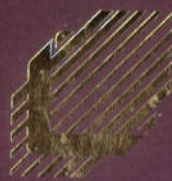
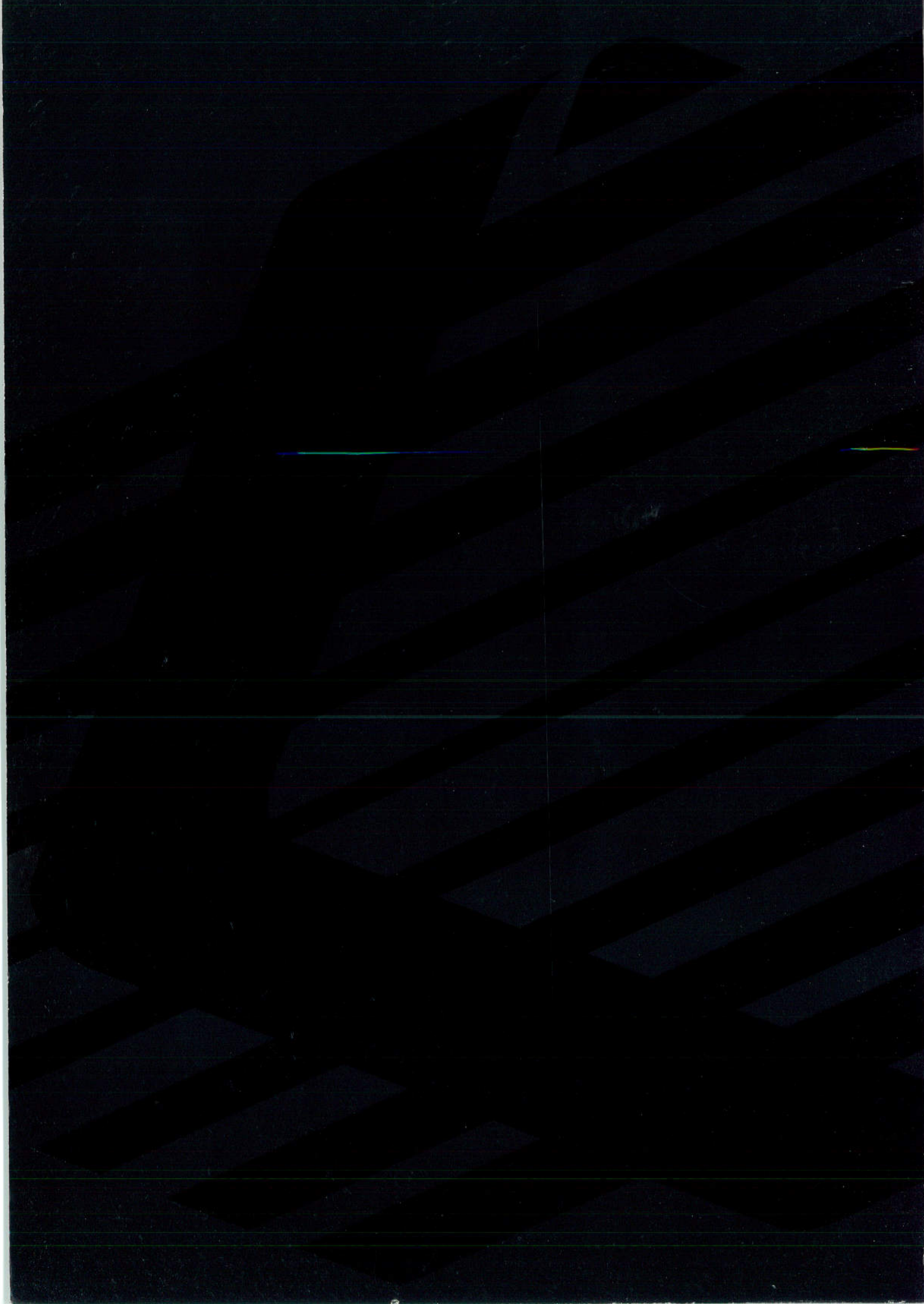


**ANNUAL REPORT 1996**



**Development Bank  
of Southern Africa**







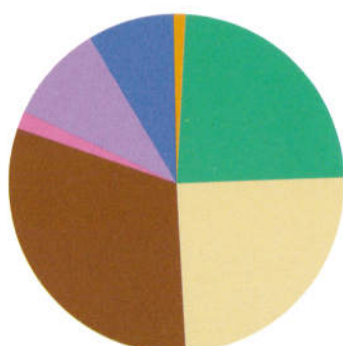
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## THE YEAR AT A GLANCE

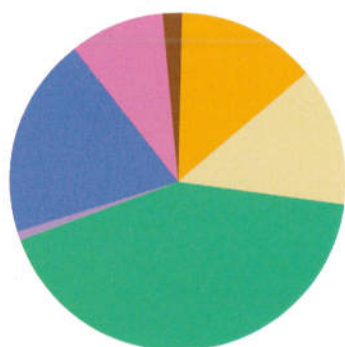
### Disbursement per sector in FY96



R1 328,4 million



### Cumulative disbursement per sector



R7 836,4 million

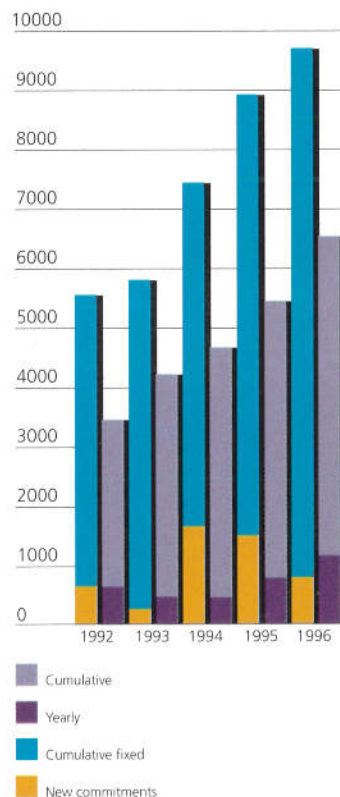


The Development Bank of Southern Africa disbursed R1 328,4 million (FY95: R1 147,2 million) including R5,7 million in grants (FY95: R6,0 million) in the year to 31 March 1996, bringing cumulative disbursements at that date to R7 836,4 million.

The amount committed to 173 new projects was R1 088 million (FY95: R863 million). A further R812 million was committed to these projects from private and public funds, thereby mobilising R1 900 million in new development projects. By the end of March 1996 the Bank had approved a cumulative total of 1 905 projects worth R10 842 million, while further programmes and projects with an estimated loan value of R968 million were under consideration.

Borrowers' loan repayments to the Bank continued to be made on time despite the transitional difficulties experienced in many areas of public finance.

### Five year commitment and distribution trend





# FIVE-YEAR FINANCIAL SUMMARY

| For years ending 31 March  | 1992<br>Rm | 1993<br>Rm | 1994<br>Rm | 1995<br>Rm | 1996<br>Rm |
|--|------------|------------|------------|------------|------------|
| <b>Balance sheet</b>   |            |            |            |            |            |
| Total assets   | 4 235      | 4 872      | 5 574      | 5 736      | 6 644      |
| <b>Capital employed</b>  |            |            |            |            |            |
| Permanent capital  | 3 252      | 3 585      | 4 504      | 4 675      | 4 789      |
| Medium and long-term financing                                     | 945        | 977        | 974        | 1 055      | 1 818      |
| <b>Employment of capital</b>                                       |            |            |            |            |            |
| Development loans  |            |            |            |            |            |
| – opening balance  | 3 441      | 4 154      | 4 455      | 4 836      | 5 856      |
| – disbursed  | 760        | 446        | 710        | 1 141      | 1 241      |
| – interest capitalised   | 292        | 338        | 389        | 432        | 546        |
| – repayments   | (339)      | (483)      | (718)      | (553)      | (603)      |
| Less: Provision against development loans                          | (165)      | (190)      | (215)      | (235)      | (279)      |
| Less: Deferred interest  | (396)      | (463)      | (467)      | (518)      | (604)      |
| Closing balance  | 3 593      | 3 802      | 4 154      | 5 103      | 6 157      |
| <b>Cash, deposits and tradeable securities</b>                     | 598        | 1 015      | 1 384      | 605        | 387        |
| <b>Commitments</b>   |            |            |            |            |            |
| Commitments outstanding  | 1 584      | 2 768      | 3 463      | 3 163      | 2 630      |
| (1992 constant prices)   | 1 584      | 2 524      | 2 926      | 2 448      | 1 888      |
| Guarantees outstanding   | 20         | 9          | 4          | 4          | 4          |
| <b>Income statement</b>  |            |            |            |            |            |
| Interest on development activities                                 | 195        | 270        | 385        | 380        | 464        |
| Interest on deposits and tradable securities                       | 61         | 133        | 161        | 83         | 48         |
| Interest expense   | (116)      | (161)      | (168)      | (174)      | (214)      |
| Other operating expenses   | (104)      | (108)      | (116)      | (119)      | (131)      |
| Provision against development loans                                | (15)       | (25)       | (25)       | (20)       | (44)       |
| Net surplus for the year   | 36         | 109        | 260        | 163        | 114        |
| <b>Ratios</b>  |            |            |            |            |            |
| Cash, deposits, tradable securities/total assets                   | 14,1       | 20,8       | 24,8       | 10,6       | 5,8        |
| Cash, deposits, tradable securities/undisbursed loans <sup>1</sup> | 37,8       | 36,7       | 39,9       | 19,1       | 14,8       |
| Financial gearing <sup>2</sup>                                     | 29,1       | 27,3       | 21,6       | 22,6       | 37,9       |
| Provision for losses/development loans                             | 4,6        | 4,9        | 5,2        | 4,6        | 4,5        |
| Weighted average interest on development loans                     | 7,9        | 7,8        | 8,3        | 8,5        | 8,9        |
| Operating expenditure/development loans <sup>3</sup>               | 2,9        | 2,8        | 2,8        | 2,4        | 2,2        |
| Interest cover (times) <sup>4</sup>                                | 2,2        | 2,5        | 3,3        | 2,7        | 2,4        |
| Inflation deflator (1992=100)                                      | 100        | 91,2       | 84,5       | 77,4       | 71,8       |

1. Cash, deposits, tradable securities/loans approved but not disbursed.

2. Medium and long-term financing/permanent capital.

3. Total operating expenditure/development loans outstanding.

4. Interest income/interest expenditure.



THE Development Bank of Southern Africa is in a process of transformation to ensure it meets the needs of a transformed South Africa and region. This will further enhance the corporate governance structures of DBSA. During the review period, the organisation was governed according to the structures set out below.

### **DBSA's legal position and transformation**

DBSA was established in 1983. Upon promulgation of the Interim Constitution Act, No 200 of 1993, the government of the Republic of South Africa became the sole shareholder in DBSA. In December 1994 the Minister of Finance appointed a task team to investigate the role and function of DBSA to ensure it meets the needs of a transformed South Africa and region.

In May 1995 the task team presented their Transformation Report to the Ministry of Finance. It was recommended that the Bank strengthen its role as a development finance institution and focus on infrastructure funding and mobilisation thereof.

The future role and functions of DBSA are being determined by thorough consultation with the major stakeholders.

The transformation of DBSA is occurring simultaneously with consultation on the overall development finance system in South Africa to ensure that the provision of development finance proceeds in an integrated and coordinated fashion in meeting the development needs of the country and region.

### **Control structures and committees**

#### **General**

The South African government is the sole shareholder of DBSA. The Minister of Finance is the sole governor of the Bank. He has delegated most of his powers to the board, which in turn delegates executive functions to the Chief Executive.

The Chief Executive refers matters within his delegation back to the Board if such matters are of an extraordinary nature.

The Chief Executive has established the following committees:

- ☐ Executive Committee
- ☐ Financial Resources Committee
- ☐ Operations Committee
- ☐ Audit Steering Committee
- ☐ Operations Risk Management Meeting
- ☐ Policy Committee
- ☐ Human Resources Committee



### **Board of Directors' meetings**

The current interim Board of Directors was appointed by the Minister of Finance with effect from 1 June 1995. The term of office of the interim Board will expire only once the legislation making DBSA a statutory institution comes into operation. This is expected to occur in the second half of 1996. The legislation will contain provisions on the appointment of a Board of Directors.

Board members are required to disclose any personal interest which they may hold in any contract entered into by the Bank or any project financed by the Bank.

The Board meets as often as the business of the Bank may require. In practice, the Board meets approximately every six weeks.

