both quality and delivery speed of the development support programme. In the process it was also possible to apply costly and scarce human resources more efficiently.

— A sharp focus on productivity, efficiency and effectiveness has enabled the Bank to streamline its decision-making appreciably. The average time between receipt of applications and eventual approval of project proposals has been more than halved – and this has been achieved with a leaner staff structure and an administrative and staff budget which has increased less than 5 per cent per annum over the past two years.

Board of Directors

From left to right: Dr D C Krogh, Mr M R Madula , Mr G F Godden, Gota G M Ligege, Mr J A Botes, Mr J Steyn, Mr P H Swart, Dr O Dhlomo, Mr P J van Rooy, Mr M Mpahlwa. Front row: Mr A B la Grange, Prof O P F Horwood (chairman until 31 December 1992), Prof W L Nkuhlu (chairman). Absent: Mr C Bomela, Dr J B Maree, Mr R A Plumbridge, Dr N Motlana, Mr B E Keikelame, Mr M J Sondiyazi, Mr J Maree.

— The Bank has implemented an affirmative action programme and some measure of success has already been achieved. It was also possible to remove one level of management and thereby reduce the overall number of management positions.

A future perspective

It is clear that the future will require major adaptations to the entire institutional development framework of the country. Rationalisation of the effort and resources to be put into economic and social development is inevitable. It will be necessary to arrive at a new economic and social paradigm which will quantify and set priorities among the needs and requirements of all stakeholders in a new South Africa and which will direct resources at economic empowerment and reconstruction. The approach will also need to accommodate a fundamental shift from centralised decision-making to a more participative and democratic approach, while attention will have to be paid to removing past inequalities in the social, economic and educational spheres. In conjunction with this, South Africa will have to start playing a new role in the international community, especially with regard to Africa.

The changes in the Bank leave it well placed to be a key participant in the making of a new South Africa

The Development Bank has defined its approach for the future against this backcloth. The internal development during the past year and in the future is aimed at creating an organisation which will best serve the needs of all people in the region in their progress towards a new future. The Directors' report fully sets out the performance of the Bank during this transitional phase and I believe that we have managed to sustain the momentum of development, albeit at a lower level, and that the changes in the Bank leave it well placed to be a key participant in the making of a new South Africa. In the theme chapter following we highlight the reconstruction needed at this crucial time in the disparate South African socio-economic spheres for growth and development to take place.

Acknowledgements

I gratefully acknowledge the support, leadership and consistently thoughtful inputs of the members of the Council of Governors, the Board of Directors and their respective Chairmen. Of equal importance has been the interest, comment, criticism and guidance received from organisations and communities who, in expressing their interest in the Bank, have become part of our community of stakeholders. Finally, I would like to address a special word of thanks to the staff of the Bank, who have proved to be willing, adaptable and enthusiastic in assisting the Bank to change and adjust.

A B la Grange

IMPORTANT ISSUES FOR ECONOMIC RECONSTRUCTION AND DEVELOPMENT

The economic development of the hitherto disadvantaged part of the South African population will become the dominant theme of a politically reconstituted South Africa. Although there are challenges of restructuring for the formal market economy of this country, the so-called 'modern sector', there are equally important development challenges in the opportunities emerging for the much larger number of people hitherto marginalised. The future economic prospects of the southern African region depend on the successful reconstruction and growth of the South African economy.

The importance of economic integration

These two essential processes of economic restructuring in the modern sector and economic development of the disadvantaged community have to be integrated into one vibrant and reconstructed economic system. There is little doubt that, without early attention to the building of bridges to connect the people in these two worlds, other programmes for economic growth and stability will continually founder upon unsatisfied expectations. If socio-economic integration lags too much behind constitutional integration, the result will be political and social instability — and low economic growth. Constitutional development supported by socio-economic integration on the other hand offers the prospect of rapid economic growth together with job creation and improved patterns of personal income and wealth distribution. The task of bridging the divide between the modern sector and the developing community must be placed high on the national agenda.

Economic restructuring in the modern sector and economic development of the disadvantaged community have to be integrated into one vibrant and reconstructed economic system

The yield from such economic integration and improved income distribution will be substantial. Much of this integration depends in practice on social reform, which in turn depends on the command of scarce resources by public authorities. The required level of public spending assumes a much higher rate of growth, something which only the full and productive economic participation of all the people can bring.

Policy makers should recognise that the number of people hitherto privileged to participate fully in the private and public management of the South African economy is extremely small and is furthermore growing too slowly to hold out much promise of higher and sustained economic growth. Only if the marginalised majority of people, largely excluded from participation in the modern sector, produces from its own ranks the required skills, management ability and entrepreneurial drive, is it likely that the prospect of rapid economic growth in a gross domestic product of 4 per cent and higher will materialise.

Thus, economic integration in South Africa is not only a matter of equity but also a necessity for future economic prosperity.

Three basic conditions for economic growth

The attainment of economic growth depends on creating the right conditions and on a correct sequencing of policy reforms. These conditions of the market, education and economic integration are each equally important in that failure in any one area would jeopardise the effectiveness of the reform process as a whole. The public sector and public sector

▶ 10

REGIONALISM IN SOUTH AFRICA: PREPARING FOR LEGITIMATE LOWER LEVELS OF GOVERNMENT

Region National.

Sector Policy analysis.

Implementors The Consultative Business Movement (CBM) as facilitators and an international and local technical team of 26 specialists, with DBSA technical support.

Problem Future plans for economic development rely on efficient and legitimate lower levels of government. In the regionalism debate during the period of national negotiations, short-term political considerations could override development considerations.

Solution Development of policy options in the debate on regionalism in South Africa including constitutional options and their implications for good government and a sound economy; presentation of a range of policy options to all political parties to ensure a shared frame of reference and open up various options to the parties in negotiation.

Process During February 1993, CBM arranged a workshop for compiling a technical report on regionalism and the role of the levels of government in the unfolding constitutional dispensation. The aim was to make available to political parties and movements a report on possible options for regionalism which could serve as a common framework for national negotiations. Among the objectives was the need to introduce a developmental perspective to ensure that socio-economic, institutional and financial considerations were taken into account in the debate.

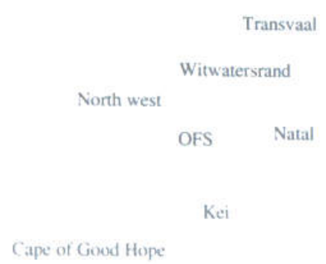
For this purpose a representative panel of experts, which included international and local specialists as well as party political representatives (including some national negotiators), embarked on an intense three-week programme for exploring options on specific issues. The Bank formed part of the technical support team.

Subsequently the report *Regions in South Africa: Constitutional options and their implications for good government and a sound economy* was presented to business leaders and the full range of political parties. The report was well received and several options pertinent to deadlocked issues in negotiations are under further investigation.

Through its involvement the Bank sought to make a contribution to the resolution of these issues. Account must be taken of the fact that development considerations are of fundamental importance in assessing all aspects of a new regional dispensation.

The African National Congress's ten proposed regions

The National Party's seven proposed regions



institutions (like the Development Bank) have an important part to play in supporting and funding the reconstruction and development process.

Market efficiency

The most familiar requirement is the resuscitation of the efficiency of the market economy in the modern sector of South Africa and the restoration of its financial stability (including lower inflation) through financial discipline (especially in the public sector). These matters are currently receiving attention by policy makers. Deciding what to do in this respect may benefit from having recourse to principles, policies and strategies that have proved successful elsewhere in the world over the past decade.

Education

The second necessary condition for the achievement of sustained economic growth is the urgent enhancement of the economic powers of the majority of the people, from within whose ranks the necessary skills, management and entrepreneurship must increasingly arise. Deficiencies here are a matter of the gravest national concern.

The foundation of the economic development of people is a proper basic education

The foundation of the economic development of people is a proper basic education. This is particularly so in an industrialising country. The worth to a community of a general standard of literacy, numeracy and the other life skills is universally recognised. Imaginative, comprehensive and appropriate education is required with special attention to the youth and particularly the 'lost generation'; these special needs could be served by in-service training for under-skilled adults, and skills and entrepreneurial training for people who have no access to formal job opportunities.

Although the portion of the gross domestic expenditure appropriated to education has risen to about 7,5 per cent, which somewhat exceeds the internationally accepted norm of 6 per cent for developing countries, serious problems remain and the poor record of education contrasts sharply with the level of expenditure. For example, almost 60 per cent of people in the economically active age group are considered functionally illiterate. Much of the explanation for this poor performance of the system is sought in the racial and spatial disparities in access to and utilisation of adequate education and training opportunities and facilities. These aspects of the problem are increasingly being recognised and need to be dealt with through broad consultation with all the parties concerned.

Integration

The third necessary condition for the achievement of sustained rapid economic growth in South Africa is integration of the two economic spheres. Comparisons have been made with the challenges faced by the people of Germany upon reunification of East and West Germany. Despite some similarity, the roots of the South African situation go deeper and the problem will require unique solutions. A peculiarly South African circumstance is the extent to which the divide between people has become institutionalised over many generations. Bridging these divisions between people requires far more than the abolition of the statutory framework. In a

PHUTHING SCHOOL: A NEW APPROACH TO TECHNOLOGY

Region Central.

Sector Human resource development.

Implementors Phuthing School of the New Era Schools Trust (NEST).

Other role players Organisation for Education Resources and Technology Training (ORT-Step), Programme for Technological Careers (Protec), local community and the Department of National Education, Independent Examinations Board, Natal Education Department, Joint Enrichment Project, Project Literacy, a small contractor.

Total cost R1,1 million.

DBSA contribution R700 000.

Problem The supply of entrants to the job market does not meet the demand for technological skills in commerce and industry. At the same time, lack of familiarity with technology, the 'blue collar' stigma attached to technical careers, and poorly designed curricula for technical studies have resulted in pupils at secondary level disregarding these employment-related subject choices.

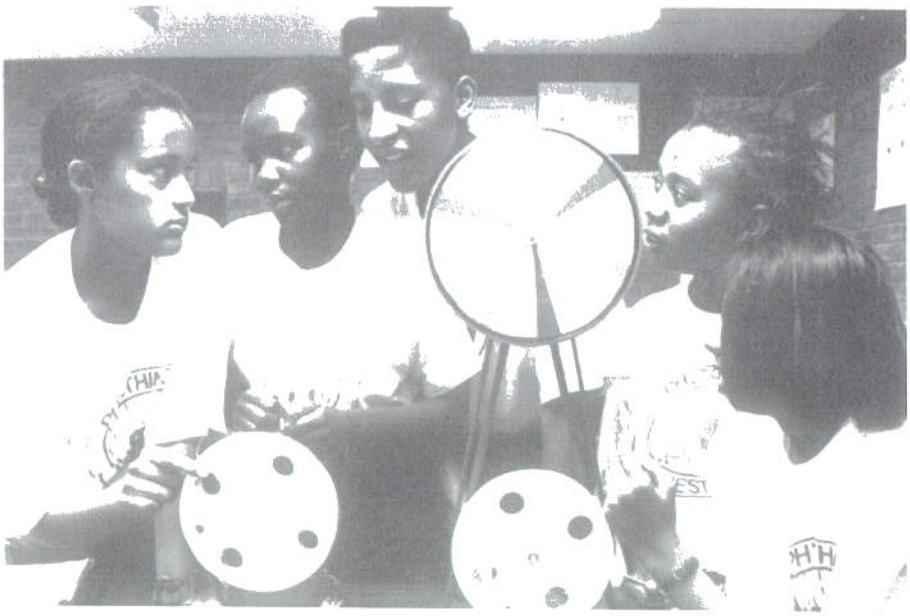
Solution Introduction (initially at junior secondary level) of a novel approach in teaching Technology to draw pupils to technical and vocational fields of study.

