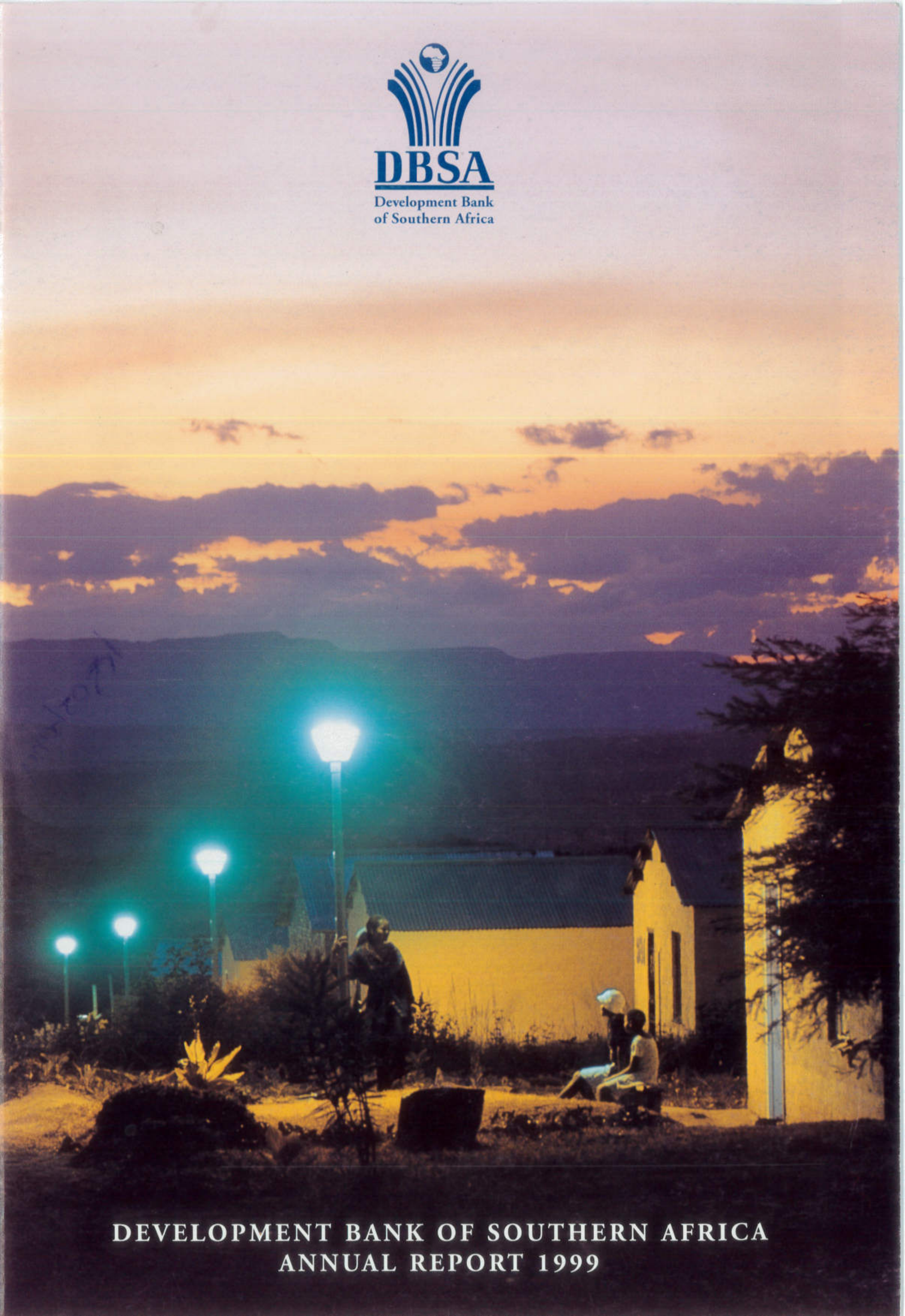


DBSA

Development Bank of Southern Africa

DEVELOPMENT BANK OF SOUTHERN AFRICA
ANNUAL REPORT 1999

MISSION

The Development Bank of Southern Africa contributes to development by providing finance and expertise to improve the quality of life of the people of southern Africa, mainly through the provision of infrastructure.

Countries of operations

The DBSA operates in the 14 countries of the Southern African Development Community, as shown at the back of the report.

Exchange rate

The average R/US$ exchange rate for the year under review was 5,85.

Financial year

The financial year of the DBSA is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 1998/9, are to the financial year ended 31 March.

Directors' report

The information in the Directors' report complies with and has been audited as required by the Reporting by Public Entities Act, No 93 of 1992.