The Board has two committees, namely the Audit Committee and the Human Resources Committee, delegated to take decisions on certain specified audit and human resource matters. The Audit Committee consists of five directors and meets at least three times a year. It is generally responsible for evaluation of all audit matters, financial procedures, annual financial statements and interim reports, audit cost and risk management. The Chairperson of the Audit Committee reports back to the Board on proceedings.

The Human Resources Committee consists of six Board members and is assisted by the Chief Executive and the General Manager: Corporate Management Services, both in an ex officio capacity. Decisions made by the Human Resources Committee are reported back to the Board.

The secretarial function of the Board and its subcommittees is performed by a senior member of the Bank's Legal Division.

### **Council of Governors**

The Bank presents its annual report and financial statements to the Minister of Finance as the sole governor of the Bank.

### **Affirmative action**

A democratically elected Affirmative Action Committee liaises directly with the Chief Executive on affirmative action issues. A representative of this body also participates in the activities of the Human Resources Committee, including consideration of appointments and annual salary revisions.

At professional and management level, women and blacks represent 42 per cent, while blacks represent 27 per cent of the total.

Affirmative action targets have been attained through promotions and appointments. Of all the professional and management promotions made in this financial year, 76 per cent were blacks and white women. Blacks constituted 51 per cent of these promotions.

Consultants appointed in the financial year numbered 142, of whom 39 per cent were black or women. Blacks represented 30 per cent of the total.

### **Employee participation**

Apart from inputs from representative bodies such as the Affirmative Action Committee, the Staff Association and the Women's Forum, every staff member has the right to participate in open discussions on policy formulation and decision-making. In the participative transformation process developed as part of the Bank's transformation, task teams are required to solicit the views and inputs of staff members before reaching conclusions or submitting recommendations to decision-making bodies on any issue affecting the activities

of the Bank and its internal organisation. During the first half of 1996, 41 such task teams were created to develop viewpoints on a wide variety of strategic issues relating to the Bank's transformation. A task group was also appointed to consider issues relating to the structure of the organisation and to make recommendations to the Board by September.

### **Risk management**

The management of risk in an integrated manner throughout the Bank was improved during the year. The risk management approach followed by DBSA can be divided into three distinct but interlinking cycles:

- The strategic risk management cycle ensures that exposures have been properly identified and that risks arising from these exposures have been properly assessed.
- The tactical risk management cycle ensures that the necessary intellectual and physical capital is available for carrying out the various risk management strategies in the best interests of DBSA. This cycle sets out the steps for ensuring that a sound control environment exists for providing flexibility and efficiency.
- The operational risk management cycle ensures that transactions entered into in the financial market-place are conducted in a secure and controlled manner. The procedures here are detailed and iterative.

Development finance lending is the main business of the Bank and financial risk exposures are inevitable. Priority is given to identifying and managing the many financial and operational risks associated with the project phases of the development support programme.

Procedures are followed throughout the project cycle to identify, monitor and manage factors which may directly or indirectly impair borrowers' ability to repay. Apart from the ongoing 'credit watch' at various levels throughout the Bank, an Operations Risk Management Committee was formed specifically to identify, assess and control risks associated with the development support programme and to guide operational management.

The Bank can, taking note of the prevailing circumstances, report a near perfect repayment performance over the past twelve years. Despite transitional difficulties experienced in many areas of public finance and pressure on clients to postpone repayment, a very small percentage was still outstanding at financial year-end.

Defaults are managed to the absolute minimum. No significant change is expected in the risk profile of the loan book. The increase in loan loss provision is a general provision against risk not specifically identified with any particular client or against specific clients currently in default.

Financial risk management philosophies and practices have continued to evolve within the Bank. New treasury software was purchased that will allow use of more advanced and appropriate financial risk management techniques.

Political change in South Africa has opened up international funding opportunities for the Bank. Management anticipates and continues to take steps to mitigate risks associated with foreign borrowing.

Appropriate risk management philosophies and objectives have been identified for the major treasury-related risk categories of liquidity, credit, interest rate, currency and investment. Specific risk sensitivity thresholds have been identified for each of these risk categories; these are routinely reviewed and approved by management.





### **The national and regional economy**

A commitment to basic human rights and renewed economic and social development are core objectives of the South African government. The development objectives of the government are articulated in the Reconstruction and Development Programme and the new Economic Growth and Development Strategy. Over and above macroeconomic policy steps, the strategy will emphasise employment creation, investing in people, investing in household and economic infrastructure, government as an efficient instrument of delivery and empowerment, a national crime prevention and security strategy, and a system of welfare security nets. This strategy cannot be financed from the country's internal resources alone and it is therefore encouraging that other countries and overseas institutions have offered an initial package of concessional and grant funding, technical assistance and export credits to a total value of R12,5 billion. As in the past, South Africa has adopted a circumspect approach

to accepting such offers and will remain the prime decision-maker on its own development priorities.

The South African economy, after years of being almost a siege economy, is rapidly becoming globalised. This globalisation has brought about the need for a fundamental restructuring of the economy to enable it to become part of the international economic community and to play by its rules. The short-term pains of this restructuring are already evident in increased competition for manufacturers as tariff barriers are eliminated, volatility in the rand exchange rate and a more direct reaction in markets as a consequence of global economic trends.

South Africa's growth cannot be isolated from that of its neighbours. The well-being of each of the SADC's new participants is inextricably linked with that of the others.

These trends serve to shape the role to be played by the institutions making up the national development finance system.

### **The South African development finance system**

The past year has seen significant clarification of the principles according to which the development finance system will operate. These principles were spelled out by the government at the South African International Development Forum in April:

- The national development finance institutions will operate independently, that is with autonomy to operate within a broad mandate under control of their boards and management.
- They will be capitalised by the State, but not sustained by the State.
- They must maximise the development impact of government and private sector resources and not crowd them out.
- They will open up markets and assume clearly defined risk profiles which government will support and which the private sector will not take on.
- They are a carefully constructed bridge between the budget and private capital so as to extend spatial and sectoral activities in the market.

Steps have been taken towards coordination in the development finance field, which was in the past characterised by overlapping, duplication and inefficiency. A new family of five major national development finance institutions is proposed, each with a circumscribed mission to ensure that a more rational, coordinated approach is adopted for development finance.

Through a substantial process of transformation this new system will emerge from the current set of institutions operating in the development finance field. DBSA has been the first in the family of development institutions to undergo fundamental transformation.



## **DBSA's transformation**

The Transformation Task Team appointed by the Minister completed its activities by presenting a final report to the government in May 1995. The report recommended that a restructured DBSA concentrate mainly on infrastructure finance. This direction became increasingly sharply defined as the debate on the development finance system progressed through the year.

A further significant result of the report was the appointment of virtually the entire Transformation Task Team as the interim Board of Directors of the Bank. This ensured that a well-informed group of people could take responsibility for the implementation of their recommendations on the transformation process. The interim Board had to take early responsibility for the recruitment, selection and appointment of a new Chief Executive. This culminated in the appointment of Dr Ian Goldin on 29 April 1996.

There is now broad agreement on the mandate of the Bank. At the time of writing, the legislative process, the corporate governance and the transformation of the organisational structure of the institution are in the final phases. Legislation creating a suitable legal persona for the Bank will be tabled during the second half of 1996. It is anticipated that the Bank will continue to be governed by a single shareholder, the government of the Republic of South Africa, represented by the Minister of Finance, and that a permanent Board of Directors will be confirmed once the legislation governing the Bank has been finalised.

Management of the organisation during the review period was characterised by the high proportion of members of the Executive Committee, from the Chief Executive down, fulfilling their functions in an acting capacity. A deliberate decision was made by the interim Board to postpone making permanent appointments at the General Manager level until the new Chief Executive had assumed duty and the transformed structure of the organisation had been determined. I must pay tribute to those General Managers who performed their managerial duties in an admirably responsible manner despite the uncertainty arising from their temporary appointment.

## **The future**

It is expected that internal arrangements regarding the structure of the organisation and permanent appointments to executive management will progress rapidly now that the permanent Chief Executive has assumed duty. In his first months in office he has given priority to the completion of the main structural changes and appointed a task force and consultants to provide input to a report on the implementation of process and organisational changes, to be submitted to the Board by September. The aim is to ensure that the principles and procedures of the organisation are effectively and efficiently applied to meet the new mandate. Major retrenchments are not envisaged, but a considerable degree of retraining and reskilling of staff is likely to be necessary in view of the revised mandate of the organisation.

In its operation in the external environment, the institution's main clients will be local authorities, provinces and others and it will seek to assist them to develop the capacity to identify, implement and manage projects. Local authorities and provinces are likely to be the main category of borrowers for infrastructure projects.

The availability of grant funding by government and other donors for capacity-building of local authorities will contribute to developing the financial sustainability of the new borrowers. DBSA stands ready to contribute its skills and experience in this area. The need to

ensure that the Bank is financially sustainable requires that it addresses capacity-building to the extent that it is able to source grant funding for these activities or achieve cost recovery from them.

## **Acknowledgements**

I would like to acknowledge the contributions of the two persons who acted in the capacity of Chief Executive in the period between André la Grange's resignation in February 1995 and Ian Goldin's assumption of duty on 29 April 1996. Nick Christodoulou and Div Botha both consistently executed their responsibilities with the same dedication and enthusiasm that would be expected of a permanent Chief Executive, never allowing the temporary nature of their appointments to prejudice their activities or decisions.

The same accolade must be given to the interim Board of Directors, who, after giving significantly of their personal time during the transformation study, stepped into the position of interim Board members and guided the transformation process from concept to reality. Their support and that of the Chief Executives made my task as Chairman a rewarding one.

Finance Minister Chris Liebenberg, representing the government of South Africa as the Bank's sole shareholder, and Deputy Minister Alec Erwin consistently took an active and constructive interest in the Bank and in the transforming development finance system, and became in the process, trusted guides and advisers. We wish Chris Liebenberg well in his return to private life and congratulate Alec Erwin on his appointment as Minister of Trade and Industry. We greatly look forward to a close collaboration with the new Finance Minister, Trevor Manuel and Deputy Minister Gill Marcus. Already, both ministers have taken a keen interest and demonstrated their unwavering support for DBSA.

Finally, I again cannot neglect to mention all DBSA employees whose professional dedication transcended the uncertainties of a changing world and whose contributions enabled the Bank to perform in a consistently effective manner. I know that their patience will be rewarded with a revitalised, permanent institution to which they will be proud to belong.



WISEMAN NKUHLU

*Chairman of the Development Bank of South Africa*





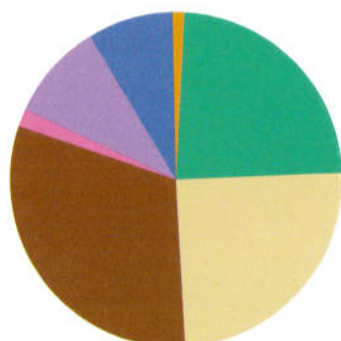
### Financial overview

The Bank, primarily a financial institution for the development of infrastructure, continued to make a significant contribution to development finance by, inter alia, meeting the disbursement calls on existing commitments.

Disbursements on development loans and grants increased by 15,7 per cent to a record R1 328 million during the year under review from R1 147 million in 1995. Loans approved during the year increased by 26 per cent to R1 088 million from R863 million in 1995. Cumulative total loans approved but not disbursed decreased by 16,8 per cent to R2 621 million from R3 152 million in 1995. This was achieved as a result of the Bank's continuing to maintain the development momentum despite experiencing a variety of transitional adjustments.

The net surplus for the year under review dropped by 30 per cent to R113,8 million from

## Disbursement per sector in FY96



R1 328,4 million



R162,6 million in 1995. The decrease is mainly attributable to a drop in non-interest income of R21,8 million due to non-refund of employee taxes by the government, and an increase in the provision for loan losses of R24 million.

Although the interest gap increased by 3 per cent to R299 million from R289 million in 1995, the interest expense increased by 22,5 per cent to R214 million from R175 million in 1995. The increase is attributable to an increase in borrowings. Domestic borrowings during the year amounted to R376 million (1995: nil) and foreign borrowings amounted to R319 million (1995: R9 million).

A detailed financial review is contained in the directors' report.

## Strategic overview

The Bank succeeded in maintaining development momentum in project activities and levels of disbursements while at the same time managing the structure of the Development Support Programme so as increasingly to reflect the Bank's future focus on infrastructure development. The internal transformation process also progressed well, with the result that the Bank will be more appropriately structured and orientated during the later part of 1996.