Process Phuthing School seeks to extend a high standard of education to a non-racial community. By 1993 it had 200 students, of whom two-thirds were registered with bursary assistance. It was found that many financially disadvantaged students needed access to opportunities for successful vocational training, especially in enterprise skills and entrepreneurship. Phuthing embarked on curriculum design for the subject Technology with the aim of collapsing the compartmentalism of subjects like woodwork, metalwork, computer technology and programming and accounting and integrating these skills into a design process; at the same time the aim is to bridge the mental-manual divide and encourage creativity and independence of thought within a team approach. The curriculum adds skills for design and marketing, problem solving, organising, managing, entrepreneurship, technological knowledge and communication. Being process-orientated, this subject redirects students to technical and vocational career possibilities.

While this is a pilot project, it is expected that the results and lessons learned will be the basis for broader replication. The role players involved in this development are well placed to apply the lessons learned to national syllabuses.

The Bank loan provides for the construction, by a small contractor employing labour-intensive means, and furnishing of a Technology Centre. It also provides for in-service teacher training in the subject and a three-year evaluation of the curriculum.

Pupils of Phuthing School will work in teams exploring the multi-disciplinary subject of Technology, which will impart practical, entrepreneurial and communication skills



number of areas, it requires purposeful private and public action and support for the idea of an economic reconstruction programme underwritten by local and foreign financial resources.

Issues for economic integration

Particular problems for economic integration and the broadening of economic participation that require attention include those of the pattern of industrial employment, the nature of urban and rural settlement, access to institutions directing the availability of capital for both residential and business purposes and the organisation of collective decision making in development projects.

Industrial employment

The pattern of industrial employment in South Africa has been much affected by various restrictions on the horizontal and vertical mobility of African labour in particular and again by the marked trend towards capital-intensive industrial production and industrial technology.

There is an urgent need for a comprehensive and effective national programme of education and vocational training, and in addition South Africa's policies of industrial promotion require careful consideration

Opportunities for employing unskilled or poorly skilled labour were created largely by import substitution and increasing tariff protection against competition from abroad. Demands for increases in wages in excess of productivity increases were accommodated by extending tariff protection. In many respects these circumstances diminished the need for labour-intensive industries to maintain or achieve international competitiveness.

At the same time domestic industrial investment, within the context of the dualistic socio-economic framework, concentrated on highly capital-intensive industrial sectors, such as the basic iron and steel industry (and some engineering offshoots) and the chemical industry. Training opportunities in the highly technological skills required in such industries was available largely to people in the white community only.

This situation obviously limits the ability of the South African economy to embark upon a vigorous export-led programme of economic growth and development with high employment. The pattern of international comparative advantage does not favour the current composition of South African industry as expressed in the relative availability of skills and capital. As the technology of production in every class of industry throughout the world is increasingly emphasising higher skills in the labour complement of factor inputs, the persistence of the extremely high ratio of unskilled to skilled people in the labour market is cause for serious concern.

These circumstances increase the urgency for a comprehensive and effective national programme of education and vocational training, but they also demand a very careful consideration of South Africa's policies of industrial promotion. Although the real comparative advantages of South African industry will only become clear as the process of education and training bears fruit, recent cases of deliberate and costly fiscal support for highly capital-intensive industries should not be repeated. Such projects should depend on their own commercial viability.

▶14

SMALL ENTERPRISE FOUNDATION: INCREASED INCOME-EARNING OPPORTUNITIES

Region Northern.

Sector Business and entrepreneurial development.

Number of people involved Six full-time workers and one part-time worker and (by March 1993) 1 350 loanees and 3 184 job positions supported since inception.

Implementors Small Enterprise Foundation

Other role players Independent Development Trust (IDT), United States Agency for International Development (USAID), Nedcor, IBM SA Projects Fund, National Beverages Ltd, Foskor Mining Group.

Total cost R9 million.

DBSA contribution R967 100.

Problem Average incomes per capita in areas around Tzaneen are as low as R48 a month and 40 per cent of households are dependent on migrant remittances. There is considerable entrepreneurial activity in the north-eastern Transvaal because many households depend on incomes from the informal sector. However, entrepreneurial efforts are severely constrained by lack of support and of access to appropriate credit.

Solution A group-based micro-credit scheme, founded on the principle of long-term sustainability, was supported to satisfy the needs of micro-entrepreneurs, thereby raising houshold incomes and promoting job creation.

Process The Tzaneen-based Small Enterprise Foundation (SEF) is an economic development organisation (Section 21 company) which launched a micro-credit group lending scheme. Its four-year pilot project commenced in February 1992. Disbursements to March 1993 totalled R916 500 with no outstanding amounts and no bad debts written off. Participants had accumulated R97 000 in savings by December 1992.

Potential clients, mostly women, approach SEF's offices for loans and are required to form self-selected groups of five members, all of whom operate micro-enterprises. SEF assists in the group formation process by ensuring that members are fully aware of their responsibilities and of the dangers of selecting unreliable partners. Loanees are individually and collectively responsible for repayment of their own and the group's loans.

After various meetings to screen, select and introduce potential clients to field workers, the groups are introduced to principles of saving and credit management. Five or six groups form centres which meet fortnightly. These meetings enable a field worker to reach about 30 participants. Here loans are disbursed and repayments collected and there is an opportunity for active community participation as loanees control their own centre's activities. The fortnightly process also spreads repayments to allow smaller instalments.

First-time borrowers are restricted to a loan of R300 per person to be repaid over 10 fortnights. The borrowers then qualify for further loans. The second and third loans are R800 and R1 200 respectively, repayable over a year. Interest and administrative fees are charged at a rate of 25 per cent of the value of the loan.

Groups of five women, all of whom operate micro-enterprises, are individually and collectively responsible for repayment of their own and the group's loans. Five or six groups form centres that meet fortnightly

Urban and rural settlement

Perhaps the most intractable legacy of apartheid is the costly physical and functional separation of people. This introduces huge costs of several kinds into the South African economy. In the urban areas, the very inefficient social, physical and administrative arrangements are still seriously constraining the productive participation in the core economy of at least 11 million black people. The result of residential circumstances characterised by inadequate housing and urban infrastructure and services is a fragile social fabric that is susceptible to violence and crime, discourages improvements in productivity and inhibits the development of an energetic industrial culture.

The separation of residential and employment locations imposes inhibiting transport costs and reduces the quality of life and effective economic participation of many people, both as employees and entrepreneurs

The separation of residential and employment locations imposes inhibiting transport costs on the society at large and reduces the quality of life and effective economic participation of many people, whether as employees or entrepreneurs.

Urban land and housing policies accordingly require urgent attention to bring about a rationalisation of land use and zoning regulations and practices in the interests of closer integration of residential and economic activity locations.

Densification and concentration of settlements, taking advantage of economies of agglomeration, should be considered. This kind of land use planning has to take place in conjunction with the urban planning of transport systems, electrification and location of social infrastructure and business areas.

Similarly, economic development in the rural areas depends on much-improved access to land ownership by black farmers. Land reform programmes to this effect should greatly improve the impact of small farmer support programmes such as credit extension and agricultural extension services.

Access to capital

Growth and development also failed to extend beyond the population of the developed segment of the economy because savings were not invested in the economic welfare of the marginalised majority. Past statutory constraints and administrative rulings concerning investments resulted in the flow of savings generated by households and corporations being confined to the developed segment or – to the limited extent allowed by foreign exchange control – invested abroad. Some of the modest amounts saved in the marginalised community, deposited in banks and other financial institutions, were even reinvested into projects of the developed segment. Accordingly, there are insufficient institutional arrangements in the market economy for channelling savings towards worthwhile projects beyond the developed sector. This shortcoming is probably most glaring in the private financing of business enterprises and housing.

Private financial institutions wishing to make good this deficiency should explore the possibilities of managing their risks through cooperation with development finance institutions such as the Development Bank. Private financial institutions should design sound screening practices for the evaluation of applications from small

SEVEN BUILDINGS PROJECT: LOW-COST HOUSING OPTIONS

Region Central.

Sector Inner city revitalisation and urban development.

People involved Tenants of approximately 500 flat units.

Implementors Legal Resources Centre on behalf of a shareblock company to be founded.

Other role players Cooperative Planning and Education (Cope); Planact; various consultants; Central Johannesburg Partnership consisting of the Johannesburg City Council, the private sector, Actstop and New Housing Company (Newco).

Total cost R9 million.

DBSA contribution R49 000 (technical assistance grant) and also human resource support and further financial contributions towards workshops.

Problem Notwithstanding the repeal of the Group Areas Act, inner city tenants are not empowered to buy property and they continue to experience deep insecurity, the legacy of having been forced to move around by previous racially based settlement laws. Inner city buildings have been neglected by landlords, with consequences for the sale of the properties and the cost of maintenance.

Solution Empowering low-income residents to make their own housing decisions and attain security of tenure, thereby creating the opportunity for inner city revitalisation and bridging the separation between residential and employment locations.

Process An owner of seven buildings in the inner city of Johannesburg decided to sell them on the open market and served eviction notices on all the tenants. Approximately 2 500 people were affected. The tenants approached the Legal Resources Centre to act on their behalf. It was decided to enter into negotiations with the owner to enable residents to purchase the buildings.

The tenants indicated their desire to create a cooperative housing project to meet the objectives of affordability, security of tenure, tenant management and control and the creation of housing stock which would remain available to low-income residents. The Bank financed a workshop to assist the tenants to prepare their strategic vision.

Major constraints have delayed goal achievement and point to a policy vacuum on low-cost housing options. Among these constraints were high service tariffs and property taxes because of business zoning; no subsidies for cooperative housing ventures; and mortgage lenders' red-lining of the area preventing access to end-user finance. Determined, the tenants, with the assistance of other role-players, have sensitised relevant institutions about the project, made an offer to purchase, developed a financial model and initiated a joint venture with the developer, Newco.