DBSA

Development Bank of Southern Africa

Building Foundations for Development

Contents

Abbreviations

AIF	Africa Infrastructure Fund
CCSP	Ciskei Community Support Programme
Comafin	Commonwealth Africa Investments Limited
DBSA	Development Bank of Southern Africa Limited
DFI	Development finance institution
DWAF	Department of Water Affairs and Forestry
GAAP	Generally Accepted Accounting Practice
GDP	Gross domestic product
GEAR	Growth, employment and redistribution
IFC	International Finance Corporation
IT	Information technology
LALF	Local Authorities Loans Fund
MIIU	Municipal Infrastructure Investment Unit Company
NEF	National Economic Forum
OEU	Operations Evaluation Unit
PCOF	Portfolio Committee on Finance
PPI	Public-private investment
PPP	Public-private partnership
R	Rand
RDP	Reconstruction and Development Programme
SADC	Southern African Development Community
SDI	Spatial Development Initiative
TLC	Transitional Local Council
TRC	Transitional Rural Council
US$	United States dollar
USAID	United States Agency for International Development
Y2K	Year 2000

DBSA

CORPORATE PROFILE

Mission and principles

The Development Bank of Southern Africa contributes to development by providing finance and expertise to improve the quality of life of the people of southern Africa, mainly through the provision of infrastructure. The Bank aims to maximise its development impact, be additional to other funding sources and maintain sound banking principles.

Development activities

Investment support

R19,5 billion cumulative **loan** and **equity** approvals:

- Internal reticulation infrastructure: 34%
- Bulk and connector infrastructure: 52%
- Entrepreneurial support: 9%
- Social and institutional infrastructure: 5%

R253 million cumulative **guarantees**

Total number of borrowers: 611

Total number of local government borrowers: 474

Co-funding

Record leverage ratio of 1:2,8 in 1998/9: co-financing increased the project value of the DBSA's contribution almost threefold

Technical assistance

R51,7 million cumulative **grant** approvals:

- Institutional capacity building: 51%
- Policy and planning: 39%
- Other: 10%

Policy analysis and support

Publications: DBSA Development Report; Development Southern Africa Journal

Advice and support to internal business units, government and others

Development information databases and publications

Financial management

- Innovative funding instruments and strategies
- Sound risk management policies and practices
- Sustainable financial policies
- Conservative loan loss provisioning
- Prudential approach to liquidity management
- Asset/liability management

Governance structures

Sole owner: South African government
Governor: Minister of Finance
Chairman: Prof Wiseman Nkuhlu
Chief Executive: Dr Ian Goldin
Board of 14; 13 non-executive

Board committees

Audit Committee
Remuneration Committee
Investment Committee
Employment Equity Committee

Main management committees

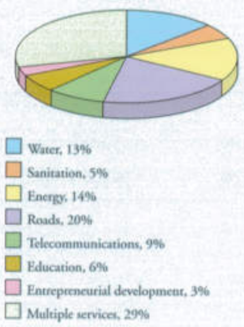
Executive Committee
Management Committee
Operations Committee
Human Resources Committee
Commitment Committee
Finance and Risk Management Committee
Tender Committee
Fraud Management Committee
Publications Committee

Human resources

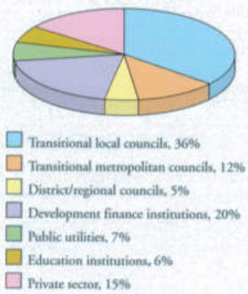
Staff complement	446
Managers	25
Managers as % of staff	6
% woman managers	28
% black managers	64
Professional staff	257
Professionals as % of staff	58
% women professionals	30
% black professionals	26
Support staff	164
Support staff as % of staff	37
% women support staff	72
% black support staff	66

THE YEAR AT A GLANCE

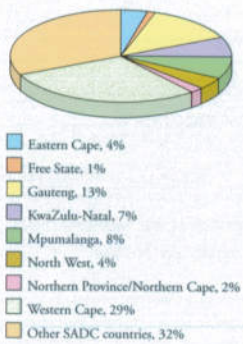
DBSA loan approvals per sector [1], 1998/9



DBSA loan approvals by type of client, 1998/9

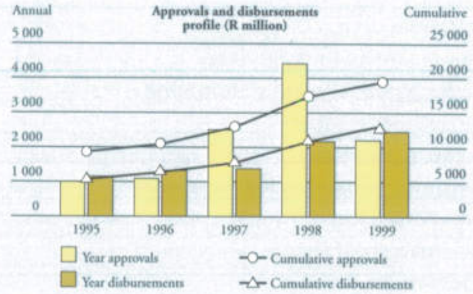


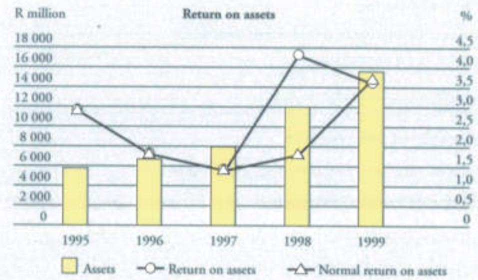
DBSA loan approvals per region [1], 1998/9