Particularly encouraging for the Bank's newer role of mobilisation of private sector and public investment and lending was the raising of R770,5 million for development projects from both these sectors in addition to the commitments of R1,088 million mentioned above. Regarding funds mobilisation two sizeable loans were entered into with the Japanese Export Import Bank and the European Investment Bank. A number of further foreign loans are being considered, but these loans will need to be closely evaluated in respect of the related cost of obtaining forward exchange cover and the effects of currency fluctuation. The Bank continued to provide the government with a wide range of technical assistance support in inputs to government initiatives in restructuring development policy and strategy at all levels. Recent examples of the Bank's contribution include its contribution to the new macroeconomic framework, its assessment of the 2004 Olympics bid and its supporting role in strategic initiatives such as the Maputo Corridor.

Bank-supported programmes and projects have considerably enhanced access of disadvantaged sectors of the community to infrastructure. Also, in project design and implementation, development impact has been increased by attending to empowerment and employment creation. It is clear from the work done as part of the transformation process that the Bank will need to substantially improve its internal systems and the application of project and programme-related criteria, particularly through independent and dedicated evaluation of programmes and projects and formal institution of the evaluation function as part of the Bank's strategic and business planning processes.

Looking ahead at the external operating environment, a number of key issues will affect the Bank's operations. Growth and development have been firmly established as major policy dimensions for national economic management. Institutional and financial capacity problems, particularly – although not exclusively – at the local government level (where cost recovery for the infrastructure services rendered remains problematic), continue to impede the delivery of development programmes and projects, and could curtail them in the longer term. Considerable progress has been made by government in articulating a new development policy and strategy framework. In the coming year a prioritised and more detailed development agenda will guide the Bank's business planning.

These are exciting challenges for the Bank, and the opportunities for expanding the scale



of operations are considerable. Clearly the strategic operating environment and the institutional and financial capacity problems of the Bank's clients will not change in the short and medium terms, necessitating evaluation of current approaches to and systems of strategic and business planning and particularly approaches to risk analysis. These aspects have received priority attention as part of the transformation process, and Bank systems and procedures have in certain instances been changed. Further changes to Bank systems and procedures will be introduced as part of the internal restructuring processes.

## **Business plan**

The business plan concentrated on two main issues: taking the transformation process forward as rapidly as possible and maintaining the momentum of disbursements and project activities.

The latter was influenced by the knowledge that infrastructure was likely to be the main thrust of the Bank's future activities, projects in other sectors being gradually phased out as this fact became clearer.

The extent and timing of this phasing out have been guided by the knowledge that the Bank would in all likelihood have to perform a significant warehousing function in respect of projects in rural development, small business development and human resource development previously approved and funded. It was also clear that this warehousing function would exist for a considerable time until new institutions were in place to take over responsibility for projects in sectors other than infrastructure.

As clarity about the Bank's main business emerged during the course of the year, the operational decision-making process became increasingly focused on infrastructure projects. The Bank was also able to embark on a new business planning process derived from a clearer mandate.

## **Participative transformation**

After the report of the Minister's transformation team had been tabled and an interim new Board appointed, attention could turn to the implementation of the transformation process.

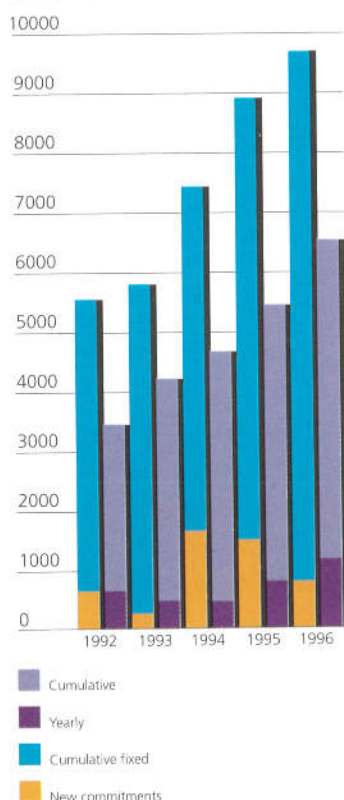
This process was understood to have a two-fold nature: repositioning the institution to ensure it maximised its contribution to the transformed society and region and reshaping its internal working to support this new role. Considerable progress has been made in reshaping the loan book to reflect the organisation's new mandate more accurately.

It was soon realised that the internal transformation of the organisation would require an approach in which the Bank had not been greatly successful in the past, that is in offering staff a meaningful opportunity for participation in the process.

Considerable unhappiness existed as a consequence of the perception that decision-making was concentrated in the hands of a few people. In addition, it has to be borne in mind that the Bank's staff is concentrated numerically at the professional and technical levels rather than at the lower occupational levels. Consequently, a vast pool of knowledge and experience had in the past effectively remained untapped in transformational design and decision-making.

For this reason, a new participative approach was formulated towards the end of the year under review which placed all transformation issues on the public platform for initial inputs and views by staff, who then also had the opportunity of following a particular issue through the various phases of design and decision-making.

## Five year commitment and distribution trend



By early May 1996, 41 transformation issues were formulated in a participative manner. This allowed in-depth discussion of key issues affecting the future of the Bank, ranging from gender and affirmative action to risk analysis and financial sustainability.

On assuming duty Dr Goldin established a task force for synthesising all the transformation work and providing options and recommendations for the necessary changes. This is to provide the basis for a report which the Chief Executive will submit to the Board by the end of September 1996.

## Operations complex

### Breakdown of infrastructure projects

The bar chart (left) gives a statistical overview of DBSA's new commitments entered into during the 1995/96 financial year. Loans for infrastructure development were 80 per cent of new commitments, while 19 per cent were made in terms of the interim warehousing function performed by the Bank in the financing of small, medium and micro enterprises, housing and to a lesser extent agricultural development. The remaining one per cent was for technical assistance grants aimed at building the capacity of clients and policy design.

### Restructuring the loan book

The composition of commitments entered into during the financial year reflects the increased focus on infrastructure investment in line with the transformed mandate of the Bank.

Almost 70 per cent of new infrastructure investment went into the financing of bulk and connector services for the provision of water, sanitation and energy in urbanising areas to alleviate backlogs in disadvantaged areas. The provision of municipal reticulated services made up 28 per cent of investment. The remaining two per cent was for rural infrastructure in support of agricultural development.

The low investment in rural infrastructure is partly the result of the growing need for the Bank to focus on activities in which costs can be recovered at market-related rates, but is also due to the limited institutional capacity of local government structures in rural areas.

Local government and national utilities emerged as the main borrowers, with nearly 94 per cent of new infrastructure loans being taken up by these institutions. This is expected to increase in the future. Only six per cent of new loans was taken up by provincial development finance corporations owing to the restructuring of development corporations and the delay in provision of legal capacity to provincial governments for taking up loan funding.



## **Infrastructure projects**

The following examples may provide insight into the diverse nature and impact of DBSA-financed projects.

### **Mpumalanga – KwaGuqa/Mhluzi roads and storm-water upgrading**

Road conditions and storm-water drainage in KwaGuqa (near Witbank) and Mhluzi (near Middelburg) were unsatisfactory. In the third stage of this labour-based project to remedy the situation, the local community is being boosted by creation of job opportunities and the manufacturing sector through the supply of road-building blocks. The total cost of the project is R11 700 386.

Approximately 15 km of road are being upgraded to a width of 5 m and underground storm-water drainage is being provided through local contractors in KwaGuqa. All the roads are constructed with interlocking paving blocks manufactured by a local community block-making plant in KwaGuqa. Training for local contractors was provided in previous phases of the road construction project. About 2 500 stands are being served but the full benefits of the upgrading will be felt by the entire KwaGuqa community of approximately 100 000 residents.

In Mhluzi conditions are similar to those in KwaGuqa, but the road is shorter, at only 7,2 km. Approximately 860 stands are being served and, as at KwaGuqa, the benefits will be felt by the whole community. Unskilled labourers from Mhluzi are being employed on the project, and a special feature of the project is that almost three per cent of the total cost was set aside for formal accredited training at recognised institutions.

### **Electrification project in Michausdal, Cradock, in the Eastern Cape**

This project showcased a successful combination of community participation and sensitivity to gender issues. It upgraded the existing low and medium-voltage reticulation network, 361 conventional meters were replaced with energy controllers and 702 sites in Michausdal were provided with electrical reticulation. The total cost of the project was R2 976 000.

The project encouraged the involvement of emerging contractors, of whom three were women. The standards achieved exceeded local requirements. Community involvement was ensured from the outset, and decision-making was left to the community. The project proceeded exceptionally smoothly and was completed on schedule in May 1996.

To encourage more efficient energy consumption, a starter pack consisting of a good-quality, durable two-plate stove, iron and kettle was made available from stores at only a fraction of what the appliances would normally cost in shops. Wood is becoming increasingly expensive in this Karoo town.

### **Port Elizabeth water and sanitation**

Intensive community participation has been the most striking feature of the Port Elizabeth water and sanitation project. The communities of KwaMaGxaki, KwaDwesi, Soweto-on-Sea, Missionvale and Bethelsdorp will benefit from improved roads, provision of water and sewer sanitation, storm-water drains and proper planning for the informal settlements.

Previously, services for a population of some 500 000 failed to meet even minimal standards because of inadequate funding and poor maintenance. While water and sanitation were identified by the community as their most urgent needs, relocation of some of the informal dwellers was also necessary as the density of informal housing was such that installation of services to the stipulated municipal standard would have been impossible.

It was resolved at the outset that, in line with principles of the Reconstruction and Development Programme (RDP), the provision of water and sanitation would form part of broader upliftment of the entire community. The needs of the community were workshopped with councillors and community representatives in order to establish a list of priorities and the appropriate level of service to be provided, taking into account funding constraints.

The residents of Bethelsdorp came mostly from the floodplain areas where there was very limited potential for development. Before moving to Bethelsdorp they lived in extremely overcrowded conditions. There was no space for extending their dwellings even when funds were available. The sense of ownership was therefore absent, and with it care for the environment. Now the new environment of Bethelsdorp, where each family has 200 square metres, allows proper planning. There are properly built roads, storm-water drains and open spaces and parks. One of the most beneficial improvements is a full water-borne sewerage system. Most plots have lush green gardens. According to Julius Sidondi, a member of the local RDP committee, since the completion of the water system there has been a sharp decline in disease.

#### **Cato Manor development project**

Since its inception the Cato Manor development project has been one of the main RDP presidential projects. Virtually all the elements of balanced urban development had to be incorporated in this project owing to the large size of the development and the need to make it as comprehensive and integrated as possible. The project provides a unique opportunity of developing a large tract of land close to the centre of the metropolitan area. The total infrastructural requirement is estimated at R1,2 billion and the project will provide housing and job opportunities to the less privileged.

The Bank is currently funding the planning of the area and certain infrastructure projects which have now evolved into their first phase. The area, with its history of forced removals, is caught between the old and the new South Africa and there is a conscious attempt to make this project serve as an example of urban reconstruction in the nation's transformation process.

The project mirrors all the typical development problems and challenges in South Africa today. As such, it adds up to a single major challenge to the Cato Manor Development Association (CMDA) and the Greater Durban Transitional Metropolitan Council. Two important issues at this stage are the long-term financial sustainability of the project and how best to deal with the influx of people to ensure that not all the land is 'lost' during the start-up stage.

Regarding the project's sustainability, a macro-evaluation is being undertaken to identify those programmes that still need redefining to turn them into income generators and to curb recurrent costs to the municipality. DBSA is working closely with local stakeholders, the government and others, including the European Union, which is a large funder of the project.

CMDA has set up a fund and other resources to deal with land protection. So far, success is recorded in containing the outward spread of uncontrolled settlement. However, internal densification is still taking place in these settlements and further action will be required.

#### **Olifants River to Sand River inter-basin water transfer project**

The project, launched in this financial year, will alleviate the acute shortage of water in the Pietersburg/Polokwane area.

Population in the Northern Province is concentrated in the Polokwane complex of















Pietersburg/Seshego, the province's capital. The adjacent areas of Greater Seshego, Mankweng and Lebowa kgomo also have high population density.

Further growth and development in these areas are threatened by lack of an adequate local source of water. The Sand River basin contributes only a small portion of the water required and for decades water has had to be transferred from larger river systems, mainly the Letaba River. With the Letaba system fully exploited, the introduction of additional water from the Olifants River, the only viable alternative, became an urgent necessity.