Each of the seven buildings has elected committees for organising, training and liaison; standing on the roof of Manhattan, which faces Stanhope, two of the buildings on Plein Street, are (from left) Mike Zulu, (Stanhope education committee) Yvonne Maphango (Manhattan organiser) and committee members Malaki Mathews Msimanga and Godfrey Ngwenya

The financial system must now face up to the challenge of supporting the totality of South African society

entrepreneurial concerns, and they might consider introducing arrangements for softening or delaying the repayment of initial loan instalments.

Development finance institutions could have an important role in the provision of technical assistance in areas such as managerial training to increase the creditworthiness of small entrepreneurs; or in the provision of guarantees and other financial instruments that will reduce the risk of lending to, or increase the attractiveness of equity financing of, small entrepreneurial activities. Financial intermediation among the members of the developing community themselves could also be promoted by the design of community banking mechanisms and micro-lending schemes in which the pooled funds of the savers in a community are lent to borrowers in the same community. The financial system must now face up to the challenge of supporting the totality of South African society.

With regard to housing, past restrictions on ownership of property in the townships inhibited the development of an urban property market with the result that private financial institutions avoided this area of investment. Although restrictions on property ownership have now been removed, progress is still barred in practice by the high risks associated with social and political instability and insufficiently secure assets. As in the financing of business enterprises, cooperation between private and development finance institutions is necessary for matching the requirements of housing finance supply with the demands for such finance. Furthermore, cooperation from various elements of civil society and the individuals themselves will have to be secured to minimise default risks in the repayment of home loans.

Community involvement in collective decision making

The successful building of bridges over the divisions of the past, whether in the area of industrial relations and trade policies, urban and rural reconstruction or financial intermediation, requires the involvement of all the stakeholders. It is important, for example, to invite trade union participation in industrial reconstruction, small farmer participation in multi-purpose irrigation or plantation projects, the participation of elements of civil society in urban reconstruction and that of community savings clubs in the joint mobilisation of capital.

In particular, in the public sector the effectiveness of future strategies of economic development in South Africa will depend on the legitimacy and efficiency of lower-level authorities close to the grassroots of the development process.

Conclusion

Bridging the divide between the economic activities of the people of South Africa, hitherto largely separated into two worlds, has become a very urgent undertaking in view of its necessity for the success of the entire programme of economic development and growth.

Responsibility for the building of these bridges devolves upon almost all institutions of society, ranging from individual households to the central government. However, a special duty rests on institutions

BORDER-KEI DEVELOPMENT FORUM: BUILDING REGIONS BACK TOGETHER AGAIN

Region Southern.

Sector Programme management.

Implementors Border-Kei Development Forum.

Role players ANC, PAC, SACP, DP, NP, Sanco, Cosatu, Border Business Action Committee, Border Regional Development Association, Ciskei Government, South African Government, Transkei Government.

Other role players Local and international organisations with observer status.

Total finance R360 000.

DBSA contribution R181 000.

Problem A lack of local participation in dealing with socio-economic development problems in the Ciskei, Transkei, Border region contributed to subregional economic instability.

Solution Establishment of a regional development forum representative of all the key role players in the Border-Kei region to focus attention on the needs of the deprived communities and the economic development of the region.

Process The process of establishing a representative body culminated in a workshop hosted in East London by the Border Region Dispute Resolution Committee in January 1992. The Border Development Committee was set up and issued a draft statement of intent. In the weeks that followed, a number of conflicts arose which impaired the functioning of the Committee.

To resolve the stalemate the Border Development Committee reconvened in March 1992 as the Border-Kei Development Forum – standing independent of the Peace Accord process to accommodate all parties concerned.

During a two-day working session in April 1992 the objectives, structure and operational procedures of the Forum were established. A draft project description for the initiation of a development planning process was also compiled. Present at the working session were all the role players.

In June 1992 the Forum established a directorate to support its operations and assist in the preparatory work for the initiation of the planning process. Three people were seconded to the directorate, one from Mercedes-Benz and two from the Transkei Development Corporation.

A draft constitution for the Forum was tabled in November with amendments approved at a Forum meeting in February 1993.

A Border-Kei Development Forum meeting

Responsibility for uniting the economy devolves upon almost all institutions of society, ranging from individual households to the central government

extending development finance. They should combine funding and investment activities with support for the establishment of effective institutions which allow participation and cooperation among all stakeholders in development projects and programmes.

Since its inception, the Development Bank of Southern Africa has been active in bridging these divisions in the South African socio-economic system through both its financial instruments and policy dialogue. It remains well placed to continue this role. However, the Bank is but one institution in the development whole. Much remains to be done by all players, individually and collectively, in optimising their efforts to bring the two economic spheres together. The case studies, most of them pilot projects, highlighted in this report, demonstrate some of the efforts which, if successful, could be replicated on a much larger scale.

IMPROVEMENTS ON THE LAND: THE CASE OF GANYESA

Region Western.

Sector Rural and agricultural development.

People involved 125 farmers with a beneficiary population of approximately 2 000 people.

Implementors Agricultural Corporation of Bophuthatswana and the beneficiary farmers.

Other role players Agricultural Bank of Bophuthatswana (Agribank), Department of Land Administration, local contractors, farmers' cooperatives.

DBSA finance R11,9 million (maximum facility).

Problem Landlessness and lack of access to agricultural support have contributed to rural poverty. Protracted legal and institutional arrangements for consolidation have, in most instances, led to insecurity of tenure, investment standstill, misuse of the natural resource base and unsatisfactory arrangements regarding responsibility and accountability for repairs to and maintenance of existing infrastructure.

Solution To give greater certainty to individuals by allowing a market in land to develop, thereby also allowing greater freedom of economic choices and ensuring a more efficient allocation of resources. Consolidation of the land presents the first opportunity for farmers who are already farming the land to purchase it and be accountable for future investment decisions.

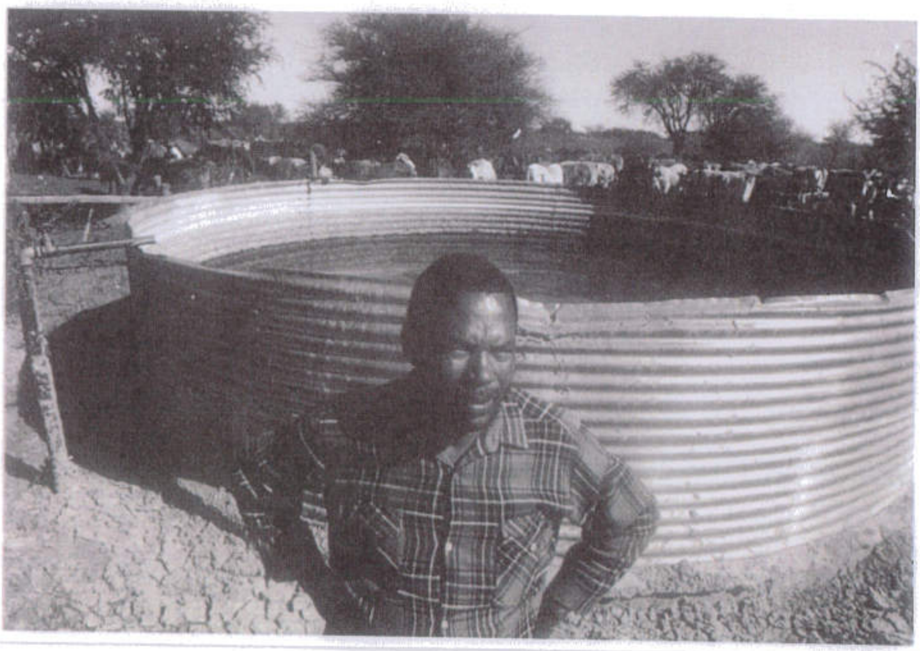
Process The project area comprises 190 000 ha of consolidated land in the Ganyesa district of Bophuthatswana on which a maximum of 125 individual titles or leases will be granted. The leases will be transferable with the immediate option to purchase.

The Bank-financed aspects of this project entail the provision of essential infrastructure to livestock farmers to enhance the productive capacity of the area within commercially justifiable limits and subject to the long-term sustainability of the resource base. This involves only water supply for livestock and essential boundary fencing.

Finance for land purchase will be available through Agribank. Further infrastructural development will be the farmers' responsibility, financed on an individual basis through Agribank or other commercial banks. From the loan Agribank will also provide for livestock water storage and distribution infrastructure, financed on an individual credit and feasibility assessment by the intermediary. Other support services such as training, extension, technical advice and credit are available from the Agricutural Corporation and others. It is expected that the successes and lessons learned from this pilot project will be a basis for replication.

The primary beneficiaries of the intervention will be the farmers, full-time and part-time, who have already settled in the area since proclamation in 1982 and 1984. Since then the farmers have held short-term leases while the Corporation has been primarily responsible for basic maintenance.

Jim Ntsie intends to buy this farm in the Ganyesa district where, over the past ten years, he has installed a borehole, waterpump and reservoir and fenced the boundary for his cattle



DIRECTORS' REPORT

OPERATIONAL REVIEW

The Bank's main business of financing development continued, although disbursements declined for the second consecutive year. The amount committed to new projects in the year under review rose to a new high of R1 754 million for 169 projects (1992: R300 million for 71 projects). The previous highest approvals by the Bank were in 1990 when R1 215 million was committed to 107 projects. This brings the cumulative total committed to R7 413 million for 1 199 projects and programmes.

Important projects approved in the past year include the Driekoppies Dam (R488 million), Klipriver Basin bulk sewer scheme (R380 million), electrification of formal and informal settlements in the greater Durban area and in townships near Port Elizabeth (R137,5 million and R40 million respectively).* The rise in commitments will provide a sound basis for increased disbursements in the forthcoming years. Together with a further R754 million committed by borrowers and other donor institutions, this brings to R2 508 million the amount to be spent on new projects.

The decline in disbursements for the year ending 31 March 1993 to R448,6 million (loans: R445,7 million, grants: R2,8 million) from R763 million in 1992 was expected because of lower commitments approved in previous years. The amount disbursed was lower than the R750 million revised interim forecast because of growing uncertainty experienced by Bank borrowers in their ability to take up long-term loans and the unstable and volatile development environment.

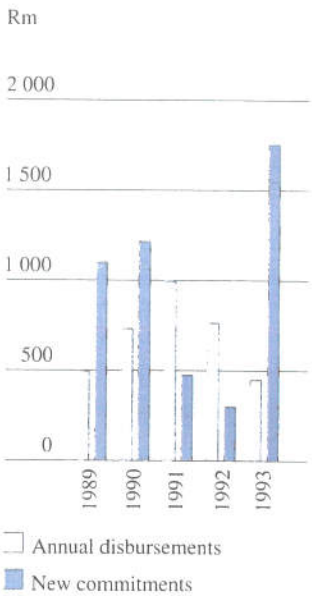
Similarly the poor economic climate, aggravated by drought, shifted attention to relief efforts rather than longer-term development. The process of assisting new clients to take up Bank funds is time-consuming and disbursements will follow these efforts in the years to come.