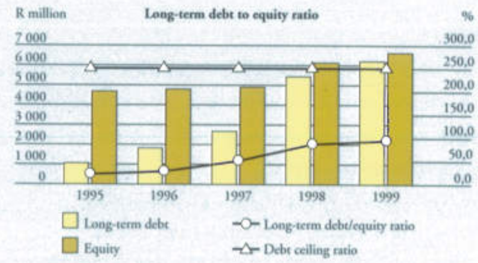


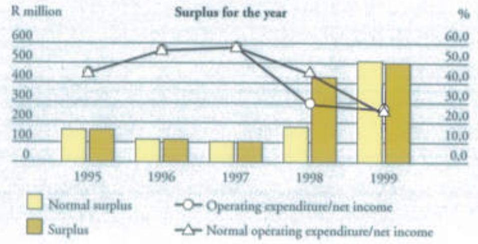
Business development and financial results

- Investment loans approved – R2 062 million
- Guarantees approved – R250 million
- Equity investments approved – R150 million
- Total value of approved projects – R8 724 million
- Number of new infrastructure projects approved for funding – 121
- Share of lending to local government institutions – 62 per cent
- Share lending for internal reticulation of services to households – 81 per cent
- Cash disbursements to projects – R2 456 million
- Portion of cash disbursements to local government institutions – 44 per cent
- Grant disbursement for policy development and capacity building – R2,6 million
- Short-term jobs created in South Africa through projects on which the DBSA disbursed funds – 30 000
- Long-term jobs from approved projects – 37 900 person-years annually for 20 years
- Short-term contribution to South African GDP through projects on which the DBSA disbursed funds – R2,65 billion
- Households expected to benefit from new infrastructure projects in South Africa, funded or co-funded by the DBSA – 632 300
- Agency funding managed – R329 million by end of year
- Number of agency functions undertaken – 11
- Return on average assets – 3,6 per cent
- Long-term debt to equity ratio – 93,6 per cent
- Premier credit rating – AAA for long term debt and A1+ for short-term debt
- No write-offs in the year under review
- Operating expenditure/total income declined









1. Five-year loan approvals are shown on page 15.

DBSA

FIVE-YEAR FINANCIAL SUMMARY

For period ended	31-03-99 R million	31-03-98 R million	31-03-97 R million	31-03-96 R million	31-03-95 R million
Balance sheet					
Total assets	15 606	12 002	7 949	6 679	5 758
Capital employed					
Permanent capital	6 633	6 131	4 892	4 789	4 675
Medium- and long-term financing	6 206	5 432	2 668	1 818	1 055
Employment of capital					
Development loans					
Gross opening balance	8 013	8 332	7 040	5 856	4 835
– Disbursed	2 456	2 173	1 378	1 241	1 141
– Local Authorities Loans Fund taken on	–	910	–	–	–
– Interest capitalised	1 104	658	657	546	432
– Loans written off	–	(4)	(36)	–	–
– Loans recovered	19	–	–	–	–
– Revaluation of foreign loan	2	–	–	–	–
– Repayments of former homeland governments' debt	–	(3 159)	–	–	–
– Gross repayments	(1 336)	(896)	(707)	(603)	(553)
Provision against development loans	(616)	(491)	(287)	(279)	(235)
Deferred interest	(449)	(442)	(708)	(604)	(518)
Net closing balance	9 193	7 081	7 337	6 157	5 102
Government stock	3 160	3 160	–	–	–
Cash, deposits and tradable securities	1 199	1 573	429	390	605
Commitments					
Total commitments outstanding	4 892	5 449	3 368	2 630	3 163
(1995 constant prices)	3 625	4 346	2 889	2 439	3 163
Guarantees outstanding	168	–	4	4	4
Income statement					
Interest on development activities [3]	1 100	590	567	464	380
Interest on investments	543	480	42	48	83
Interest expenses [3]	(903)	(621)	(329)	(214)	(174)
Operating expenses [3]	(158)	(137)	(130)	(135)	(122)
Specific and general provisions [3]	(81)	(144)	(44)	(44)	(20)
Surplus for the year [3]	509	177	103	114	163
Ratios					
Cash, deposits and tradable securities / total assets	7,7	13,1	5,4	5,8	10,5
Cash, deposits and tradable securities / undisbursed loans [1]	33,8	45,6	18,8	17,2	23,9
Long-term debt / equity	93,6	88,6	54,5	38,0	22,6
Reserves / development loans outstanding	28,7	30,2	12,3	12,9	13,4
Provision for losses / development loans [2]	6,3	6,5	3,8	4,3	4,4
Weighted average interest rate on development loans	12,7	12,0	9,6	8,9	8,5
Operating expenditure / total income	9,6	12,8	21,4	26,4	26,3
Interest income / interest expense (times)	1,8	1,7	1,9	2,4	2,7
Inflation deflator	74,1	79,8	85,8	92,7	100,0
Number of staff	446	465	496	529	574