The DBSA participated in a R300 million first phase of a four-phased programme of more than R800 million to bring water to Polokwane and surrounding areas. After determining the project's viability in its preparation and appraisal cycle, DBSA was prepared to fund it directly and offered a R224 million loan to the Northern Transvaal Water Board, with a requirement that the balance be procured from the private sector. However, after new funding arrangements were made possible by partnerships arranged between several private sector financial institutions, DBSA downsized its contribution and joined the partnership through an R80 million purchase of Water Board stock.

This project co-financed by the DBSA in partnership with the private sector represents a funding model destined to constitute an increasing part of the transformed DBSA's new business. By its participation, the DBSA could ensure that the project was implemented in accordance with sound development principles (under the RDP) and also create a zone of comfort for the private sector which influenced its investment decision. The cost of capital and consequently the cost of water to the consumer was also minimised. The project is expected to benefit some 250 000 people, of whom 75 per cent are from economically disadvantaged communities.

## **Southern Africa Programme**

While DBSA has expertise and resources to contribute in the interest of sustainable development and integration in the Southern African Development Community (SADC) region, the modalities of its contribution have not been finalised. The Community is considering various options for promoting balanced economic development in the region.

The Bank's initial programme in support of the Lesotho Highlands Water Project is now in a consolidation phase with a loan portfolio of about R750 million. The Muela hydropower element of this programme provided DBSA with useful experience in co-funding. Being a financier of the LHWP has exposed DBSA to the complexities of international funding arrangements. In addition, through the growing international debate on the environmental (physical and social) aspects of the LHWP, DBSA has become increasingly aware of the need to ensure that development is truly sustainable. This will be particularly important as DBSA negotiates its support for the next phase, 1B.

Lessons from the LHWP project will be applied to the Maguga Dam project, a joint Swaziland/South Africa programme for the development of the Komati River basin in which R100 million may possibly be invested. The experience will also be used in the Maputo Development Corridor where DBSA is supporting the project initiators with development planning. DBSA is the technical coordinator. By encouraging private sector investment in these linkage projects and corridors in the SADC region DBSA will be realising an aspect of its transformed vision.





## Rural and agricultural development

The Bank lent extensive support to the rural and agricultural reform currently in progress in South Africa. Changes in government policies, although not yet finalised, inspired the continuation of the transformation process in the funding and support of the rural and agricultural sector.

Bank staff provided inputs to key policy documents and studies on rural development issues, including the Green Paper on Land Reform and the White Papers on Rural Development, on Agriculture and on Water Affairs and Forestry. It also contributed to the transformation of the national agricultural research and extension system. This allowed staff to stay abreast of changes in South Africa while DBSA continued its own transformation in the direction indicated by government.

The Department of Land Affairs developed an equity-sharing land redistribution policy for allowing farmworkers access to land. DBSA helped in this and also co-financed a pilot project in the Grabouw district of the Western Cape where approximately 140 farmworkers bought a 50 per cent share in a well-developed farming operation worth around R35 million. DBSA is facilitating involvement of commercial banks in the financing of projects which contribute to land reform.

Until the financing of farmers for production credit, movable assets and on-farm infrastructure is clarified, DBSA will continue to honour its funding responsibilities to rural communities. The Land and Agricultural Bank and commercial banks are expected to work increasingly with the DBSA in supporting rural development and infrastructure provision.

DBSA considers it crucial that during the restructuring of old institutions and the formation of new ones the rural areas continue to receive appropriate support. Support for rural development in South Africa has been promised by, among others, the French Development Bank, the Republic of China and the International Fund for Agricultural Development.

## Business entrepreneurial development

The business entrepreneurial function was active over the past year despite its warehousing status. This division is undertaking wholesale funding until other finance institutions are in a position to take over the responsibility from DBSA as agreed by government. Wholesale funding of small, medium and micro enterprises (SMMEs) is to be taken over by Khula, and wholesale non-bond housing finance by the National Housing Finance Corporation.

Fifteen new projects were approved in 1995/96, new commitments being valued at R171 million. Of this, R111 million was for the SMME market and R60 million for housing. Total disbursements for the year amounted to R118 million. Although support for non-governmental organisations (NGOs) continues to be the focus of the funding, two provincial development corporations also took up new loans for SMME support in the year.



## Development programming

The Bank reviewed and restructured systems and procedures influencing the design and management of its support programmes in response to the needs and priorities of clients. A task team was appointed to review the development programming function. This review continues in 1996/97 and includes an evaluation of existing processes, methodologies and responsibilities, wherever possible drawing on best international practices.

A thorough review is particularly relevant because of DBSA's need to ensure the sustainability of projects and to ensure that its support programmes are integrated with those of its clients and are consistent with the provincial and national governments' emerging development policies and strategies.



## Human resource development

The Bank's traditional funding role of human resource development, entailing broad support for formal education, non-formal education and training, vocational and technical education and skills training, will fall away when the Bank concentrates on infrastructure. It will then be guided by the need to ensure sustainable projects in the framework of a new definition of infrastructure, currently a subject of debate within the national development finance system.

Notwithstanding this, the human resource development portfolio will be phased out over four years as projects already in implementation are taken through to completion. The bulk of this expenditure is in support of a broad-based teacher education programme. In the Bank's strategy for human resource development this was considered the most appropriate investment for enhancing the quality of education in South Africa.

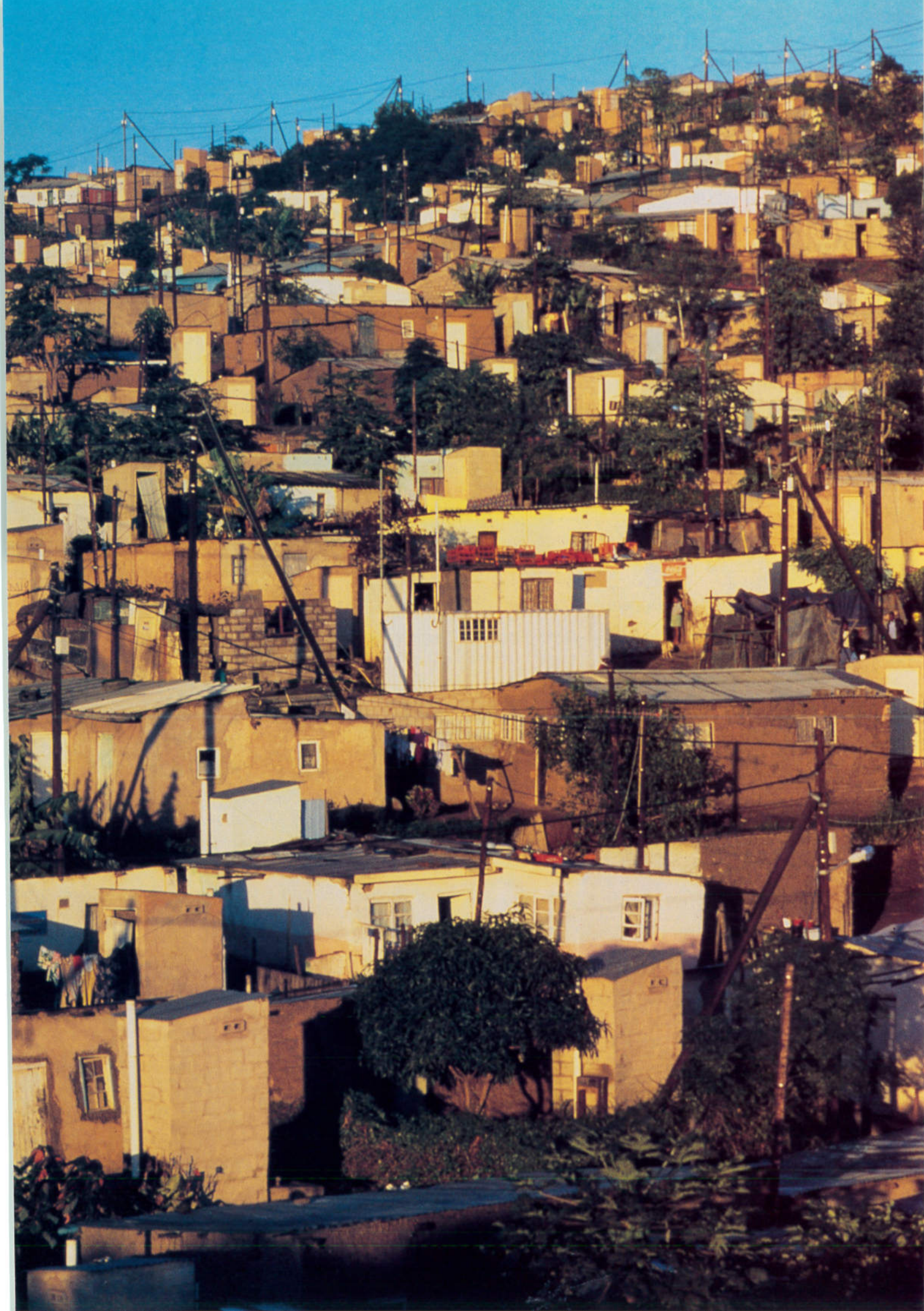
## Agency functions performed by the Bank

### National Economic Forum job creation fund

The Bank continued to provide management resources for the job creation programme initiated under the auspices of the former National Economic Forum. With R195 million of the available R222 million disbursed at year-end and 315 of the total number of 568 projects funded by the programme completed and in operation, the programme is nearing completion.

The programme's success is assured by the progress reported to date in the temporary relief of unemployment in target communities and by the longer-term effect of the provision of skills training and of the creation of assets through which the need will be met for basic services such as water, primary health care and education, road access in rural areas, community facilities and municipal services. The programme is also expected to benefit from the resources that went into the mobilisation of beneficiary participation, the setting up of representative project management structures and the strengthening of project implementation capacity.









Of the total of 400 000 person-months to be created from the project, 300 000 had been created by the end of March 1996. The bank has spent 660 person-months on the management and support of this programme.

The Bank will continue to put the lessons learnt from the programme to the best use of other labour-intensive public works initiatives. One lesson that may repeatedly be emphasised is the necessity of proper arrangements and adequate resources for the management of programmes. The success of the programme can be attributed largely to the institution of a dedicated team of appropriately qualified people for continually monitoring progress and providing support to the communities.

## **Operational policy**

### **Gender**

Analysis of the role of gender in development continued to receive attention in the Bank. To ensure that gender is handled appropriately in the transformation, a gender network was established and management is giving more attention to gender. The Bank is also striving to ensure that gender aspects are dealt with consistently in its policy, information and operational activities.

The Bank's operational activities for the year have focused on integrating gender into the development support programme. Although project teams are expected to address gender in all their operations, a number of projects were selected for special attention to enable the Bank to learn from experience and to improve its gender operational guidelines.

The Bank provided technical support for gender activities in the national RDP office and made funds available for finalisation of the Women's Empowerment Report prepared by that office. The Bank is represented on the gender task team of the Central Statistical Service and served on the reference group for the Women's Budget Project, a joint project of the Institute for Democracy in South Africa and the Parliamentary Joint Standing Committee on Finance. An information assignment of the Bank is aimed at conducting an audit of national databases which make available gender-disaggregated data.

### **Community participation**

The Bank further refined its guidelines on community participation in development projects and programmes. Participation is regarded as a necessary precondition of interventions in favour of sustainable development. Participation in planning is part of the empowerment process in that it enables communities to decide for themselves what their best options are while knowing the full consequences of their decisions. The Bank continued to identify and support community structures which promoted community involvement in its projects.

### **Borrower appraisal guidelines**

Increased lending for urban infrastructural development has necessitated the strengthening of instruments for appraising first-time borrowers, especially newly established local authorities and public utility institutions. As a result, frameworks have been developed for assessing these institutions' reliability in taking up loan financing and capacity to implement projects and programmes successfully, including their ability to manage the environmental and social impacts. These frameworks will be further refined as an integral part of the management of risks to enable DBSA to undertake continual rating of its borrowers on a number of key indicators conforming to the best practices and standards applied by international lending institutions.





### **Environmental sustainability**

The Bank sees environmental responsibility as a key development issue. It is committed to improving its capacity and effectiveness in this area. If projects threaten the environment in any way, an environmental impact analysis is performed to identify mitigatory measures, which then form part of the loan agreements. DBSA and the client jointly ensure that these practices are fully integrated into the design and operation of the project throughout its life cycle, DBSA both sensitising and assisting clients in instituting environmental management systems.