Identifying new delivery channels in the public and private sectors has been emphasised in an effort to maintain an acceptable level of investment and to assist existing borrowers to implement economic restructuring. Sound progress was made especially in metropolitan and urban areas, where Regional Services Councils (RSCs), Joint Services Boards (JSBs) and local authorities that were in consultation with civic groups have become project implementors. Several development-orientated non-governmental organisations (NGOs) that support entrepreneurial and rural development also successfully applied for Bank funds. New and innovative financing models were introduced to support community-based and micro-lending organisations.

The Bank's investment portfolio was restructured with financial and technical support shifting from industrial development to small and medium enterprises; from roads to water and electricity; and from public-sector estate farming to integrated rural projects including smallholder programmes. In human resource development the focus has shifted to technical vocational training.

The worsening institutional absorption capacity was addressed by introducing specific measures of support for both existing and new borrowers. A number of borrower appraisals brought to light the need of many client organisations for restructuring. The Bank was able to provide

Projects approved and funds disbursed



**A complete list of the projects approved in the past financial year can be obtained from Corporate Communications, Development Bank of Southern Africa, P O Box 1234, Halfway House, 1685, South Africa*

▶22

DRIEKOPPIES-NKOMAZI RURAL DEVELOPMENT: AN INTEGRATED SUGAR INDUSTRY

Region Northern and Swaziland.

Sector Rural, agricultural and infrastructural development.

Implementors 700 smallholders, approximately 100 commercial farmers and the Department of Water Affairs.

Role players Department of Water Affairs, KaNgwane Agricultural Corporation (Agriwane), Transvaal Sugar Limited, Small Grower Financial Aid Fund.

Other role players Komati Basin Water Authority, Small Growers Development Trust, SA Sugar Association, Swaziland Government, World Bank.

Total finance R1 billion.

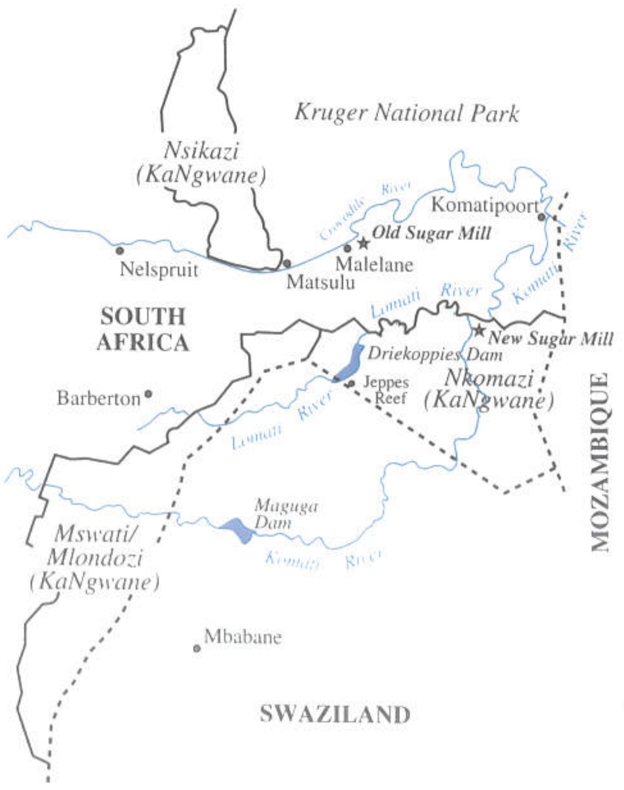
DBSA contribution R488 million and a further R70 million (to be approved in the following phase) for rural development.

Problem The Komati Basin (incorporating the Crocodile, Komati and Lomati rivers) has high agricultural production potential, but the area's lack of access to water is the single most limiting factor for development. In addition, black farmers have had limited access to support services (including credit, research and extension) and also need larger water allocations, sugar quotas and access to more land.

Solution To create sustained entrepreneurial opportunities in agriculture and related industries from the construction of the Driekoppies Dam, the Bank ensured that, linked to its financial support, sufficient benefits would accrue to the disadvantaged communities, resulting in their economic integration into the subregion.

Process The Komati Basin is one of the last major river systems to be developed in southern Africa despite its production potential and good markets for tropical fruits and citrus. Development of the basin presents an opportunity for international cooperation between Swaziland, Mozambique and South Africa. Expansion of irrigation and the processing of high-value crops presents opportunities for development and increased benefits for large numbers of black farmers if they are assured of access to finance, sugar quotas, water and support services. The Development Bank had to ensure that these benefits would accrue to the disadvantaged communities within an integrated rural development approach (incorporating agriculture, infrastructure, health, small business and education). This would involve mobilising appropriate private and public sector finance while safeguarding the benefits to the disadvantaged group through appropriate public sector intervention. A final issue that needs attention is the matter of land reform.

A wide range of stakeholders were consulted to ensure that the investment enjoyed both local and regional support and that the principles of public choice were adhered to. Special emphasis was also given to the environmental and social impact assessments and innovative ideas were incorporated into the process of compensation for communities affected by the dam's construction.



An organisational restructuring took place which is more responsive to clients' needs and which simplifies the Bank's matrix system

a sound framework for this, as well as give technical assistance support to the process. There was considerable interaction with a broad range of non-governmental institutions, groups and associations, and this has contributed much to involving them in the development process. Several new enquiries from NGOs have been received.

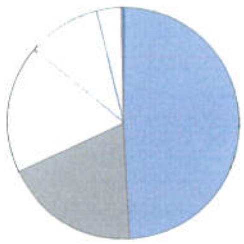
Greater clarity and consensus have been obtained on development issues through client interaction, enabling the Bank to reach agreement with major borrowers on the structuring of multi-year development support programmes. Through interaction with clients, the Bank has managed to obtain a better understanding of the development support it should render in various regions.

Time limits were introduced into the project cycle to speed up the flow of projects through the pipeline and also to bring home to clients their responsibility for responding to Bank approvals. Documentation required for the processing of projects was substantially reduced.

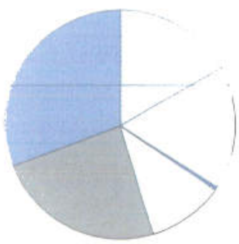
An organisational restructuring took place which is more responsive to clients' needs and which simplifies the Bank's matrix system: the Board accepted a proposal for the Bank to be restructured with operational functions being accorded a regional structure and the functions of strategy and information analysis; human resources, legal and general services; and finance supporting the operational functions. Thus, the previous sectoral arrangement of the operational activities was incorporated into each of the four regions to ensure that all operational activities and the development support programme could be carried out by regional groups, each staffed to contain all the sectoral and specialist operational skills required for managing the development programmes falling under its region. The

The regional organisation of the Bank

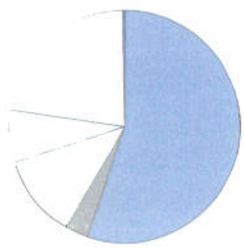
Loan book per sector



Loan book per region



Loan book per borrower



regions are the Northern, including all operational activities within southern Africa (Lesotho, Mozambique, etc), the Central and Western, the Eastern and the Southern. An International Relations Programme was also established to support the main functions of the Bank in interacting with the international development community.

There has been encouraging progress in the establishment of representative regional and subregional planning forums. A far quicker and more flexible approach by the Bank in providing support contributed to the emergence of representative economic and development forums throughout the country. The Bank's participation in national forums also became widely accepted, especially on urban, housing, electricity, water and sanitation and land reform issues. Of particular importance was the role of the Bank in the National Consultative Forum for Drought, where specialists continue to participate in various working groups in an effort to produce a national drought strategy.

In endeavouring to promote coordinated development and partnerships between development organisations, the Bank worked with various stakeholders, authorities and donors. Several projects are jointly funded with organisations such as the Independent Development Trust (IDT), the United States Agency for International Development (USAID) and other local and international organisations.

The Bank participated in setting up the Mvula Trust, the outcome of an inter-agency cooperation agreement between the IDT, Kagiso Trust and the Development Bank, and supported by the European Community, for providing funds for the development of water and sanitation projects with poor communities in rural and semi-urban areas.

The Bank served on a steering committee and provided inputs for the study by the African Development Bank (AfDB) on a post-apartheid South Africa's reintegration into southern Africa. This study is scheduled for release in 1993 and will form a basis for discussions between the countries in the region.

In-principle agreement for concessionary development loans was negotiated with the Export-Import Bank of Japan and the International Economic Cooperation Development Fund of the Republic of China. The Development Bank is also responsible for contact and coordination between the public sector and the World Bank and AfDB.

Considerable effort was devoted to the preparation of policy and operational frameworks for structural adjustment programmes (Sapros) between central government and regional governments. This activity has cost the Bank an estimated R11 million annually in recent years. The institutional arrangements between these two levels of government and the institutional capacity constraints, particularly at the second tier of government, continue to present problems for attaining satisfactory bilateral financial arrangements. As these are extremely important but are not central to development activities, it was decided to separate Sapro activities from the operational activities of the Bank. Its operational work, however, remains an important input for structural adjustment programmes.

SUPPORT FUNCTIONS

Policy, strategy and information analysis

The Bank carries a responsibility for contributing to the search for policy options at this stage of South Africa's social and economic evolution. Through local and international interaction with policy makers the Bank has been able to contribute to the formulation of policies and strategies for economic development and cooperation.

Economic reconstruction and poverty reduction were viewed as the main themes for policy analysis and dialogue while various national, regional and sectoral dialogue activities were supported by the policy function

The newly structured policy function managed by the Centre for Policy Analysis was instituted during the year under review to deliver strategically important products and inputs. Economic reconstruction and poverty reduction were viewed as the main themes for policy analysis and dialogue.

Important assignments included

— the establishment of a framework for macro-economic reconstruction in a democratic society
— economic management and regional restructuring
— employment creation for growth and reconstruction
— regional development and export processing zones
— establishment of a drought policy framework for the Drought Forum
— agricultural restructuring and integration of support services
— land reform in rural, agricultural and urban contexts
— inputs to the Kassier committee of inquiry into the Agricultural Marketing Act
— cooperatives as a mechanism for stimulating emerging businesses
— innovative approaches to micro-level funding, farm land, equity sharing and savings clubs
— city reconstruction and hostel initiatives
— the World-Bank-sponsored national poverty survey
— a framework for institutional analysis especially as it applies to local management levels and civil society interaction
— a framework for environmental assessment
— establishing an inventory of the legal status of land and water resources and also of the legal aspects of conservation
— various macro-economic modelling exercises, including work on an updated version of the Social Accounting Matrix and collaboration with the Macroeconomic Research Group on general equilibrium models
— participation in the African Development Bank study on regional integration in southern Africa
— a comparative analysis of educational administrative models on the basis of centralised and decentralised systems of government
— a range of publications on appropriate technology in construction.