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

2. Provision for loan losses / development loans outstanding net of deferred interest

3. Results exclude exceptional items, which are detailed in the income statement

BUSINESS PERFORMANCE INDICATORS

Comparing equivalent periods (30 months) before and after transformation

Indicator	Post-transformation: 1 October 1996 – 31 March 1999	Pre-transformation: 1 April 1994 – 30 September 1996	Change (%)
Total value of projects approved (R million)	26 074	3 392	669
DBSA contribution to approved projects (R million)	8 711	2 444	256
% total project value funded by other sources	66,6	27,9	138
Disbursements (R million)	5 476	2 926	87
Total operating income (R million)	3 038	1 259	141
Total operating cost as % of disbursements	6,5	11,1	(41)
Total operating cost as % of approvals	4,1	13,3	(69)
Total operating cost as % of operating income	11,8	25,7	(54)
Average number of staff members during period	473	555	(15)
Average R million disbursed per staff member	11,59	5,27	120
Average R million approved per staff member	18,43	4,40	319
Average amount disbursed per working day (R million)	22,2	11,8	87
Average amount approved per working day (R million)	35,3	9,9	256
Number of clients (as at end of period)	611	161	188
Number of business units	24	57	(58)
Number of management positions	27	57	(53)
% of black managers (as at end of period)	64	36	78

CHAIRMAN'S REPORT

The past year has been particularly challenging for financial institutions in emerging economies. In contrast to solid economic performance in the West, particularly the United States, the fragile state of Asian financial institutions contributed to a crisis of confidence in emerging markets. This had a profound impact on international investment flows, with the risk premium on emerging market lending escalating by as much as 7 per cent. Although South Africa did not escape the effects of this crisis, sound monetary and fiscal policy ensured that its impact was comparatively mild. Nevertheless, real interest rates reached record heights, affecting the economy's ability to borrow and repay its debt. Although many of the DBSA's clients were obviously under pressure, the Bank's rigorous client appraisals, as well as prudent and innovative internal financial management, ensured that it enjoyed no write-offs.

Professor Wiseman Nkuhlu
Chairman

The emerging market crisis also strained fragile political and economic systems in the rest of the SADC region. To promote renewed investment flows, political stability needs to be re-established as a matter of urgency. The DBSA is committed to mobilising investment in Africa, as is evident from its project finance and equity investments in funds such as Commonwealth Africa Investments Limited (Comafin). During the year, the Board also approved the Bank's involvement in the Africa Infrastructure Fund (AIF), an international development finance initiative which seeks to attract investment capital to Africa. With cumulative loans of R3,7 billion, the Bank's total portfolio in other SADC countries is considerable and includes loans of US$70 million to the Mozal aluminium smelter project in Mozambique (described in *Project case studies*).

In the past year, the Bank also increased its investment in telecommunications infrastructure as far a field as Tanzania, which will strengthen the SADC and Africa's international competitiveness. The Bank's *Development Report 1998* shows clearly that telecommunications and transport are critical to the creation of a flexible economic structure, able to adjust to the challenges of trade, communication and exchange in support of growth and development. Within South Africa, the Bank sustained its investment in roads, water and electricity, contributing to economic activity and the livelihoods of marginalised households.

The Bank's disbursements in South Africa and other SADC countries reached a record high of R2,46 billion last year. Disbursements within South Africa amounted to R1,89 billion, with R1,09 billion being allocated to local authorities. The relationship between the DBSA and these local authorities is the theme of this annual report. Local government is the 'hands and feet' of reconstruction and development in South Africa. Being so close to where development affects the quality of life of ordinary people, it is potentially a powerful instrument for guiding and driving new policies, testing new approaches and keeping development investments focused on people's real needs.