Operational guidelines for the management of environmental risk and for appraisal of a client's environmental management capacity have been prepared and ratified by DBSA management, as well as a statement of intent regarding DBSA's external and in-house environmental policy.

Environmental specialists have attended courses on topics such as environmental management systems and environmental auditing to ensure that they are up to date with the latest information in this rapidly changing field, and further staff development is expected in this area.

Taking cognisance of the environmental impact of large bulk-water supply projects such as the Caledon-Modder River water transfer scheme has not only benefited the environment but also assisted the Bank and its clients in obtaining the necessary community participation and support. Environmental awareness in Southern Africa, as elsewhere, is growing. Incorporating these concerns into investment decisions to ensure that developments are sustainable is an important challenge for DBSA.

### **Technical assistance**

Technical assistance, as a key instrument of development support, assumes particular prominence in a society undergoing transformation. DBSA continued to emphasise the provision of technical assistance, and R4 153 431 was committed to 94 technical assistance grant projects during the year. The extensive needs that exist, particularly in institutional capacity-building, required that the Bank focus its limited grant resources to achieve maximum impact: in the main, it sought to enhance development delivery by providing capacity-building support for existing and potential borrowers. It also continued to support participative policy and planning initiatives at national, provincial and local levels. Further, it provided technical expertise by making staff available for advising and assisting clients in a number of capacities including programme design, support for programme management, policy support, environmental appraisal and provision of technical input to a variety of developmental initiatives.

In view of its own limited grant resources, DBSA also assisted in mobilising resources for technical assistance from local and international sources.



## Private sector co-funding

Concomitantly with review of the development finance system in South Africa and the Bank's transformation process, stress was placed on DBSA's role as a catalyst for private sector investment in infrastructure projects and initiatives were launched to promote public/private sector partnerships for infrastructural development.

One example was the distribution of a publication highlighting the scope for private sector co-funding with DBSA. This practical testing of private sector response was positive and co-funding of more than R500 million was committed by the private sector.

While the refocusing of roles and functions is continuing, co-funding arrangements between DBSA, the private sector and borrowers are being developed. Notwithstanding the uncertainty and relative inexperience of many of the new borrowers, especially at local municipal level, a target has been set of mobilising at least 50 per cent of new disbursements from the private sector.

The empowerment of operational staff to maintain their effectiveness and efficiency, given their added role of brokers of public/private sector partnerships in the funding of infrastructure, will receive particular attention in the year ahead. From the early lessons learnt and the Bank's understanding of the development environment, it is clear that it has an important part to play in bringing about sustainable public/private sector co-funding. Success in this will depend on the Bank supporting borrowers in optimising their funding strategies and assisting the private sector in addressing the perceived risks of investing in development infrastructure.



## International Relations Programme

Interactions between the Bank and appropriate international development resources were mostly concentrated on mobilising the most concessionary types of offshore finance and the most suitable technical assistance. Through bank-wide professional and technical inputs, the programme also ensured the coordinated management of the Bank's international interactions. Two further loan agreements were finalised during the financial year.

On 5 April 1995 a loan agreement was signed with the Japanese Export Import Bank to the value of JPY 10 billion for the funding of a cross-section of urban infrastructure projects mostly with higher income-generating capacity. A first draw-down of JPY 6 billion was made in September 1995.

On 28 December 1995 DBSA secured a global infrastructure loan from the European Investment Bank to the value of ECU 30 million for part-financing of sewerage services and water provision projects of small to medium scale in the nine provinces. Draw-downs can be made over a two-year period.


Loans currently in negotiation and in process of finalisation include:

- Overseas Economic Cooperation Fund (OECF): this loan of JPY 4,7 billion will be made available to finance a rural social infrastructure programme.







- 
- Caisse Française de Développement: a memorandum of understanding (MOU) was signed with DBSA on 13 March 1996 to broaden socio-economic development in South Africa and the region. The MOU makes provision for a second credit facility of FFR 150 million for urban infrastructure projects, technical cooperation on policy matters, a specialist/management exchange programme and the sharing of research and development information.

DBSA is continuing negotiations with other multilateral international institutions to obtain additional concessional sources of funding.

## **Corporate Management Services complex**

### **Human resources**

The Bank employed 527 members of staff (FY95: 570) at the end of the financial year. The pattern of resignations by senior staff members set in the previous year continued but had a limited influence on events at the Bank. During the year the Bank dealt with the issues of transformation and more specifically with those tasks and issues identified by the Transformation Task Team.

The prolonged process of recruiting a Chief Executive was completed and Dr Ian Goldin, previously with the European Bank for Reconstruction and Development and the World Bank, was appointed to lead the Bank. The Bank still has to finalise the appointment of new members to its Executive Committee, a process which will be completed as part of the final phase of the transformation programme which Dr Goldin initiated immediately on taking up his position at the end of April.

Other issues in which the Bank has made progress and which fall within the set of priorities identified by the Transformation Task Team include developing

- a human resources management philosophy and practice for the Bank
- a performance management system
- a job design management system
- a career development and training strategy
- an internal skills database
- policies on affirmative action, gender, etc.

### **Capacity-building**

During the financial year, the Bank demonstrated a sustained commitment to the process of personal development as part of its performance management system and commitment to affirmative action. Over and above this, the Capacity-Building Division facilitated specialist interventions such as the improvement of environmental impact assessment, consulting skills, facilitation skills and the Business Management Programme.

A total of 1 050 people attended courses at a cost of approximately R700 000 (R670 per person per course on average). The total number of programmes attended was 288. The upgrading of support staff, both secretaries and general assistants, was also begun. General assistants received particular attention because in the past they did not have access to opportunities. Basic office management skills and language training were introduced with success. The focus for the next financial year will be on capacity-building and new areas of competence, for example co-funding.

### **Administration**

The Administration Division introduced in its operation the emerging values of a changing institution and society and focused on

- reviewing each of the functions performed by Administration for its relevance and effectiveness and where necessary realigning these functions to meet changing demands for administrative support
- strengthening its alliance with vendors and contractors to provide the needs for outsourced administrative support
- promoting, appointing and assisting with the development of emerging small black businesses as well as establishing co-ventures with bigger suppliers of services to support the small black business sector
- enhancing and maintaining good governance through improved efficiency, economical and effective use of resources and review of existing policies and procedures and development of new ones
- empowering previously disadvantaged (black and women) staff and enabling them to operate effectively at higher levels.

### **Facilities**

Various physical support and infrastructure services were rendered to DBSA and its operational and support staff.

As a result of the transformation process and management changes, there was pressure from time to time to meet deadlines on unplanned operations and requests. Excellent performance from the Facilities Division staff made it possible to achieve success in printing and publishing services, maintenance services, buying and materials control, janitorial services, occupational health and safety, asset control, etc.

In the next financial year attention will be given to effective time-cost control, improved communication and printing of publications, support for emerging small contractors and service providers (government ten-point plan), improvement of service quality and a more flexible approach to rendering essential services and support.

### **Legal Services**

Legal Services provided support in negotiations for international concessionary loan finance which culminated in loan agreements being concluded with the European Investment Bank and Caisse Française de Développement (CFD). It provided support to government in negotiations on the French protocol and secured guarantees from government for foreign loans.

Locally, Legal Services contributed to project appraisals and compiled the relevant loan/grant agreements. It updated management and staff on new legislation and the implications for DBSA activities, for example it advised management on the new Labour Relations Act and its effect on DBSA's conditions of service.



### **Information technology and systems**

Over the past three years DBSA has built a technology base of approximately 400 workstations, all connected via a local area network. The network allows a variety of business and office automation applications and also connects DBSA to the Internet, Sabinet and other wide area networks.

In the financial year the total ITS service to the organisation was improved and the advantages of technology were made more widely available to users by

- consolidating the technology and systems functions of the ITS service to ensure co-ordinated service delivery
- increasing the availability of technology and facilitating its use in the organisation (additional workstations, implementation of the Windows 95 operating system and user training)
- maintaining and improving existing information systems such as the VISION human resources information system to better meet the needs of users
- providing technology infrastructure and technical support to external agencies, for example Khula and NEF
- developing Internet and WorldWide Web linkages to increase access to information
- promoting the use of executive information through a quarterly Human Resource Report.

The Bank's technological resources were improved by making its computer network faster and more reliable and by linking it to other networks. A document repository system was installed to give electronic, desktop access to key policies, reports and information.

### **Centre for Policy and Information**

Change and transformation are fundamental to the Centre's current contribution to policy debates and processes within and outside the Bank. While ongoing policy and information analysis and evaluation focus on a wide range of issues and topics, the following strategic highlights indicate the scope of the Centre's activities within the Bank and in the broader development environment.

#### **Supporting national, provincial and local policy formulation processes**

The Centre's staff, often well supported by the Bank's operational groups, were involved in the drafting of several governmental White and Green Papers and other policy documents and assisted in the development of new policy processes and systems at the different levels of government and in various sectors. Notable contributions entailed either analytical or coordinating support for

- formulation of the government's National Growth and Development Strategy and macro-economic policy framework
- drafting of the government's Urban and Rural Development Strategies (published as a Green Paper in November 1995); drafting of the White Papers on Micro, Small and Medium Enterprises and Social Welfare and Population Development
- the Department of Finance and other departments in developing applied policies such as a municipal infrastructure investment framework, rural infrastructure framework and a local economic development strategy document
- government in developing a medium-term expenditure framework which will relate public expenditure to socio-economic policy priorities at national and provincial levels

- the Departments of Finance, Trade and Industry, and Foreign Affairs' initiatives on regional development in southern Africa, international development initiatives such as the formation of the Southern African Development Fund and global policy processes concerning sustainable development, the environment and financing
- the task group on future needs and priorities of higher education in South Africa (for the National Commission on Higher Education); and the formulation of human resource development policies and strategies underpinning the transformation of the public sector (working with the UN, the Kennedy School of Government and the UK's Civil Service College and other specialist agencies)
- the Department of Environmental Affairs and Tourism in developing a new fisheries policy through technical inputs, shaping policy process management and technical assistance with limited funding, and also for the formulation of a funding policy
- the ongoing evolution of the National Nutrition Programme and related policies
- information initiatives of the RDP department at national level, the Forum for Effective Planning and Development, various provincial departments, other organisations and departments
- provincial policy processes on economic policy, institutional change, public sector transformation and various sectoral concerns within provincial jurisdiction
- parliamentary portfolio committees dealing with municipal finance, budgetary and public sector reform, education and other issues on the national transformation agenda.
- national infrastructure policy through a major assignment on the quantification of infrastructure needs in 20 small towns; this also provided the basis for DBSA's own future planning and programming. The financial models developed in this process are being workshopped within the Bank and with other parties, notably in the domain of local government.

#### **Analytical support for the transformation of DBSA and the broader development finance system**

This work entailed

- investigation of international trends, theoretical approaches and experiences to outline options for a transformed development finance system and its relation to the overall public finance system
- data collection and analysis to provide a factual base on national development finance institutions, provincial development corporations and other structures relevant to the transformation of the development finance system in South Africa
- contributions (with DBSA's operational groups) on sectoral issues and the development of public/private sector partnerships for infrastructure development and service delivery
- acting as professional secretariat for the Commission of Inquiry for the Provision of Rural Financial Services (Strauss Commission) tasked to investigate and propose options for rural and agricultural development financing
- consideration of institutional options for the management of policy analysis and formulation, planning, programming and budgeting; the relationship between these aspects of strategic management and the implementation of programmes and projects; and the monitoring and evaluation of these processes
- an investigation into the basis and options for an environmental fund for ecologically orientated projects (for example eco-tourism).



**Ongoing analytical policy, information and evaluation work to provide a sound basis for decision-making within DBSA and the broader development environment**

Considerable effort was spent on aligning policy work with the operational interests of the Bank. This included

- sectoral analysis and data collection relevant to DBSA's operational activities in the funding of infrastructure, rural and urban development, and human resource and entrepreneurial development; and inputs to programmes, projects and operational discussions
- exploration of innovative options for enhancing the development impact of projects (for example through labour-intensive construction and appropriate technology) and producing a series of publications on these issues
- a wide range of social themes concerning integration of social and environmental assessment, social security and welfare services, basic approaches to social assessment, women in the rural economy, youth policy
- an assessment of the Bank's past relationship with NGOs as an input in the debate on the future evolution of DBSA
- the development of evaluation capacity and undertaking a growing number of evaluation assignments: this extends to the development of such capacity outside DBSA, with a new course on the subject being prepared in cooperation with the Rand Afrikaans University
- capacity-building partnerships (concluded or in progress) inter alia with the Kennedy School of Government and the Southern African Regional Institute for Policy Studies, the aim being to share experiences and enhance capacities in areas of joint or supplementary concern.