Various national, regional and sectoral dialogue activities were supported by the policy function, including the Electrification Forum, on which the Bank served as interim chair and secretariat; the Water Supply and Sanitation Forum; the National Economic Forum, which was served with various submissions; and the National Housing Forum. The Bank interacted in the field of education and skills training and participated in various agricultural and rural forums and areas of emerging entrepreneurial development. High-level discussions on urban renewal and policy advances in gender planning in development were supported. Various international agencies were served with technical inputs on economic reconstruction matters and on sectoral issues.

An operational framework for project appraisal and analysis was established to ensure a consistent and comprehensive approach to the assessment and allocation of funding resources in the operational activities of the Bank.

Information analysis

In support of economic reconstruction, the Bank's time series data bases on sector-specific and non-sector-specific information were refined and extended. The sector-specific information relates to rural and agricultural, urban, human resource, entrepreneurial, business and infrastructural development, while the non-sector-specific information relates to demography, labour and employment, national accounts, public finance and institutional development.

On the basis of the available time series information, regional socio-economic analyses were conducted to show up the relative strengths and weaknesses of the regions' abilities to contribute towards the formulation of regional development strategies.

Liaison with the external environment was continued by providing access to information sources; analysing and conforming to the information needs of the various role players in development; preventing duplication of information; and enhancing the accessibility of information in the external environment and in the Bank. Bank information, as a product, was disseminated by answering 1 050 enquiries and selling or complimentarily issuing approximately 4 400 publications. Titles included *Comparative education profile; Education in South Africa: A regional overview; Objective indicators for measuring well-being; Regional distribution of potential voters in South Africa*; and *Alternative regional demarcations*.

Human resources, legal and general services

Human resources

In preparation for the restructuring of the Bank a number of supportive events were initiated, such as workshops for strategic planning and for articulating corporate culture and values. Affirmative action was accelerated through the appointment of a representative coordinating committee, and a productivity study was undertaken. Affirmative action principles were followed in the restructuring in an effort to open up opportunities for candidates who were already in the organisation. The Human Resources Division assisted in placing staff members in the revised Bank structure and providing support, such as mentoring, to new job incumbents.

The restructuring also brought about a reduction of the levels of management. A single level of managers now reports to the General Managers. Through down-sizing and shrinkage the number of employees has dropped from 652 at 31 March 1992 to 608 at 31 March 1993. This includes the 26 staff members who have been allocated to the Sapro function. The human resources turnover for the year under review was 9,53 per cent.

The Capacity Building Unit activities were directed at expanding the knowledge and skills of individual staff members and at organisation development for various development organisations. Two staff members were seconded to the World Bank for six months to gain first-hand experience of its approaches and policy framework. Management skills, such as leadership training, interpersonal dynamics and functional skills, were provided to 450 employees and special seminars on management development were conducted for 65 selected staff members. Externally directed training events organised on a cost recovery basis were attended by 290 delegates. These events offered training in problem solving and decision making, conference organising and leadership skills for meetings.

Legal services

The Legal Division adds value to products of the Bank by participating in projects and policy programmes at an early stage. During the financial year more than 198 loan and grant agreements were drawn up for the Bank. The legal advisers also took part in numerous discussions with grassroots institutions, the purpose of which was to provide various options for becoming legal entities able to raise funds for development.

General services

A new computerised Project Management Information System was introduced to provide project financial information for more effective financial controls. The mainframe is being phased out and will be replaced by a personal computer network that will be integrated with the existing networks and result in considerable cost savings.

Executive Committee (Exco)

(Clockwise from left foreground) Junior Potloane (Eastern Region), Johan Kruger (Southern Region), Div Botha (Central and Western Region), Jannie Zaaiman (Human Resources, Legal and General Services), Richard Kirkland (Finance), Nick Christodoulou (Operations), Sollie Nortjé (Northern Region and southern Africa), Deon Richter (Policy and Information) – General Managers; and Johan van Rooyen (Director: Centre for Policy Analysis) and André la Grange (Chief Executive).

During the year the Bank, together with other Midrand concerns, participated in the Midrand Town Council initiative to establish a park-like environment in the area. This is consistent with the Bank's conservation and planting of an indigenous highveld garden on its grounds.

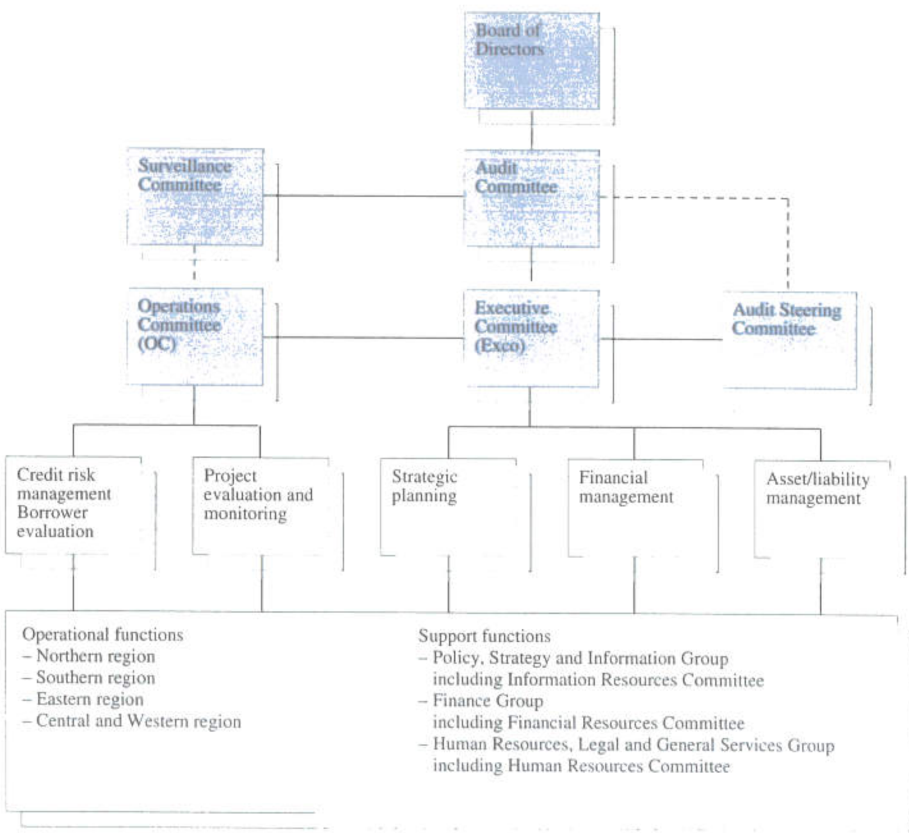
There was increased demand for the Bank's library facilities, attributable to its services and information being promoted to non-government agencies and its cooperation with the Transvaal Resource Centre, particularly in the Johannesburg and Pretoria region.

Finance

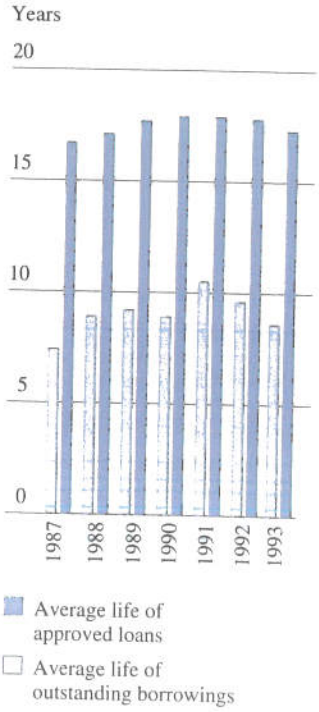
Over time the Bank has developed comprehensive systems and procedures for dealing with the multiplicity of interrelated risks that it faces. Because the operating environment is changing rapidly, a need has arisen for expanding the Bank's approach to risk management. The Bank has responded to this need during the year by disseminating its integrated risk management philosophy throughout the Bank and developing supporting approaches and methodologies.

Risk management in the Bank takes its cue from the audit policy, administered by the Board of Directors. The Board is in turn supported by the Audit Committee. The Board of Directors and Audit Committee are vested with ultimate responsibility for evaluating the adequacy and effectiveness of the risk management process followed by the Bank. A second tier of committees is charged with monitoring particular risk areas. They are: Surveillance Committee (borrower surveillance, credit risk),

Risk management structures are integral to the management of the Bank



Average life of loans and outstanding borrowings



Operations Committee (project appraisal, project monitoring and associated credit risk), Executive Committee (general business and financial risks). At the operational level specialist monitoring and management are performed by senior management within the line. Committees operating at this level include the Human Resources Committee, Financial Resources Committee and Information Resources Committee.

Asset and liability management is integral to the Bank's risk management activities. The Financial Resources Committee regularly reviews the Bank's asset and liability positions with the objective of funding assets with liabilities having broadly the same characteristics in terms of interest rate, currency and maturity. The risk to income and, as a consequence, the future sustainability of the Bank's development activities will to a large extent be determined by its success in managing mismatches in these areas as well as in managing its credit risk.

In conducting its market-making activities the Bank takes positions in both on- and off-balance-sheet instruments. The risks inherent in these activities are managed by closely monitoring market conditions and by establishing and monitoring trading limits.

Credit risk – the risk that future earnings might be affected if any of the Bank's borrowers or counterparties were to default

The Bank continues to exercise disciplined management of credit risk in its development lending and liquidity portfolios. In respect of development lending, procedures are followed throughout all stages (from identification to post-implementation) of the project cycle for identifying, monitoring and managing factors and circumstances which could potentially impair, either directly or indirectly, borrowers' ability to repay. The Operations and Surveillance Committees play a key role respectively in monitoring the Bank's overall development lending exposures and in recommending provisioning levels.

In deciding an appropriate loan loss provision, consideration is given to the existing level of loans in non-accrual and to the probability of inherent losses in the portfolio which have yet to be identified. In this regard, economic and political conditions and also lending concentrations by borrower and sector are discounted in the Bank's assessment. The Bank remains satisfied with the credit quality of its development loan portfolio despite the extremely difficult economic environment. The general provision for loan losses was nevertheless marginally increased to track the incremental growth in the loan portfolio during the year.

Negotiations over loans in non-accrual have proceeded sufficiently well to allow the Bank to marginally reduce the related specific loan loss provisions and simultaneously release an equivalent amount to the general provision.

The Financial Resources Committee establishes policies and procedures for managing the credit risk (including settlement risk) inherent in the liquidity portfolio. Maximum credit limits are established for all counterparties. The established limits and actual exposure levels are regularly reviewed by senior management.

Interest risk
– the uncertainty of future earnings whenever assets and liabilities carry different interest rates

Development lending is made at fixed concessionary rates for reasonably long maturities. The weighted average lending rate during the year was 7,8 per cent (1992: 7,9 per cent) and the weighted maturity 17 years (1992: 18 years).

The Development Fund absorbs the effect of interest rate differentials between market funding secured by the Bank and the concessionary loans it advances. The revised risk management strategy will, however, see the Bank further endeavouring to match-fund assets more precisely.