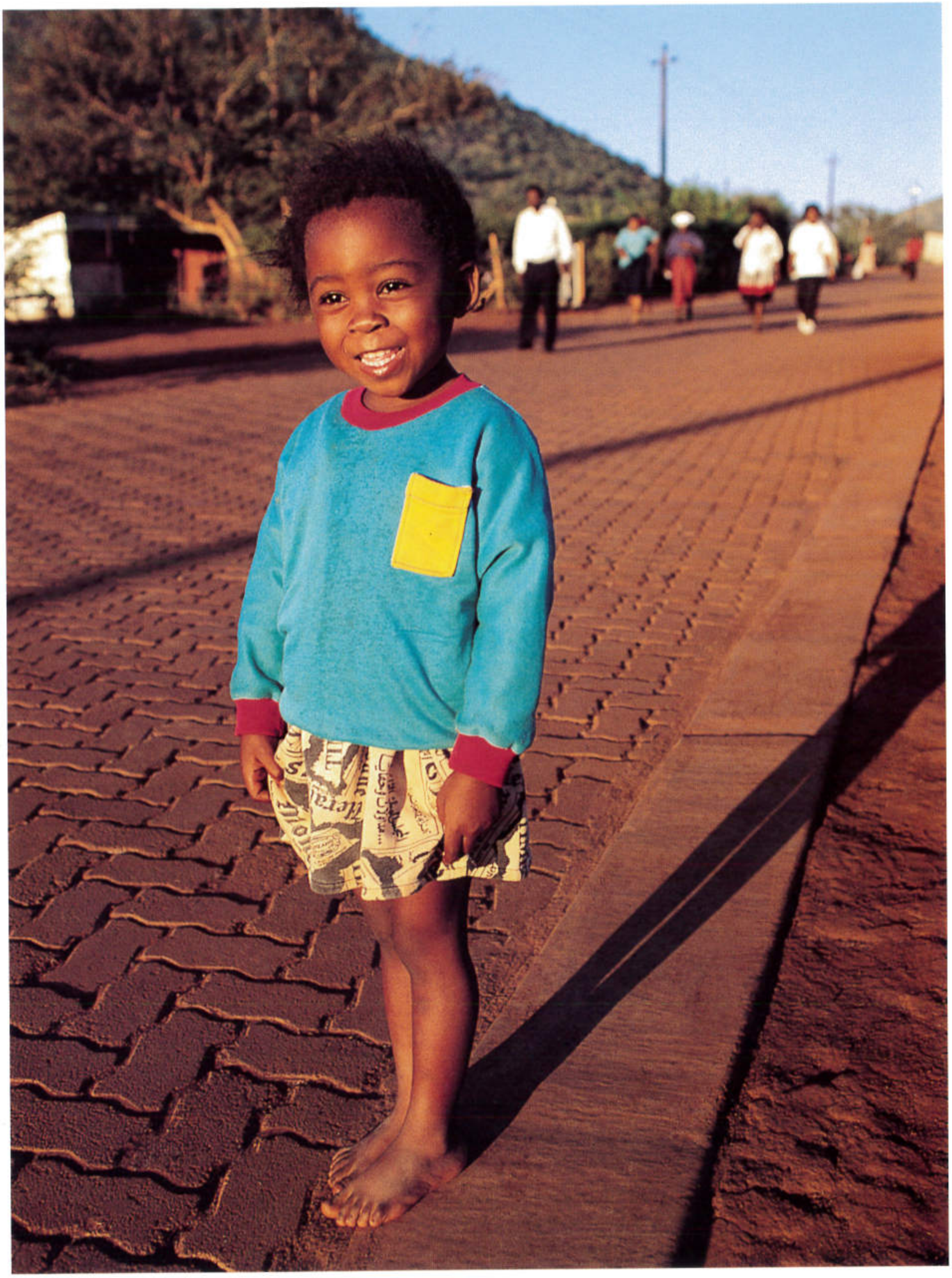
South African municipalities are undergoing a testing transition. The Constitution, the *White Paper on Local Government* and recent legislative and regulatory changes demand of local governments a dynamic new developmental role hitherto unheard of in South Africa. They have to face this challenge without sufficient resources, as financial and other resources are not readily available and many of the skills needed for development are inadequate.

The Bank approved major telecommunications projects in South and southern Africa, which will significantly expand access in previously underserviced areas.

The DBSA plays an important role in assisting municipalities to deal with these challenges. Its loan support has grown significantly – in 1994/5 cumulative loans to local governments amounted to R1,4 billion; by the 1998/9 financial year this had grown to R7,8 billion lent to 474 local government institutions. Loans to local authorities amounted to 40 per cent of cumulative loan approvals at the end of the 1998/9 financial year, compared with 17 per cent in 1993/4.

The Bank's larger loans to metropolitan authorities like Durban and Johannesburg often attract most attention, rightly so given the scope of these commitments and the scale of the development challenge in these cities. It is crucial to the success of the subcontinent that big cities meet the dual challenge of expanded service provision and global competitiveness. It is therefore essential that the DBSA, government and the private sector jointly provide financial and institutional support to drive economic growth and development in metropolitan areas.

Concrete block-paved roads in Thabazimbi improve the quality of life and, as they are designed to increase the sound of oncoming traffic, reduce accidents by alerting pedestrians.