The Centre for Policy and Information's contribution to policy, information and evaluation processes within and outside DBSA reflects intense involvement in the transformation of South Africa and the Bank itself. For this purpose, the focus of the centre's functions in the new financial year will be on

- sustainable economic growth and development
- the funding and delivery of infrastructure
- financing development
- southern Africa.

In dealing with these strategic focus points, the external and internal roles of the centre are likely to remain closely interwoven as it seeks to support DBSA and other development agents in this transition.



IAN GOLDIN

*Chief Executive of the  
Development Bank of Southern Africa*



## DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ending 31 March 1996.

### Nature of business

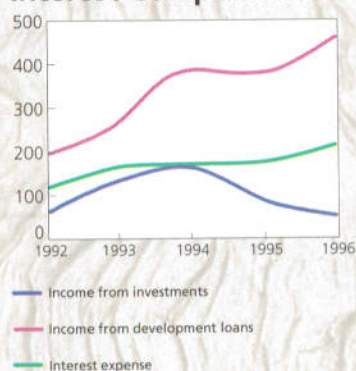
The Bank is a development financing institution responsible for financing economic and social projects which do not fall within the ambit of pure public sector financing nor are of a completely commercially self-sustaining nature.

In the first years of its existence the Bank's development projects encompassed a number of sectors including infrastructure development, entrepreneurial development, human resource development, rural and agricultural development and urban development. Following the report of the Board's transformation team, the sectoral focus was redirected to infrastructure development although a number of projects and programmes, mainly in the areas of rural and agricultural development and entrepreneurial development, are retained on the loan book of the Bank until they can be transferred to new or transformed specialised development finance institutions with a specific mandate in these sectors.

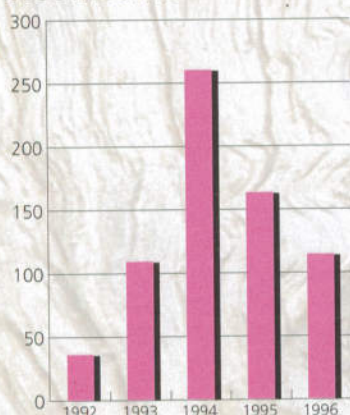
### General review of operations

A detailed review of operations of the Bank is contained in the Chief Executive's report set out on pages 11 to 31

### Interest Composition



### Net Income



### Financial review

Despite a variety of transitional adjustments, the Bank continued to maintain the development momentum. The financial highlights of the year are tabled below:

#### Operating results

Net surplus R113,8 million (1995: R162,6 million)

Total interest income increased by 10,6 per cent and interest expense by 22,5 per cent. Interest expense increased because of the increase in cost of additional borrowings to fund new development loans.

Non-interest income dropped by R21,8 million because personal tax deducted from DBSA employees is no longer refunded by the Department of Finance.

Owing to an increase in the loan book, the general loan loss provision was increased by R49 million over last year while the specific loan loss provision was decreased by R5 million. This resulted in a R24 million increase in the provision in the income statement for 1996 over that for 1995.

DBSA has continued to control operating expenditure strictly, with the total costs of employment reflecting no significant increase.



### Funds mobilisation

Domestic borrowing R376 million (1995: nil)

After an absence of three years the Bank re-entered the domestic financial markets to raise part of the required funding. It established itself as a reputable borrower in local financial markets over the previous six years.

Foreign borrowing R319 million (1995: R9 million)

The country's return to the international community of free nations enabled the Bank to tap the international financial markets during the year. These financial resources came in the form of donor, concessionary and co-financing facilities directly or indirectly relating to development programmes.

Development loan disbursements R1 328 million (1995: R1,147 million)

Disbursements for development loans set a new record again this year. The performance of the increased loan book continued to improve in the transitional environment within which the Bank's borrowers operate. The book value of defaulting clients decreased by 50 per cent to R4,4 million at the end of the year. The loan loss provisioning has, however, been prudently increased by R44 million to R279 million.

### Loan approvals

|   | 1996    | 1995    |
|---|---------|---------|
| Total approved but not disbursed at the beginning of the year | 3 152   | 3 451   |
| Adjustments (eg withdrawals)                                  | (291)   | (15)    |
| Disbursements   | (1 328) | (1 147) |
|   | 1 533   | 2 289   |
| Approvals during the year                                     | 1 088   | 863     |
| Total approved but not disbursed at year-end                  | 2 621   | 3 152   |

New project loan approvals increased as the demand for urban infrastructure and related applications was accommodated while the Bank's infrastructure niche market was being more clearly defined.

The Bank will continue to finance its disbursement commitments from cash generated from operations, local financial markets and foreign financial sources. In addition, it will continue to seek concessional sources.

## **Corporate governance**

A review of the relevant structures within the Bank is set out on pages 4–6.

### **Directorate**

The Board of Directors consists of non-executive directors.

Ten of the members of the Board of Directors appointed by the Minister of Finance with effect from 1 June 1995 were members of the Transformation Task Team which submitted their transformation report on the Development Bank of Southern Africa to the Ministry in May 1995. The other two directors were respectively members of the erstwhile Council of Governors and Board of Directors. The term of office of the directors expires when the proposed legislation on the Bank becomes effective.

The names of the directors in office at the date of this report are set out on the opposite page.



## DIRECTORS

**†\*Prof WL Nkuhlu (Chairperson)** – Executive Chairperson of Worldwide African Investment Holdings, National President of the Black Management Forum, director of various companies including Standard Bank of South Africa and Old Mutual and a trustee of the Independent Development Trust (Chartered Accountant (SA))

**†Ms L Abrahams, appointed 1 June 1995** – Commissioner: Gauteng Provincial Service Commission, Adviser to Minister of Welfare on gender and employment equity, Adviser to CSS on gender statistics, Chairperson: National Information Technology Forum, Technical Adviser to CA Theme Committee VII: Public Service (Postgraduate Diploma in Public and Development Management)

**†Mr CJW Ball, appointed 1 June 1995** – Chief Executive Officer: Cape Town 2004 Olympic Bid, trustee of President Mandela's Children's Fund and READ Organisation (Attorney and banker)

**Ms A Bernstein, appointed 1 June 1995** – Executive Director: Centre for Development and Enterprise, trustee of the Institute for Multiparty Democracy

**\*Mr HP de Villiers, appointed 1 June 1995** – Retired Chairperson of the Standard Bank Investment Corporation and Standard Bank of South Africa, director of various companies (Chartered Accountant (SA))

**†Mr DR Geeringh, appointed 1 June 1995** – Senior General Manager: Standard Bank Investment Corporation, director of various companies in South Africa and Africa (Chartered Accountant, AMP (Harvard))

**†Mr JB Magwaza, appointed 1 June 1995** – Executive Director: Tongaat-Hulett Group, director of various companies, member of the publications board of the Institute of Personnel Management (PMP, MDP)

**Dr JB Maree** – Chairperson: Eskom Electricity Council and Nedcor Group, chairperson and director of various companies (Honorary D Com)

**\*Mr SE Nxasana, appointed 1 June 1995** – Managing Partner: Sizwe & Company, National President of the Association for the Advancement of Black Accountants in South Africa, director, trustee and member of various companies and community and professional organisations (Chartered Accountant (SA))

**\*Dr RA Plumbridge** – Chairperson: Gold Fields of South Africa, director and member of various national and international companies and institutions (LLD HC, MA)

**†Mr WW Ramoshaba, appointed 1 June 1995** – Chairperson: Portfolio Business Holdings, director of companies

**\*Mr TE Sewell, appointed 1 June 1995** – Executive Director: UAL Merchant Bank, director of various companies (Chartered Accountant (SA))

\*Member of the Audit Committee

†Member of the Human Resources Board Committee

The term of the following directors terminated on 31 May 1995:

Mr C Bomela

Mr JA Botes

Dr O Dhlomo

Mr JJ du Plessis

The Hon Gota GM Ligege

Mr SSS Lucas

Mr MR Madula

Mr JAJ Maree

Dr NH Motlana

Mr MGM Mpahlwa

Mr MJ Sondiyazi

Mr J Steyn

Mr PH Swart

Mr PH van Rooy

## MANAGEMENT'S RESPONSIBILITY

### Responsibility for and approval of the annual financial statements

Management is responsible for preparation of annual financial statements which fairly present the financial position, results of operations and the cash flow of the Bank in accordance with South African generally accepted accounting practice.

The external auditors are required to give an independent opinion on the fair presentation of the annual financial statements on the basis of the results of their audit.

The directors supported by the Audit Committee are of the opinion, based on information and explanations given by management and the internal auditors and on comments by the external auditors, that management has introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the financial statements, to safeguard the assets of the Bank and to ensure that all transactions are duly authorised and transacted.

To the best of their knowledge and belief, the directors are satisfied that no major breakdown in the operation of the systems of internal control and procedures has occurred during the year under review. The auditors concur with this statement.

The directors are satisfied that the Bank will continue as a going concern for the foreseeable future and the annual financial statements have accordingly been prepared on the basis of this assumption.

The directors of the Bank accept responsibility for their report and the financial statements which appear on pages 38 to 51.



WL NKUHLU  
*Chairman*  
May 1996



IAN GOLDIN  
*Chief Executive*



# INDEPENDENT AUDITORS' REPORT

## Report of the independent auditors to the shareholders of the Development Bank of Southern Africa

We have audited the annual financial statements on pages 38 to 40 which have been prepared on the basis of the accounting policies set out on pages 41 to 42.

### Respective responsibilities of directors and auditors

Management is responsible for the preparation of the annual financial statements. It is our responsibility to form an independent opinion, based on our audit, of those annual financial statements and to report our opinion to you.

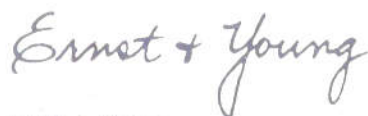
### Basis of opinion

We conducted our audit in accordance with generally accepted auditing standards issued by the South African Institute of Chartered Accountants.

These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. The audit included an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence that supports the amounts and disclosures included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our auditing procedures were appropriate in the circumstances to enable us to express our opinion presented below.

### Opinion

In our opinion these financial statements fairly present the financial position of the Development Bank of Southern Africa at 31 March 1996 and the results of its operations and cash flow information for the year then ended in conformity with generally accepted accounting practice and in the manner required by the South African Companies Act.



Ernst & Young

Chartered Accountants (SA)

South Africa

May 1996

# BALANCE SHEET

AS AT 31 MARCH

|  | Notes | 1996<br>R'000    | 1995<br>R'000    |
|--|-------|------------------|------------------|
| <b>Capital employed</b>                |       |                  |                  |
| Share capital                          | 3     | 200 000          | 200 000          |
| Development fund                       | 4     | 3 792 344        | 3 792 344        |
| Reserves                               | 5     | 796 704          | 682 810          |
| Permanent capital                      |       | 4 789 048        | 4 675 154        |
| Donor contribution fund                | 6     | 76               | 227              |
| Medium and long-term financing         | 7     | 1 817 820        | 1 055 162        |
| Short-term financing                   | 8     | 37 170           | 5 028            |
|  |       | <b>6 644 144</b> | <b>5 735 571</b> |
| <b>Employment of capital</b>           |       |                  |                  |
| Fixed assets                           | 9     | 37 229           | 38 357           |
| Development loans                      | 10    | 6 157 360        | 5 102 536        |
| Development investments                | 11    | 81 293           | 0                |
| Net current assets                     |       | 368 232          | 594 678          |
| Current assets                         |       | 400 460          | 617 280          |
| Cash, deposits and tradable securities | 12    | 386 815          | 605 343          |
| Receivables                            | 13    | 13 645           | 11 937           |
| Current liabilities                    |       | 32 228           | 22 602           |
| Accounts payable                       |       | 18 419           | 10 754           |
| Accrued interest                       |       | 13 809           | 11 848           |
|  |       | <b>6 644 144</b> | <b>5 735 571</b> |