Liquidity risk
– the risk of having insufficient funds, in appropriate currencies, to meet obligations arising

From a risk management point of view the key function of liquidity is to give the Bank the capacity to meet, even under adverse conditions, its obligations to clients and creditors. The illiquid nature of most of the Bank's assets accentuates the importance of management flexibility that liquidity confers. Experience has shown a benchmark liquidity level equivalent to 25 per cent of undisbursed fixed lending commitments to be prudent in supporting this objective. The benchmark level was exceeded by a substantial margin at 31 March 1993 with the ratio rising to 34,6 per cent (1992: 31,8 per cent). The reason for this increase, as mentioned, was the lower level of loan disbursements.

The healthy liquidity levels nevertheless see the Bank well placed to meet expected rising lending commitments which have already started to manifest themselves. Current liquidity also affords the Bank flexibility in timing its future funding activities, at least for the forthcoming financial year.

Exchange risk
– the uncertainty of future earnings whenever borrowing and lending involve different currencies

It is the Bank's policy to hedge all foreign exposures. The only foreign exposure to date is a DM200 1992/98 German bond liability fully covered forward.

FIVE-YEAR FINANCIAL SUMMARY

For the years ended 31 March	1989 Rm	1990 Rm	1991 Rm	1992 Rm	1993 Rm	Forecast 1994 Rm
Balance sheet						
Total assets	2 035	2 525	3 730	4 631	5 335	6 120
Capital employed						
Permanent capital	1 882	2 214	2 716	3 253	3 858	4 415
Medium- and long-term financing	81	95	671	943	977	943
Employment of capital						
Development loans	1 585	2 325	3 291	3 989	4 265	5 379
Investments	411	129	392	502	953	605
Cash flow						
Development loans advanced	493	729	988	760	446	970
(at 1983 constant prices)	238	308	371	251	133	–
Commitments						
Commitments outstanding	2 152	2 546	2 102	1 586	2 770	–
(at 1983 constant prices)	1 037	1 074	788	523	825	–
Guarantees outstanding	115	58	65	20	9	–
Income statement						
Interest income	122	138	189	256	404	433
Interest expenditure	(14)	(9)	(62)	(117)	(164)	(168)
Gross operating expenditure	(72)	(76)	(91)	(104)	(108)	(116)
(at 1983 constant prices)	(35)	(32)	(34)	(34)	(32)	–
Surplus before provisions	38	50	47	50	130	140
Provision for loan losses	(21)	(33)	(45)	(15)	(25)	(25)
Surplus transferred to general reserve	17	17	2	35	105	115

FIVE-YEAR FINANCIAL SUMMARY

For the years ended 31 March	1989 %	1990 %	1991 %	1992 %	1993 %
Ratios					
Investments/total assets	20,2	5,2	10,5	10,8	17,9
Investments/ undisbursed loans[1]	19,0	5,1	18,8	31,8	34,6
Debt/equity[2]	4,4	4,3	24,7	29,0	25,3
Total loan loss provision/development loans	4,0	3,6	3,5	4,0	4,3
Operating expenditure/ average disbursed loan portfolio[3]	5,2	3,8	3,2	2,8	2,6
Operating expenditure/ development loans advanced	14,6	10,4	9,2	13,7	24,2
Weighted average interest rate on development loans	7,4	7,4	7,3	7,9	7,8
Weighted average cost of borrowings	13,3	14,0	15,7	16,2	16,2
Interest cover (times)[4]	8,7	15,3	3,0	2,2	2,5
Inflation deflator (1983=100)	48,2	42,2	37,5	33,0	29,8

[1] Investments/loans approved but not disbursed

[2] Medium- and long-term financing/permanent capital

[3] Operating expenditure/(opening and closing balance development loans/2)

[4] Interest income/interest expenditure

FINANCIAL REVIEW

Income

Gross interest income in the year under review rose 57,6 per cent over the preceding year to R403,9 million, with loan portfolio income rising 38,6 per cent to R270,5 million and investment income more than doubling to R133,5 million. Budgeted income for the year was consequently exceeded by a comfortable margin of R59 million (17,2 per cent).

Higher than expected liquidity levels, due to lower development loan disbursements allied with a rally in the gilts market, provided the fillip for investment income. In the case of loan portfolio income the earnings momentum in previous years' lending was sufficient to sustain a rise in this income despite the slowdown in loan disbursements during the year.

Expenditure

Interest expenditure increased to R164 million, as budgeted, from R116,7 million in the preceding year. With no new borrowings during the year this increase is due solely to the timing of interest expense for borrowings contracted in previous years.

Operating expenditure, before taxation refunds, rose 4,2 per cent over the preceding year to R108,1 million, virtually matching the budget of R108,3 million. During the year, and contrary to a prior agreement, the RSA Government ceased refunding the direct and indirect taxation (payroll taxes and VAT) paid by the Bank. Negotiations for the reinstatement of this dispensation are taking place between the Bank and the RSA Government.

The marginal increase in operating expenditure (a decrease of 6 per cent over the preceding year, after accounting for the effect of inflation) bears testimony to the Bank's resolve to contain costs without impairing the quality of its products.

It is recorded that operating expenditure continues to include certain costs associated with the Bank's support in terms of bilateral arrangements between governments. Future costs of this nature, estimated at R11 million per annum, are to be fully recovered from the forthcoming financial year.

As a consequence of the above-mentioned factors the surplus before provision for loan losses rose to the unprecedented level of R130 million, over two and a half times that of the preceding year. The Bank's mission does not imply the active pursuit of such gains, which have, for reasons already alluded to, come at the expense of timeous development loan disbursements. Notwithstanding, this surplus provides added strength to the Bank's capital base.

The R25 million general provision for loan losses brought the total loss provision to R190 million at 31 March 1993. The accumulated total provision for loan losses represented 4,3 per cent of the year-end disbursed portfolio (1992 : 4,0 per cent)

Capital and funding management

The Bank's debt-to-equity ratio was 0,25 : 1 (25,3 per cent) at year end, compared with 0,29 : 1 (29 per cent) at the end of the preceding year.

During the second quarter it became apparent that the Bank would fail to meet its budgeted development disbursement flows for the year. As indicated in the operational review, it also became apparent that the reasons for this disbursement slow-down were complex and varied. On discerning this trend the Bank immediately sought means, at all stages in the project cycle, to revitalise its disbursements while adopting a very cautious view regarding its own new borrowings.

It transpired that no need for new borrowings emerged and so no fresh bond issues took place during the year under review. While adequately funded for the present, the Bank nevertheless remains alert to every opportunity for securing long-term finance at the lowest cost. Secondary market activity in all the Bank's bonds remained buoyant throughout the year with the Bank playing an important part.

Despite curtailment of the funding programme, in-principle agreement for concessionary development loans was negotiated with the Export Import Bank of Japan and the International Economic Cooperation Development Fund of the Republic of China. These untied facilities are expected to be accessed as soon as internal political consensus emerges in South Africa.

The Bank is in a sound position, particularly in view of its current high liquidity level, to meet its existing and expected near-term development loan commitments. The ratio of investments to undisbursed loans is currently 34,6 per cent (1992: 31,8 per cent).

MANAGEMENT'S RESPONSIBILITY

for, and approval of, the annual financial statements

The annual financial statements and other financial information set out in this annual report were prepared by management in conformity with generally accepted accounting practice as applicable to similar institutions and applied on a consistent basis throughout the year, except where specified in the financial statements. The manner of presentation of the financial statements, the selection of accounting policies and the integrity of the financial information are the responsibility of the Board of Directors and management. The annual financial statements have been approved by the Board of Directors and have been signed on their behalf by the Chairman and by the Chief Executive. The unqualified report of the external auditors is presented on page 36.

The Board of Directors is ultimately responsible for the management of audit risk and the maintenance of internal controls which are designed to provide reasonable assurance of the integrity of financial information contained in the annual financial statements, the effectiveness and efficiency of operations and compliance with applicable laws and mandates.

The management of audit risk is set out in the audit policy as approved by the Council of Governors and the Board of Directors. This policy sets out the role and responsibilities of the directors and the Audit Committee and also the conduct of the internal and external auditors. The policy supports the principles of independence and objectivity and also of 'value for money' auditing, which is directed at efficiency and effectiveness issues. The audit policy accepts that no restrictions are placed on the internal or external auditors in the execution of their duties.

The Audit Committee is composed of non-executive directors and meets management and the internal and external auditors, separately and together, four times a year. The Audit Committee approves the critical risk areas and reviews and discusses the auditors' findings as well as current accounting matters and the annual financial statements. The internal and external auditors have free access to this committee. The external auditors are appointed each year, taking account of the recommendations of the Audit Committee.

Management meets both the internal and the external auditors, through the Audit Steering Committee, regularly throughout the year. The external auditors are responsible for independently reviewing and reporting on the Bank's annual financial statements and the underlying controls.

The day-to-day responsibility for monitoring controls, which concentrate on critical risk areas, rests with management. These areas and the required systems of internal control are identified, documented and regularly reviewed by management to ensure that they are appropriate and that any necessary improvements are implemented. Management also ensures that the delegation and segregation of duties within systems of internal control are effective.

The critical risk areas and the systems of internal control to be applied are confirmed by the Audit Committee and endorsed by the external auditors. All controls relating to these critical risk areas are closely monitored and audited by the internal and external auditors in accordance with generally accepted auditing standards. These standards include an evaluation of the appropriateness of the accounting policies, an examination on a test basis of evidence supporting the amounts included in the financial statements and an assessment of the reasonableness of important estimates.

The principles underlying critical risk areas, and of compliance with the systems of internal control, are communicated to employees at all levels within the Bank.

We are of the opinion that the controls in use are adequate to provide reasonable assurance that the assets are safeguarded against loss and unauthorised use and that the financial records can be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. There are, however, inherent limitations in any control system and the cost of maintaining a control system is carefully evaluated against the benefits to be derived.

A B La Grange
Chief Executive

W L Nkuhlu
Chairman of the Board of Directors

AUDITORS' REPORT

Report of the independent auditors to the members of the Development Bank of Southern Africa

We have audited the annual financial statements as set out on pages 38 to 52. Our audit has been conducted in accordance with generally accepted auditing standards. In our opinion these financial statements fairly present the financial position of the Development Bank of Southern Africa as at 31 March 1993, the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting practice for similar institutions.