The Bank also plays a vital role in supporting smaller local authorities. Its many loans to smaller institutions are key to alleviating the plight of millions of poor South Africans. Since smaller municipalities generally find it difficult to access private finance, the Bank provides loans where private finance is unavailable, or mitigates some of the risks limiting private sector support. Thus it either brokers private sector involvement or builds a culture of sustainable local government borrowing that is able to address development challenges. The Bank's exposure to smaller local governments increased substantially as a result of the transfer of the Local Authorities Loans Fund (LALF) at the beginning of 1998.

The Bank seeks to facilitate partnerships and support service provision, taking on some systemic risks while upholding sound financial and banking principles. It acts in the context of many positive policy changes and key government infrastructure investment initiatives. Yet, the Bank is sufficiently independent from the government to decide for itself on acceptable risk levels, develop approaches based on own experiences and conduct independent funding, policy and operational work. This helps the DBSA to be innovative in leading the way towards sustainable development.

During the year under review, the DBSA continued its internal transformation, becoming more efficient and effective without sacrificing the quality of its appraisals. Indeed, the financial position of the Bank has been considerably strengthened and risk management mainstreamed. The Board and management remain convinced that the DBSA's biggest asset is its unparalleled skills in development finance. This year, staff training and development intensified and progress with affirmative action and empowerment was substantial.

In the year to come, the DBSA will actively address the challenge of

- defining its role in other SADC countries and the rest of Africa, focusing specifically on the crucial task of promoting development capital flows to the continent
- recapitalising the Bank within the next three years and addressing its shareholder profile
- maintaining a strong balance sheet while at the same time being sensitive to development imperatives
- retaining and enhancing its staff of highly skilled professionals.

On the whole, the Bank is confident that the government's continued pursuit of sound monetary and fiscal policies and renewed investor interest in emerging markets should bolster confidence in the economy, encourage capital inflows and reduce the risk premium on interest rates. Therefore lending conditions are expected to improve this year.

The Bank achieved an exceptional level of performance during a difficult year. The Minister of Finance, my fellow Board members, the Chief Executive, Dr Ian Goldin, management and staff deserve special thanks for making this possible, and for their unstinting support since I took over as Chairman in 1993. I am proud of our achievements in managing the transformation of the institution, expanding our role in other SADC countries and maintaining good relations with the government at all levels. The DBSA is well positioned for many more years of growth and successful development.

Wiseman Nkuhlu

BOARD OF DIRECTORS

Name and designation:	**Lucienne Abrahams (38)** Director-General: Department of Welfare and Population Development, South Africa
Academic qualifications:	BSc (Chemistry), University of Cape Town (1982); Postgraduate diploma in Public and Development Management, University of the Witwatersrand (1994).
DBSA director as of:	1 August 1997

Name and designation:	**Ann Bernstein (44)** Executive Director: Centre for Development and Enterprise
Academic qualifications:	BA (History and Philosophy), University of the Witwatersrand (1975); BA Hons (History), University of the Witwatersrand (1977); MA (Architecture and Urban Planning), University of California, Los Angeles (1981)
DBSA director as of:	1 August 1997

Name and designation:	**Frank Chikane (48)** Director-General: Office of the President, South Africa
Academic qualifications:	Diploma in Ministry, Pan African Bible College (1979); MA Th, University of Natal (1992); MTh (Public Administration), JF Kennedy School of Government, Harvard University (1995).
DBSA director as of:	1 August 1997

Name and designation:	**Brian De Lacy Figaji (54)** Principal and Vice-Chancellor: Peninsula Technikon
Academic qualifications:	BSc (Science), University of the Western Cape (1969); BSc (Engineering), University of Cape Town (1972); Graduate Diploma (Engineering), University of Cape Town (1985); Diploma in Tertiary Education, University of South Africa (1987); MEduc (Administration, Planning and Social Policy), Harvard University (1989).
DBSA director as of:	1 August 1997

Name and designation:	**Ian Andrew Goldin (44)** Chief Executive and Managing Director of the DBSA
Academic qualifications:	BSc (Maths Stats), University of Cape Town (1976); BA Hons (Economics), University of Cape Town (1977); MSc (Economics), London School of Economics (1979); PhD, Oxford University (1984).
Chief Executive as of: Managing Director as of:	29 April 1996 1 January 1998

Name and designation:	**Christo Ferro Liebenberg (64)** Chairman: Nedcor Limited
Academic qualifications:	Institute of Bankers (CAIB) (SA) (1958); Cranfield School of Management PMD, Bedford, UK (1970); INSEAD PMD, Fontainebleau, France (1980); Harvard AMP, Boston, USA (1987).
DBSA director as of:	1 August 1997