# INCOME STATEMENT

## FOR THE YEAR ENDING 31 MARCH

|   | Notes | 1996<br>R'000  | 1995<br>R'000  |
|---|-------|----------------|----------------|
| Interest income from development activities | 14    | 464 446        | 380 289        |
| Interest income from investments            |       | 48 008         | 83 006         |
| Interest expense                            |       | 213 834        | 174 490        |
| <b>Net interest income</b>                  |       | <b>298 620</b> | <b>288 805</b> |
| Non-interest income                         |       | 205            | 22 055         |
|   |       | <b>298 825</b> | <b>310 860</b> |
| Less: Technical assistance grants           | 15    | 5 743          | 6 015          |
| Less: Specific and general risk provisions  | 10    | 44 000         | 20 000         |
| <b>Net income</b>                           |       | <b>249 082</b> | <b>284 845</b> |
| <b>Less: Operating expenditure</b>          |       | <b>135 188</b> | <b>122 206</b> |
| Auditors' remuneration                      | 16    | 658            | 667            |
| Governors' emoluments                       | 17    | 2              | 9              |
| Directors' emoluments                       | 18    | 367            | 347            |
| Depreciation                                | 19    | 2 307          | 2 113          |
| Other operating expenses                    | 20    | 131 224        | 119 070        |
| Foreign exchange losses                     |       | 630            | 0              |
| <b>Net surplus for the year</b>             |       | <b>113 894</b> | <b>162 639</b> |

# CASH FLOW STATEMENT

## FOR THE YEAR ENDING 31 MARCH

|  | Note | 1996<br>R'000      | 1995<br>R'000    |
|--|------|--------------------|------------------|
| <b>Net cash inflow from operations</b>                             |      | <b>(241 439)</b>   | <b>240 899</b>   |
| Cash utilised by operations  | 21   | (126 719)          | (85 070)         |
| Interest received on development loans                             |      | 464 446            | 380 289          |
| Interest received on cash, deposits and tradable securities        |      | 48 008             | 83 006           |
| Interest paid  | 22   | (144 296)          | (137 326)        |
| <b>Net cash outflow from development activities</b>                |      | <b>(1 185 860)</b> | <b>(974 909)</b> |
| Development loan disbursements                                     |      | (1 240 830)        | (1 141 222)      |
| Development loan principal repayments                              |      | 142 006            | 172 328          |
| Development investments  |      | (81 293)           | 0                |
| Technical assistance grants paid                                   |      | (5 743)            | (6 015)          |
| <b>Net cash outflow from investment activities</b>                 |      | <b>(1 177)</b>     | <b>(2 367)</b>   |
| Additions to fixed assets  |      | (1 177)            | (2 367)          |
| <b>Net cash inflow from financing activities</b>                   |      | <b>727 070</b>     | <b>(42 662)</b>  |
| Donor contribution funds utilised                                  |      | (151)              | 227              |
| Short-term financing raised  |      | 32 142             | (51 941)         |
| Medium and long-term financing raised                              |      | 695 079            | 9 052            |
| <b>Net decrease in cash, deposits and tradable securities</b>      |      | <b>(218 528)</b>   | <b>(779 039)</b> |
| <b>Cash, deposits and tradable securities at beginning of year</b> |      | <b>605 343</b>     | <b>1 384 382</b> |
| <b>Cash, deposits and tradable securities at end of year</b>       |      | <b>386 815</b>     | <b>605 343</b>   |



# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 1996

## 1. ACCOUNTING POLICIES

### 1.1 Basis of accounting

The financial statements are prepared on the historical cost basis in conformity with South African generally accepted accounting practice. The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous period except as stated in note 2.

### 1.2 Development loans

Development loan commitments are recorded when the agreements are signed by the Bank and are reflected as assets when disbursed.

The carrying value of the loans is the principal amount outstanding and the interest deferred and capitalised during the grace period, i.e. the period during which interest on loans is not yet payable but continues to accrue.

Development loans, including capitalised interest, are placed on a non-accrual status when the contractual payment of principal and 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.

### 1.3 Provision against development loans

The provision is established through annual charges to income in the form of a provision for specific and general potential losses on development loans. Development loans written off, as well as subsequent recoveries, are recorded against the provision for development loans.

The specific provision against development loans represents management's judgement as to identifiable losses on development loans, including loans placed on a non-accrual status, i.e. where interest is not accrued.

General provisions are maintained against risks which, although not specifically identified, exist in a portfolio of advances.

### 1.4 Income recognition

Interest on development loans is recorded as income on an accrual basis. The Bank does not recognise income on development loans where payments of interest or principal are more than 180 days past due or when, in the opinion of management, the recovery of the whole or portion thereof becomes doubtful.

Interest capitalised during the grace period of the loan is recorded as deferred interest and credited to income only when it becomes due and payable per the loan agreement.

Interest from deposits and tradable securities that are valued at market value is recorded on revaluation.

Interest on deposits and tradable securities that are valued at cost is recorded as income on an accrual basis.

### 1.5 Deposits and tradable securities

The Bank's liquid assets comprise money and capital assets and are valued at either cost or market value.

The Bank classifies the cash, deposits and tradable securities portfolio as an element of liquidity in the balance sheet and the cash flow statement in accordance with the Bank's policies governing the level and use of such investments.

### 1.6 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, other bond costs and financing costs are amortised and recorded as an element of interest expenditure. The unexpensed portion of discounts, premium, other bond costs and financing costs at the balance sheet date is netted off against the related liability.

# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 1996

## 1.7 Financial instruments

Positions held for hedging purposes are stated at market value and are set off against the underlying position. Profits and losses relating to these transactions are accounted for as funding costs.

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 or paid on financial instruments entered into for trading purposes are stated at market value. The resultant profits or losses are accounted for in the income statement. Where not designated as trading transactions, the instruments are stated at cost and premiums are amortised over the terms of the instruments.

## 1.8 Foreign currencies

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

Assets, liabilities and commitments in foreign currencies are translated into South African rand at the rates of exchange ruling at year-end, unless covered by forward exchange contracts. Assets, liabilities and commitments covered by forward exchange contracts are recorded at the initial cash amount, with interest and forward exchange premium or discount accrued at the effective interest rate, less payments made.

Discounts and premiums on forward exchange contracts entered into to hedge specific foreign currency assets, liabilities and commitments are recognised over the term of such contracts at the effective interest rate. These discounts or premiums are identified by comparing the fixed forward rate for the purchase or sale of foreign currency with the spot exchange rate at the time the forward exchange contract is entered into.

## 1.9 Fixed assets and depreciation

### *Land and buildings*

The head office was constructed on land donated to the Bank by the South African Government. The land is stated at nil value. The building is stated at cost and is not depreciated.

### *Other operating fixed assets*

Fixed assets are depreciated on a straight line basis at rates considered appropriate to reduce the cost to estimated residual values over the estimated useful lives of the assets at the following rates:

Computer equipment: 33,3 per cent p.a.

Other equipment: 10–20 per cent p.a.

## 1.10 Retirement benefit

Current contributions to the retirement benefit plan are the best estimate of current service costs and are charged against income as incurred.

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## 2. CHANGE IN ACCOUNTING POLICY

During the year, the Bank's accounting policy for the recognition of premiums and discounts on forward exchange contracts entered into to hedge foreign currency exposure was changed. Previously these amounts were recognised on a straight line basis over the term of the forward exchange contracts, when the respective liabilities arose. The new policy is to recognise these premiums and discounts over the life of the relevant forward exchange contracts at the effective interest rate, based on the cash flows involved. The comparative figures have been restated accordingly.



# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH

|   | 1996<br>R'000  | 1995<br>R'000  |
|---|----------------|----------------|
| The change in accounting policy has had the effect of increasing the following:   |                |                |
| Opening balance of general reserve  | 7 883          | 7 597          |
| Net surplus for the year  | 5 193          | 286            |
| <b>3. SHARE CAPITAL</b>   |                |                |
| 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        |
| <b>4. DEVELOPMENT FUND</b>  |                |                |
| The fund represents capital provided by the South African Government and remains part of the permanent capital of the Bank. |                |                |
| Received to date  | 3 792 344      | 3 792 344      |
| <b>5. RESERVES</b>  |                |                |
| These reserves are not distributable as the Governor of the Bank has not formulated a dividend policy.                      |                |                |
| <i>General reserve</i>  |                |                |
| Balance at beginning of year as restated  | 682 810        | 520 171        |
| Opening balance as previously reported  | 674 927        | 512 574        |
| Change in accounting policy   | 7 883          | 7 597          |
| Transfer from income statement  | 113 894        | 162 639        |
| <b>Balance at end of year</b>   | <b>796 704</b> | <b>682 810</b> |
| <b>6. DONOR CONTRIBUTION FUND</b>   |                |                |
| Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH  |                |                |
| Grants received to date   | 227            | 227            |
| Grants disbursed to date  | (151)          | 0              |
| <b>Balance at end of year</b>   | <b>76</b>      | <b>227</b>     |

The purpose of the financial contribution is exclusively to support a planning advisory services project. The financial contribution shall not exceed DM321 200 (R908 996)\*.

\*DM/ZAR spot rate 31 March 1996 (1DM=ZAR 2,83).

# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH

|   | 1996<br>R'000    | 1995<br>R'000    |
|---|------------------|------------------|
| <b>7. MEDIUM AND LONG-TERM FINANCING</b>              |                  |                  |
| Registered bonds (per schedule A)                     | 1 531 255        | 1 121 636        |
| Other loans (per schedule B)                          | 353 520          | 9 102            |
| Unamortised issue discounts and forward cover premium | (66 955)         | (75 576)         |
|   | <b>1 817 820</b> | <b>1 055 162</b> |

## 8. SHORT-TERM FINANCING

Short-term financing consists of secondary market positions in interest-bearing debt instruments of the Bank, hedging instruments and carry transactions totalling R356,9 million (1995: R541,2 million) gross, partially hedged with R319,7 million (1995: R536,2 million) of interest-bearing investments.

|               |              |
|---------------|--------------|
| <b>37 170</b> | <b>5 028</b> |
|---------------|--------------|

## 9. FIXED ASSETS

### Buildings at cost

|               |               |
|---------------|---------------|
| <b>35 217</b> | <b>35 217</b> |
|---------------|---------------|

The buildings were valued at R81 million on a replacement value basis by Farrow Laing, an independent valuer, on 31 March 1996.

The last valuation was carried out on 31 March 1995.

The land on which the buildings are constructed is on Erf 3 in Headway Hill and measures 24,6 ha.

### Other operating fixed assets

#### Computer equipment

Balance at beginning of year

– assets at cost

– accumulated depreciation

Current year movements

– additions

– depreciation

**2 012**

**1 381**

**6 007**

**(3 379)**

**986**

**(2 233)**

**631**

**647**

**(135)**

**193**

**(74)**

**37 229**

**3 140**

**2 628**

**4 130**

**(1 377)**

**1 877**

**(2 002)**

**512**

**442**

**(24)**

**205**

**(111)**

**38 357**



# NOTES TO THE FINANCIAL STATEMENTS

## AS AT 31 MARCH

|   | 1996<br>R'000    | 1995<br>R'000    |
|---|------------------|------------------|
| <b>10. DEVELOPMENT LOANS</b>  |                  |                  |
| <b>Total loan book</b>  | <b>7 040 336</b> | <b>5 856 043</b> |
| Balance at beginning of year  | 5 856 043        | 4 835 428        |
| Loans disbursed   | 1 240 830        | 1 141 222        |
| Interest capitalised  | 545 875          | 432 010          |
| Gross repayments  | (602 412)        | (552 617)        |
| <b>Provision against development loans</b>  | <b>(279 000)</b> | <b>(235 000)</b> |
| Specific  | (4 039)          | (9 146)          |
| General   | (274 961)        | (225 854)        |
| <b>Deferred interest</b>  | <b>(603 976)</b> | <b>(518 507)</b> |
| Balance at beginning of year  | (518 507)        | (466 786)        |
| Interest capitalised  | (113 834)        | (79 721)         |
| Transferred to income statement   | 28 365           | 28 000           |
|   | <b>6 157 360</b> | <b>5 102 536</b> |
| <b>Repayment analysis</b>   |                  |                  |
| 0-1 year  | 342 344          | 269 307          |
| 1-3 years   | 1 104 348        | 932 914          |
| Thereafter  | 5 593 644        | 4 653 822        |
|   | <b>7 040 336</b> | <b>5 856 043</b> |
| <b>Changes in the specific and general reserves against development loan losses</b> |                  |                  |
| Balance at beginning of year  | 235 000          | 215 000          |
| Transferred to income statement   | 44 000           | 20 000           |
| Specific provision for the year   | (5 107)          | (15 754)         |
| General provision for the year  | 49 107           | 35 754           |
|   | <b>279 000</b>   | <b>235 000</b>   |
| <b>Expected future transfer from deferred interest to interest income</b>           |                  |                  |
| 0-1 year  | 26 362           | 23 049           |
| 1-3 years   | 116 037          | 97 872           |
| Thereafter  | 461 577          | 397 586          |
|   | <b>603 976</b>   | <b>518 507</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## AS AT 31 MARCH