Ernst + Young

Ernst & Young
Chartered Accountants (SA)
Johannesburg

FINANCIAL STATEMENTS

Contents

BALANCE SHEETS
at 31 March

	Note	1993 R'000	1992 R'000
Capital employed			
Share capital	2	**200 000**	200 000
Development fund	3	**3 403 344**	2 903 344
Reserves	4	**255 038**	149 964
Permanent capital		**3 858 382**	3 253 308
Deferred interest	5	**463 087**	395 687
Medium- and long-term financing	6	**977 429**	943 112
Short-term liabilities	7	**36 096**	38 557
		5 334 994	4 630 664
Employment of capital			
Fixed property	8	**35 217**	35 217
Development loans	9	**4 264 829**	3 988 937
Investments	10	**953 213**	502 144
Other receivables and cash	11	**81 735**	104 366
		5 334 994	4 630 664

INCOME STATEMENTS
for the years ended 31 March

	Note	1993 R'000	1992 R'000
Income			
Interest income	12	**403 961**	256 359
Interest expenditure	13	**(164 048)**	(116 707)
Net interest income		**239 913**	139 652
Other income		**1 974**	1 033
		241 887	140 685
Technical assistance grants	14	**(2 832)**	(3 560)
Net operating income		**239 055**	137 125
Expenditure		**(108 981)**	(87 261)
Auditors' remuneration	15	**(494)**	(414)
Governors' emoluments	16	**(42)**	(28)
Directors' emoluments	17	**(363)**	(236)
Net operating expenditure		**(108 082)**	(86 583)
Gross operating expenditure	18	**(108 082)**	(103 691)
Less: Refund of direct and indirect taxation	19	**-**	17 108
Surplus before provisions		**130 074**	49 864
General provision for loan losses	20	**(25 000)**	(15 000)
Surplus transferred to general reserve		**105 074**	34 864

CASH FLOW STATEMENTS
for the years ended 31 March

	Note	1993 R'000	1992 R'000
Cash generated from operating activities	21	**150 003**	68 626
Cash generated from financing activities		**500 062**	751 499
Development fund contribution		**500 000**	502 000
Net proceeds of bond issue		–	266 159
Increase/decrease() in short-term liabilities		**62**	(16 660)
Total cash generated		**650 065**	820 125
Cash utilised in loan and investment activities			
Development loan advances		**445 765**	759 530
Development loan repayments		**(212 273)**	(143 612)
		233 492	615 918
Increase in investments		**451 069**	110 508
Decrease()/increase in bank balance		**(34 496)**	93 699
Total cash utilised		**650 065**	820 125

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting and related policies

The financial statements are prepared on the historical cost basis in conformity with generally accepted accounting practice followed by similar international institutions. The principal features of the accounting policies adopted and applied on a basis consistent with the previous year, unless otherwise stated, are set out below.

1.1 Interest received on development loans

1.1.1 Deferred interest

Certain agreements for development loans provide a grace period for the payment of interest. The grace period is designed to coincide with and assist in the implementation phase of the underlying project. During this period, interest is capitalised and becomes payable together with the capital over the remainder of the loan period. Interest so capitalised is treated as deferred interest until such time as it is due and payable, when it is transferred to income and disclosed as interest received.

1.1.2 Direct interest

Interest charged outside the grace period is capitalised and transferred directly to income and disclosed as interest received.

1.1.3 Interest on non-accrual loans

Deferred and direct interest and other charges on non-accrual loans are included in income only when such payments have actually been received.

1.2 Capital market bonds

The discount or premium on the issue of registered bonds is amortised over the term of these bonds using the yield to redemption method. Other bond issue costs are amortised over the term of these bonds using the straight line redemption method. Discounts, premiums and other bond and financing costs amortised are recorded as an element of interest expenditure. The unexpensed portion of discounts, premiums, other bond and financing costs at the balance sheet date is netted off against the related liability.

1.3 Development loans

Development loans, including capitalised interest, are placed on a non-accrual status when the contractual payment of principal or interest has become 180 days past due or when, in the opinion of the directors, the recovery of the whole or portion thereof becomes doubtful. Income recognition on affected loans is accordingly suspended until payments have actually been received. Deferred interest raised in previous years on development loans subsequently placed on a non-accrual status, is set off against such loans. Generally, a loan may be restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where interest has been interrupted for a substantial period, a regular payment pattern is re-established.

When loans are placed on a non-accrual status, the bank makes specific provision for possible losses on such loans, where appropriate. Further general provisions are maintained against risks which, although not specifically identified, exist in any portfolio of advances. The aggregate provision for loan losses is periodically adjusted after review of the prevailing circumstances. Any such provision is recorded as a charge against income for the period and will be used to meet actual losses on such loans. Losses in excess of the accumulated provision would be charged against income for the period.

1.4 Investments

Investments consist of capital and money market instruments and are stated at market value. Profits or losses are accounted for on revaluation.

1.5 Fixed property

All costs directly related to the construction of the head office and infrastructure at Midrand are capitalised. As the property is considered to be an investment property, the costs relating thereto are not depreciated.

1.6 Other operating assets

Other operating assets, consisting of furniture, office equipment, computer equipment and motor vehicles, are written off against operating income in the year of acquisition. Proceeds on disposal of these assets are reflected as recoveries under other income.

1.7 Grants received

All grants received are taken directly to the Development Fund.

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the spot rates ruling at transaction date.

Assets, liabilities and commitments in foreign currencies are translated into South African Rand at the rates of exchange ruling at year end or at the forward rates, where applicable.

The premium on forward cover exchange contracts is amortised to interest paid as part of the financing costs over the term of the underlying contract. The unexpensed portion of the premium at the balance sheet date is shown as a deduction from the related liability.

1.9 Off-balance-sheet financial instruments

In the normal course of business the Bank is party to off-balance-sheet financial instruments. The Bank follows the same credit policies in considering conditional obligations as it does for balance sheet instruments. The premiums received and paid on financial instruments entered into for trading purposes are stated at market value and the resultant profits and losses are included in the income statement. Where not designated as trading transactions the instruments are stated at cost and premiums are amortised over the life of the instruments.

		1993 R'000	1992 R'000
2.	**Share capital**		
	Authorised and subscribed		
	200 000 shares at a par value of R10 000 each	**2 000 000**	2 000 000
	Callable capital		
	180 000 shares at a par value of R10 000 each	**1 800 000**	1 800 000
	Paid-up capital		
	20 000 shares at a par value of R10 000 each	**200 000**	200 000
3.	**Development fund**		
	Balance at beginning of year	**2 903 344**	2 401 344
	Grants received	**500 000**	502 000
	Under existing commitments	**500 000**	500 000
	In respect of specific projects	–	2 000
	Balance at end of year	**3 403 344**	2 903 344
	Outstanding commitment of the RSA Government	**493 954**	988 954
	Under existing commitments	**484 954**	984 954
	In respect of specific projects	**9 000**	4 000
4.	**Reserves**		
	General reserve		
	Balance at beginning of year	**149 964**	115 100
	Transfer from income statement	**105 074**	34 864
	Balance at end of year	**255 038**	149 964

These reserves are not distributable in the normal course of business.

		1993 R'000	1992 R'000
5.	**Deferred interest**		
	Balance at beginning of year	**395 687**	298 866
	Interest capitalised	**86 632**	108 911
		482 319	407 777
	Transferred to income statement	**(19 232)**	(12 090)
	Balance at end of year	**463 087**	395 687
	Expected transfer from deferred interest to interest income:		
	Within 1 year	**21 471**	
	1 - 2 years	**23 380**	
	2 - 3 years	**24 133**	
	3 - 4 years	**25 761**	
	4 - 5 years	**28 623**	
	Thereafter	**339 719**	
		463 087	395 687
	An analysis of comparative repayments (totalling R395,7 million) is not readily available to the equivalent level of detail.		
6.	**Medium- and long-term financing**		
	Balance at beginning of year	**1 199 426**	671 282
	Net issued during the year	**–**	528 144
	Per schedule (A)	**1 199 426**	1 199 426
	Unamortised issue discounts and forward cover premiums	**(221 997)**	(256 314)
	Balance at end of year	**977 429**	943 112
7.	**Short-term liabilities**		
	Short-term financing	**14 412**	14 350
	Accounts payable	**6 574**	9 305
	Accrued interest	**15 110**	14 902
		36 096	38 557

		1993 R'000	1992 R'000
8.	**Fixed property**		
	At cost	**35 217**	35 217
	Building	**33 335**	33 335
	Infrastructure	**1 882**	1 882

The head office was constructed on land donated to the Bank by the RSA Government, which land comprises Erf 3 of the township Headway Hill, registration division JR Transvaal, measuring 24,6125 ha. The value of the fixed property as at 31 March 1993 was R58,5 million, on the basis of a replacement cost valuation carried out by First Bowring Protection Consultants (Pty) Ltd as at that date.

		1993 R'000	1992 R'000
9.	**Development loans**		
	Inside grace periods (income capitalising)	**579 128**	1 204 642
	Outside of grace periods and in repayment	**3 875 701**	2 949 295
		4 454 829	4 153 937
	Less: Provision for loan losses (Note 20)	**(190 000)**	(165 000)
	– specific provision	**(16 050)**	(24 550)
	– general provision	**(173 950)**	(140 450)
		4 264 829	3 988 937
	Expected repayments		
	Within 1 year	**205 431**	
	1 - 2 years	**219 362**	
	2 - 3 years	**225 677**	
	3 - 4 years	**239 887**	
	4 - 5 years	**250 306**	
	Thereafter	**3 314 166**	
		4 454 829	4 153 937

An analysis of comparative repayments (totalling R4 153,9 million) is not readily available to the equivalent level of detail.

	1993 R'000	1992 R'000
Non-accrual loans		
Development loans include the following loans in non-accrual against which appropriate specific provision for possible losses has been made:		
Non-accrual loans	**60 471**	55 706
Less: Income suspended	**(18 784)**	(13 299)
	41 687	42 407
Commitments		
Loans approved but not committed	**966 919**	451 185
Loans committed but not disbursed*	**1 788 162**	1 126 641
Total approved but not disbursed	**2 755 081**	1 577 826

*The disbursement pattern in respect of loans committed but not disbursed is not capable of precise quantification, being primarily a function of individual borrowers' implementation and administrative capacities. The Bank's view, however, of the expected disbursement pattern in respect of these commitments is as follows: 31 per cent in 1993/94, 24 per cent in 1994/95, 24 per cent in 1995/96 and 21 per cent thereafter.