Name and designation:	**Johannes Bhekumuzi Magwaza (57)** Executive Director: Tongaat-Hulett Group Limited
Academic qualifications:	BA (Psychology and Social Anthropology), University of Zululand (1966); MA (Industrial Relations), Warwick University, UK (1985).
DBSA director as of:	1 August 1997 Chairman of the DBSA Employment Equity Committee

DBSA

Name and designation:	**Renosi Mokate (41)** Executive Director: Economic and Social Analysis, Human Sciences Research Council
Academic qualifications:	BA, Lincoln University, Pennsylvania (1980); MA, University of Delaware, Newark, Delaware (1983); PhD, University of Delaware (1986).
DBSA director as of:	1 August 1997

Name and designation:	**Wiseman Lumkile Nkuhlu (55)** Chief Executive and Chairman: Economic Equity Investment Promotions (Pty) Ltd
Academic qualifications:	BCom, University of Fort Hare (1970); CA(SA) (1976); MBA, New York University (1983).
DBSA director as of:	1 July 1983 Chairman of the DBSA since 1 January 1993 Chairman of the DBSA's Remuneration and Investment Committees

Name and designation:	**Hixonia Nyasulu (44)** Director: TH Nyasulu and Associates
Academic qualifications:	BA (Social Work) (1976); BA Hons (Psychology), Zululand (1978); International Programme for Board Members, IMD, Lausanne, Switzerland (1997).
DBSA director as of:	1 August 1997

Name and designation:	**Robin Allan Plumbridge (64)** Director of Companies
Academic qualifications:	MA, Oxford University (1957), LLD (Honoris Causa), Rhodes University (1989).
DBSA director as of:	1 June 1983 Chairman of the DBSA Audit Committee

Name and designation:	**Maria Da Conceicao Das Neves Calha Ramos (40)** Director-General: Department of Finance, South Africa
Academic qualifications:	Institute of Bankers Diploma (CAIB), Institute of Bankers (1983); BCom, University of the Witwatersrand (1986); BCom Hons (Economics), University of Witwatersrand (1987); MSc (Economics), University of London (1992).
DBSA director as of:	1 August 1997

Name and designation:	**William Malema Ramoshaba (49)** Chief Executive: Portfolio Business Holdings
Academic qualifications:	BCom (Economics and Business Economics), University of the North (1975); BCompt (Accounting, Auditing and Commercial Law), University of South Africa (1979).
DBSA director as of:	1 August 1997

Name and designation:	**Zamindlela Titus (42)** Director-General: Department of Constitutional Development, South Africa
Academic qualifications:	BJuris, Fort Hare (1977); LLB, Fort Hare (1980).
DBSA director as of:	1 August 1997

Membership of Board Committees is reflected on page 49.

MANAGEMENT AND ORGANISATIONAL STRUCTURE

Executive management

Name and designation: **Jacob Henry de Villiers Botha (50)**
Executive Manager: Operations

Academic qualifications: BSc (Eng) (Civil), University of Pretoria (1972); Pr. Eng. (1978).

Executive Manager as of: 1 October 1996

Name and designation: **Mandla Sizwe Vulindlela Gantsho (37)**
Executive Manager: Finance

Academic qualifications: BCom (Accountancy), University of Transkei (1983); BCom Hons (Financial Management), University of Cape Town (1986); CA(SA), PAAB (1987).