|  | 1996<br>R'000    | 1995<br>R'000    |
|--|------------------|------------------|
| <b>Loan commitments</b>  |                  |                  |
| Loans approved by the Board of Directors but not yet signed, and loan agreements signed which have not been fully disbursed, are summarised below:   |                  |                  |
| Loans approved but not signed  | 365 182          | 620 894          |
| Loans signed but not disbursed   | 2 256 186        | 2 531 481        |
| <b>Total approved but not disbursed</b>  | <b>2 621 368</b> | <b>3 152 375</b> |
| <p>The disbursement pattern for 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 disbursements for these commitments is as follows: 49 per cent in 1997, 32 per cent in 1998, 7 per cent in 1999 and 12 per cent thereafter.</p> <p>The commitments are to be financed from the following sources:</p> <ul style="list-style-type: none"> <li>– cash generated from internal operations</li> <li>– local financial markets and</li> <li>– foreign sources</li> </ul> <p>The Bank has also approved and issued guarantees on behalf of borrowers amounting to:</p> |                  |                  |
|  | <b>3 724</b>     | <b>3 724</b>     |
| <b>11. DEVELOPMENT INVESTMENTS</b>   |                  |                  |
| Unlisted:  |                  |                  |
| Northern Transvaal Water Project   | 80 543           | 0                |
| Capital Project Bills for R80 542 937 (nominal value R244 112 950) with maturities varying from 30 April 1998 to 31 October 2005.  |                  |                  |
|  | 750              | 0                |
| Franchise Fund:  |                  |                  |
| 7 500 ordinary shares at cost  | 8                | 0                |
| 255 000 8 per cent redeemable cumulative preference shares at cost   | 255              | 0                |
| 487 500 15 per cent redeemable debentures at cost  | 487              | 0                |
|  | <b>81 293</b>    | <b>0</b>         |
| <b>12. CASH, DEPOSITS AND TRADABLE SECURITIES</b>  |                  |                  |
| Fixed deposits   | 30 000           | 78 000           |
| Tradable securities  | 208 592          | 346 505          |
| Cash   | 148 223          | 180 838          |
|  | <b>386 815</b>   | <b>605 343</b>   |
| <b>13. RECEIVABLES</b>   |                  |                  |
| Accrued income on deposits and securities  | 11 025           | 9 339            |
| Other receivables  | 2 620            | 2 598            |
|  | <b>13 645</b>    | <b>11 937</b>    |



# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH

|   | 1996<br>R'000  | 1995<br>R'000  |
|---|----------------|----------------|
| <b>14. INTEREST INCOME FROM DEVELOPMENT ACTIVITIES</b>  |                |                |
| Interest received on development loans  | 460 204        | 380 720        |
| Interest suspended on non-accrual loans   | (211)          | (431)          |
| Interest previously suspended on non-accrual loans recovered  | 413            | 0              |
| Interest received on development investments  | 4 040          | 0              |
|   | <b>464 446</b> | <b>380 289</b> |
| <b>15. TECHNICAL ASSISTANCE GRANTS</b>  |                |                |
| Technical assistance grants disbursed   | <b>5 743</b>   | <b>6 015</b>   |
| <p>Technical assistance is provided in the form of grants which complement the Bank's investment activities. There are also policy cooperation grants which assist government and development institutions in policy-making decisions by supporting capacity-building processes aimed at enhancing development delivery.</p> <p>Grants which have been approved but not yet signed, and grants signed which have not been fully disbursed are summarised below:</p> |                |                |
| Grants approved but not signed  | <b>606</b>     | 1 963          |
| Grants signed but not disbursed   | <b>8 204</b>   | 8 813          |
| <b>Total approved but not disbursed</b>   | <b>8 810</b>   | <b>10 776</b>  |
| <b>16. AUDITORS' REMUNERATION</b>   |                |                |
| <b>For the audit</b>  |                |                |
| – Current year  | <b>410</b>     | 304            |
| – Previous year   | <b>41</b>      | (9)            |
| <b>For consulting services</b>  |                |                |
| – Current year  | <b>240</b>     | 295            |
| – Previous year   | <b>(49)</b>    | 67             |
| <b>Expenses</b>   |                |                |
| – Current year  | <b>16</b>      | 8              |
| – Previous year   | <b>0</b>       | 2              |
|   | <b>658</b>     | <b>667</b>     |
| <b>17. GOVERNORS' EMOLUMENTS</b>  |                |                |
| – Expenses  | <b>2</b>       | 9              |
| <b>18. DIRECTORS' EMOLUMENTS</b>  |                |                |
| – For services as directors   | <b>330</b>     | 302            |
| – Expenses  | <b>37</b>      | 45             |
|   | <b>367</b>     | <b>347</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH

|  | 1996<br>R'000    | 1995<br>R'000   |
|--|------------------|-----------------|
| <b>19. DEPRECIATION</b>  |                  |                 |
| Computer equipment   | 2 233            | 2 002           |
| Other equipment  | 74               | 111             |
|  | <b>2 307</b>     | <b>2 113</b>    |
| <b>20. OTHER OPERATING EXPENSES</b>  |                  |                 |
| Consultants' fees  | 7 208            | 7 262           |
| Communications costs   | 1 762            | 1 505           |
| Data processing  | 3 199            | 2 642           |
| Remuneration   | 95 563           | 93 493          |
| Subsistence and travel   | 6 987            | 6 896           |
| Other  | 16 505           | 7 272           |
|  | <b>131 224</b>   | <b>119 070</b>  |
| <b>21. RECONCILIATION OF NET SURPLUS FOR THE YEAR TO CASH UTILISED BY OPERATIONS</b> |                  |                 |
| Net surplus for the year   | 113 894          | 162 639         |
| Adjustments for:   |                  |                 |
| Interest received on development loans   | (464 446)        | (380 289)       |
| Provision against development loans  | 44 000           | 20 000          |
| Technical assistance grants paid   | 5 743            | 6 015           |
| Interest expense   | 213 834          | 174 490         |
| Interest received on cash, deposits and tradable securities                          | (48 008)         | (83 006)        |
| Depreciation   | 2 307            | 2 113           |
| Increase in receivables  | (1 708)          | 11 230          |
| Increase in accounts payable   | 7 665            | 1 738           |
|  | <b>(126 719)</b> | <b>(85 070)</b> |
| <b>22. INTEREST PAID PER CASH FLOW STATEMENT</b>                                     |                  |                 |
| Accrued interest at the beginning of the year  | 86 192           | 60 742          |
| Current liabilities  | 11 848           | 11 836          |
| Medium and long-term liabilities   | 74 344           | 48 906          |
| Charged to income for the year   | 198 819          | 162 776         |
| Interest expense per income statement  | 213 834          | 174 490         |
| Amortisation of issue discount   | (15 015)         | (11 714)        |
| Accrued interest at the end of the year  | (140 715)        | (86 192)        |
| Current liabilities  | (13 809)         | (11 848)        |
| Medium and long-term liabilities   | (126 906)        | (74 344)        |
|  | <b>144 296</b>   | <b>137 326</b>  |



# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH

|  | 1996<br>R'000 | 1995<br>R'000 |
|--|---------------|---------------|
|--|---------------|---------------|

## 23. RETIREMENT BENEFIT AND MEDICAL AID FUND

The Development Bank of Southern Africa provident fund was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The fund, which is governed by the Pension Fund Act, 24, 1956 is a defined contribution plan for employees on the permanent staff of the Bank. Contributions are at the rate of 19,5 per cent of pensionable emoluments.

The fund was reviewed, as at 31 March 1995, by a valuator and was found to be financially sound. The next financial review by a valuator will be as at 31 March 1996.

The Bank's contributions to retirement and medical aid funds amount to:

|                                      |        |        |
|--------------------------------------|--------|--------|
| Provident fund                       | 9 391  | 5 676  |
| Number of employees: 569 (1995: 574) |        |        |
| Medical aid fund                     | 6 351  | 5 758  |
| Number of employees: 513 (1995: 579) |        |        |
|                                      | 15 742 | 11 434 |

## 24. TAXATION

No provision is made for normal taxation as the Bank is exempted therefrom in terms of the Income Tax Act 62, 1961.

## 25. FORWARD EXCHANGE CONTRACTS

At balance sheet date the Bank had forward exchange contract commitments not yet shown in the balance sheet as detailed below:

### Commitments in respect of inflow of funds

| Foreign amount    | Rate    | Maturity date  |
|-------------------|---------|----------------|
| FFR 23 117 672    | 1,2666  | April 1996     |
| JPY 4 000 000 000 | 24,7700 | September 1996 |
| USD 7 339 000     | 3,9746  | March 1997     |

### Commitments in respect of outflow of funds

| Foreign amount    | Rate           | Maturity date           |
|-------------------|----------------|-------------------------|
| FFR 23 117 672    | 0,8412–0,7755  | April 2004–October 2005 |
| JPY 4 000 000 000 | 12,1000–7,5400 | October 2000–April 2005 |
| USD 7 339 000     | 4,8806–6,7967  | March 2000–March 2005   |

# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 1996

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## 25. COMPARATIVE FIGURES

Comparative figures have been restated to provide more meaningful information.

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## 26. AGENCY ARRANGEMENTS

Under Article 7 of the Agreement establishing the Bank, the Bank may be entrusted with the administration of funds in accordance with agreement between the Bank and Principals.

Agency agreements have been established with the National Economic Forum (NEF) and Department of Foreign Affairs (Mozambique sugar rehabilitation project) whereby the Bank appraises and disburses on projects on behalf of these entities. Projects to a total value of R233,1 million had been approved by NEF for disbursement by 31 March 1996. Funds held separately in trust under this arrangement at 31 March 1996 were R44,9 million and R1,1 million for NEF and Department of Foreign Affairs respectively (1995 was R111,6 million for NEF and R1,3 million for Department of Foreign Affairs).



## SCHEDULE A

### REGISTERED BONDS AS AT 31 MARCH

|                                      | Authorised value |         |               | Repayment date | Balance in issue |         |
|--------------------------------------|------------------|---------|---------------|----------------|------------------|---------|
|                                      | 1996 Rm          | 1995 Rm | Coupon rate % |                | 1996 Rm          | 1995 Rm |
| (i) Local                            |                  |         |               |                |                  |         |
| DV05                                 | 290              | 250     | 10,0          | 1996           | 290              | 243     |
| DV06                                 | 250              | 250     | 10,0          | 2001           | 44               | 44      |
| DV07                                 | 1 500            | 1 500   | 14,5          | 2010           | 751              | 415     |
|                                      | 2 040            | 2 000   |               |                | 1 085            | 702     |
| (ii) Foreign                         | 497              | 497     | 10,0          | 1998           | 447              | 420     |
| Total medium and long term financing | 2 537            | 2 497   |               |                | 1 532            | 1 122   |

1. All local registered bonds carry a AAA rating (IBCA) and are referred to by their respective Reuters acronyms.
2. An independent A1+ short-term rating was also assigned to the Bank (IBCA).
3. The foreign liability is fully covered forward and is guaranteed by the South African Government.

## SCHEDULE B

### OTHER LOANS AS AT 31 MARCH

|                                   | 1996 Rm | 1995 Rm | Foreign currency interest rate % | Foreign currency | Commencement date of repayment | Number of instalments |
|-----------------------------------|---------|---------|----------------------------------|------------------|--------------------------------|-----------------------|
| Chiao Tung Bank                   | 31      | 9       | 3                                | USD              | March 2000                     | 15 equal annual       |
| Caisse Française de Développement | 59      | —       | 3,5                              | FFR              | April 2004                     | 26 equal semi-annual  |
| Export-Import Bank of Japan       | 264     | —       | 3,5                              | JPY              | March 2000                     | 20 equal semi-annual  |
|                                   | 354     | 9       |                                  |                  |                                |                       |

The foreign liabilities are fully covered and guaranteed by the South African Government.



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Design: Gill Marshall  
Photography: Guy Stubbs, Superstock  
Typesetting, colour reproduction and  
printing: Klem-Lloyd  
Paper: BVS Brilliant White from  
Papersmith and Son  
Produced in Johannesburg, South Africa