Guarantees

The Bank has also approved and issued guarantees on behalf of borrowers as follows:-

	1993 R'000	1992 R'000
Approved but not committed	**8 250**	19 289
Issued	**880**	880
	9 130	20 169

		1993 R'000	1992 R'000
10.	**Investments**		
	Fixed deposits	**276 047**	145 074
	Trading securities	**677 166**	357 070
		953 213	502 144
	Maturity analysis		
	Within 1 year	**582 879**	145 074
	1 - 2 years	**–**	32 417
	2 - 3 years	**49 479**	–
	3 - 4 years	**–**	–
	4 - 5 years	**93 011**	13 564
	Thereafter	**227 844**	311 089
		953 213	502 144
11.	**Other receivables and cash**		
	Interest on investments	**17 595**	7 427
	Accounts receivable	**2 546**	849
	Bank balances	**61 594**	96 090
		81 735	104 366
12.	**Interest income**		
	Investments	**133 495**	61 192
	Development loans	**270 466**	195 167
	Direct interest	**251 234**	183 077
	Deferred interest	**19 232**	12 090
		403 961	256 359
13.	**Interest expenditure**		
	Interest on medium- and long-term finance	**129 731**	111 036
	Amortisation of issue discounts and forward cover premium	**34 317**	5 671
		164 048	116 707

		1993 R'000	1992 R'000
14.	**Technical assistance grants**		
	Paid during the year	**2 832**	3 560
	Commitments		
	Grants approved but not committed	**5 278**	649
	Grants committed but not disbursed	**7 328**	5 419
	Total approved but not disbursed	**12 606**	6 068
15.	**Auditors' remuneration**		
	For the audit		
	– current year	**237**	194
	– previous year	**19**	2
	For consulting services		
	– current year	**189**	156
	– previous year	**44**	56
	Expenses		
	– current year	**5**	4
	– previous year	**–**	2
		494	414
16.	**Governors' emoluments**		
	For services as governors	**33**	20
	Expenses	**9**	8
		42	28
17.	**Directors' emoluments**		
	For services as directors	**292**	199
	Expenses	**71**	37
		363	236

		1993 R'000	1992 R'000
18.	**Gross operating expenditure**		
	Consultants' fees	**4 669**	6 339
	Communications costs	**1 251**	825
	Data processing	**3 347**	3 087
	Human resources	**83 995**	79 454
	Operating assets written off	**2 958**	2 310
	Subsistence and travel	**5 926**	5 893
	Other	**5 936**	5 783
		108 082	103 691
	This expenditure was incurred functionally as follows:		
	Loan, guarantee and technical assistance activities	**53 218**	48 631
	Policy activities	**31 020**	30 036
	Agency activities	**11 695**	11 440
	Information and training activities	**7 653**	7 310
	Treasury activities	**4 496**	6 274
		108 082	103 691

19. Taxation

During the year, and contrary to a prior agreement, the RSA Government ceased refunding the direct and indirect taxation (payroll taxes and VAT) paid by the Bank. Negotiations for the reinstatement of this dispensation are taking place between the Bank and the RSA Government.

No provision is made for normal taxation in South Africa as the Bank is exempted therefrom in terms of its Establishment Agreement dated 30 June 1983 as amended.

		1993 R'000	1992 R'000
20.	**Provision for loan losses**		
	Specific provision	**16 050**	24 550
	Balance at beginning of year	**24 550**	32 490
	Transferred to general provision	**(8 500)**	(7 940)
	General provision	**173 950**	140 450
	Balance at beginning of year	**140 450**	117 510
	Transferred from income statement	**25 000**	15 000
	Released from specific provision	**8 500**	7 940
		190 000	165 000
21.	**Notes to the cash flow statements**		
	Cash generated from operating activities		
	Surplus before provisions	**130 074**	49 864
	Non-cash items: Discount amortised	**34 317**	5 671
		164 391	55 535
	Decrease( )/increase in accounts payable and provisions	**(2 731)**	2 727
	Increase in interest payable on capital market loans	**208**	8 783
		(2 523)	11 510
	Increase( )/decrease in interest on investments	**(10 168)**	434
	Increase( )/decrease in accounts receivable	**(1 697)**	1 147
		(11 865)	1 581
	Total cash generated from operating activities	**150 003**	68 626

22. Pension fund

The Bank operates a pension fund for the benefit of its members. The fund is governed by the Pension Fund Act and is actuarially valued every three years. It is a defined benefit plan under which amounts to be paid as retirement benefits are determined by reference to the employees' pensionable remuneration and years of service with the Bank. Membership of the fund is compulsory for all employees on the permanent staff. Contributions are charged to the income statement so as to spread the cost of pensions over the employees' working lives with the Bank.

The fund was last valued at 31 March 1992. The valuation of the fund as at that date reflected a deficit of R3,2 million, which is not significant relative to the fund's liabilities.

The actuaries are of the opinion that the fund is financially sound and that the above-mentioned deficit will be extinguished over a period of seven years from valuation at revised contribution levels. Contributions during the year amounted to R7,8 million (1992: R5,9 million).

23. Comparatives

Comparative figures have been restated where appropriate.

SCHEDULE A

Registered bonds at 31 March

	Authorised value 1993 Rm	Authorised value 1992 Rm	Coupon rate %	Repayment date	Balance in issue 1993 Rm	Balance in issue 1992 Rm
(i) Local						
DV05	250	250	10,0	1996	243	243
DV06	250	250	10,0	2001	44	44
DV07	1 500	1 500	14,5	2010	415	415
	2 000	2 000			702	702
(ii) Foreign	497	497	10,0	1998	497	497
Total medium- and long-term financing	2 497	2 497			1 199	1 199

Note:

1. All local registered bonds carry an AAA rating (Republic Ratings) and are referred to by their respective Reuter's acronyms.
2. The Bank has committed short-term standby facilities totalling R400 million, which carry an A1 rating (Republic Ratings).
3. The foreign liability is fully covered forward and guaranteed by the RSA Government.
4. The weighted average all-in cost of the above finance amounted to 16,2 per cent (1992: 16,2 per cent).

Issued by: Corporate Communications Division, Development Bank of Southern Africa, PO Box 1234, Halfway House 1685, Telephone (011) 313-3911, Telefax (011) 313-3086

Design: Insight Graphics
Photographer: T J Lemon
Copy-editing: M Haralambous
Typesetting, reproduction and printing: Klem-Lloyd Lithographers 3/0974

DEVELOPMENT INDICATORS

Southern Africa	Angola	Botswana	Lesotho	Malawi
Population ('000)	10 020	1 304	1 774	8 754
Average annual growth ('80-'90) (%)	2.64	3,75	2,85	3,54
Human Development Index[1]	0.169	0,534	0,423	0,166
Life expectancy at birth	45.5	59,8	57,3	48,1
Adult literacy rate (%)	41.7	73.6	78	47
Real GDP per capita (US$) (1985 prices)	1 225	3 180	1 646	620
Urbanisation rate (%)	28,3	27,5	20,2	11,8
Average annual rate of urbanisation ('80-'90) (%)	5.8	10.2	7	6,2
Economically active population ('000)	4 081	446	808	3 495
Annual growth ('80-'90) (%)	1,8	3.3	2	2.6
Participation rates (%)	40.8	33.5	46,7	42.7
Real GDP (US$m) (1985 prices)	8 775	1 834	337	1 297
Annual growth ('80-'90) (%)	na	11.3	3,1	2.9
Expenditure on GDP: (at current market prices)				
Private consumption (%)	45.7	38.5	106,2	74,7
Public consumption (%)	36.7	24.4	15,6	15.5
Gross domestic investment (%)	15.6	22.7	77,2	19,1
Net exports (%)	2	14.4	-99	-9.3
Exchange rate (per US$)	29.92	1.87	2.56	2,65
External debt (US$m)	7 710	516	390	1 544
Official development assistance (US$m)	211	151	138	450
Trade balance (US$m)	2 362	-588	-618	-158
External debt/GNP (%)	115.2	20.6	39.6	85.6
External debt/exports (%)	219.7	22.9	41.2	328.5

[1] The Human Development Index determines the measure of deprivation suffered by a society according to three indicators: longevity, knowledge and income variables. A value of 1 represents an optimal situation.

Sources:

(1) African Development Bank. 1993. *Selected statistics on regional member countries*. Abidjan. Côte d'Ivoire.
(2) World Bank. 1992. *World Development Report*. New York. USA.
(3) United Nations Development Program. 1992. *Human Development Report*. New York. USA.
(4) World Bank. 1992. *World Bank Debt Tables 1991/1992*. Washington, DC, USA.

South African development regions	A	B	C
Population ('000)	3 633	1 122	2 694
Average annual growth ('80-'90) (%)	2.83	1,75	2.58
Life expectancy at birth	65,5	62,6	63,5
Literacy rate (%)	81	67	69
Functional urbanisation rate (%)	91	59	65
Average annual rate of urbanisation ('80-'90) (%)	5,6	2,1	3.4
Economically active population	1 561	326	1 032
Average annual growth ('80-'90) (%)	3,8	0,9	3,1
Participation rates (%)	67,2	53,9	66,5
Labour absorption capacity (%)	57,4	45,2	54,1
Real GDP (Rm) (factor cost, 1985 prices[1])	15 886	2 386	7 898
Annual growth (80-88) (%)	2,0	0,5	-0,7
Per capita (R): 1980	5 037	2 837	3 731
1988	4 735	2 567	2 864

[1] 1988 figures

Source:

Development Bank of Southern Africa, Development Information Group, 1993.

Mozambique	Namibia	Swaziland	Tanzania	Zambia	Zimbabwe	South Africa
15 656	1 781	788	27 318	8 452	9 709	38 051
2,61	3.15	3.42	3,77	3,95	3,14	2,58
0.153	0.295	0.458	0,268	0,315	0,397	0,674
47.5	57.5	56.8	54	54,4	59,6	65
32,9	40	72	65	72,8	66,9	70
1 060	1 500	2 405	557	767	1 469	4 958
26.8	27.8	33.1	32,8	49,9	27,6	49,6
10.2	5.2	8.9	11,2	6,3	5,6	3,3
8 437	537	306	12 597	2 644	3 921	12 768
2	2.4	2,2	2,9	3,3	2,8	3,3
52,9	30	40.3	46,7	33,4	37,3	58,7
4 164	1 494	433	8 543	2 401	5 443	51 556
-0.7	0.4	na	2,8	0,8	2,9	1,3
91.6	56	43.9	99,7	69,8	51,5	56,9
20.3	26.9	20.6	10,6	18,4	25,3	18,8
37.1	13.9	26.7	28	13,9	19,5	18,6
-49	3.2	8.8	-38,3	-2,1	3,7	5,7
1 038.13	2.56	2.56	196,6	42,74	2,64	2,56
4 718	na	272	5 866	7 223	3 199	19 383
923	62	54	1 155	430	336	–
-693	39	-218	-586	50	-44	6 056
384.5	na	40.1	264,2	261,3	54,1	19,1
1 573.3	na	29.6	1 070,7	500,8	155,0	70,2

D	E	F	G	H	J	Total
4 793	8 748	2 023	4 418	8 791	1 829	38 051
2.03	1.91	2,5	3,44	3,27	2,36	2,58
64.5	65.5	65,9	64,8	65,8	66,5	65
77.8	73.3	68,3	64,8	87,8	70,5	73,2
58	52	56	31	93	66	66
3.6	4	3,4	4,2	3,2	3,2	3,7
1 162	2 328	781	767	4 175	636	12 768
2.7	3.1	2,8	3,9	3,9	1,6	3,3
47.4	49.4	67	38,1	70,9	60,1	58,7
33.7	35.2	51,7	22,4	58,6	50,6	48,7
8 753	18 094	11 956	3 854	46 832	7 574	123 233
2,3	2.5	4,4	5,5	1,1	2,6	1.8
1 834	2 039	4 409	786	6 860	4 119	3 573
1 880	2 135	5 133	921	5 754	4 201	3 360

SOUTHERN AFRICA