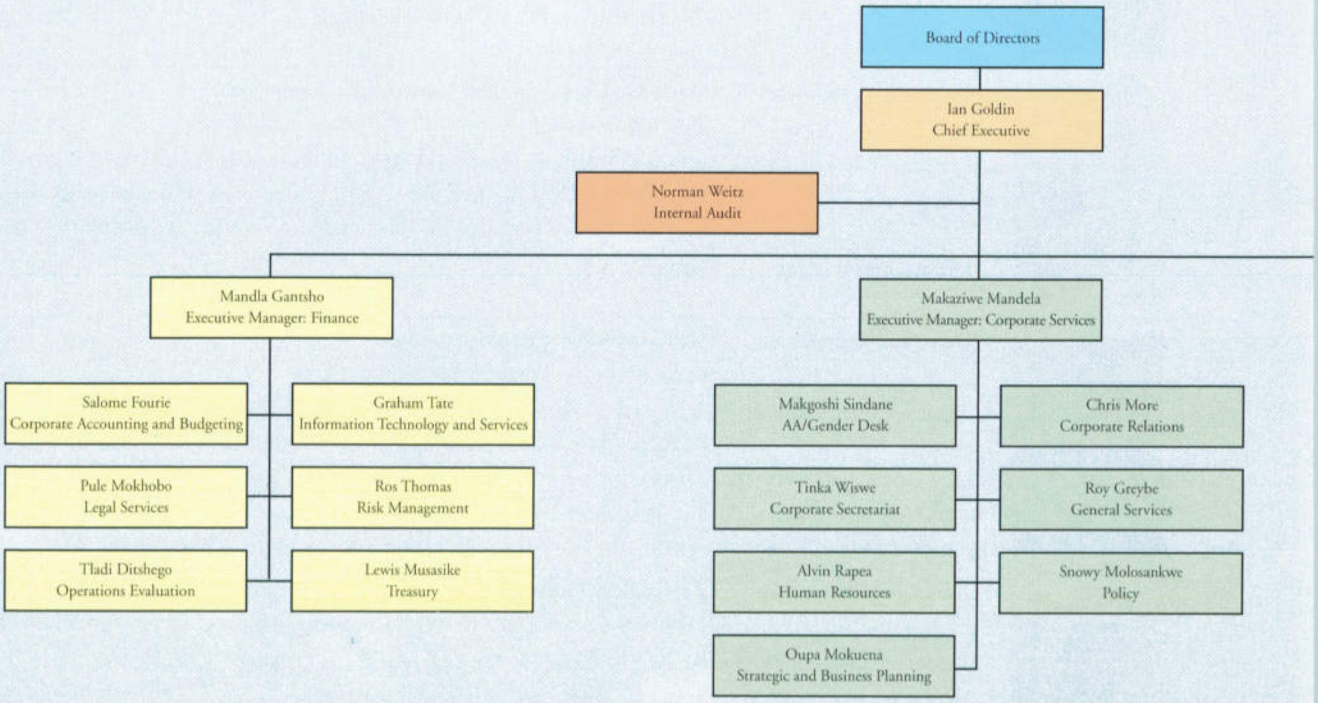
Executive Manager as of: 1 October 1996

Name and designation: **Makaziwe Phumla Mandela (45)**
Executive Manager: Corporate Services

Academic qualifications: BA (Social Work), University of Fort Hare (1981); BA Hons (Sociology), University of Natal (1984); MA (Sociology), University of Massachusetts (1988); PhD (Anthropology), University of Massachusetts (1992).

Executive Manager as of: 1 November 1998

Organisational structure

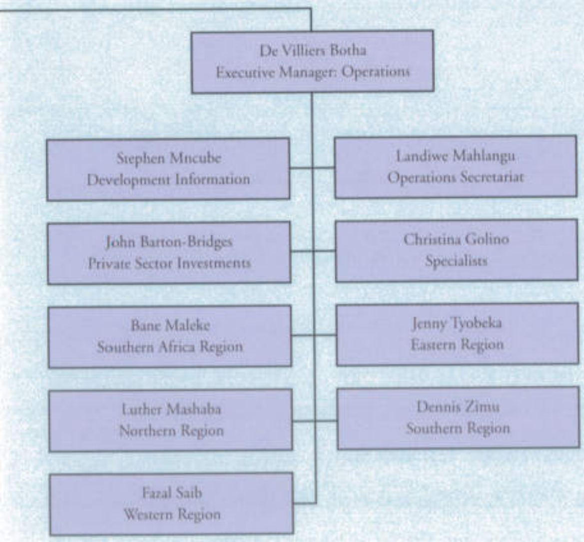


Management team

Front row from left to right: *Oupa Mokuena (Strategic and Business Planning), Alvin Rapea (Human Resources), Makgoshi Sindane (AA/Gender Desk), Bane Maleke (Southern Africa Region), Fazal Saib (Western Region), Snowy Molosankwe (Policy), Salome Fourie (Corporate Accounting and Budgeting), Ian Goldin (Chief Executive), Makaziwe Mandela (Executive Manager), Jenny Tyobeka (Eastern Region), Ros Thomas (Risk Management), Tinka Wiswe (Corporate Secretariat).*

Back row from left to right: *Pule Mokhobo (Legal Services), Tladi Ditshego (Operations Evaluation), Lewis Musasike (Treasury), Mandla Gantsho (Executive Manager), Luther Mashaba (Northern Region), Norman Weitz (Internal Audit), Dennis Zimu (Southern Region), Graham Tate (Information Technology and Services), Roy Greybe (General Services), John Barton-Bridges (Private Sector Investments), De Villiers Botha (Executive Manager), Chris More (Corporate Relations), Stephen Mncube (Development Information) and Landiwe Mahlangu (Operations Secretariat).*

Not in picture: *Christina Golino (Specialists)*



Northern Region

Gauteng, Northern Province

Western Region

Free State, North West, Northern Cape

Eastern Region

KwaZulu-Natal, Mpumalanga

Southern Region

Eastern Cape, Western Cape

Southern Africa Region

Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, Zimbabwe

CHIEF EXECUTIVE'S REPORT

Strategic overview

During the past year, the DBSA consolidated its support for reconstruction and development in the southern African region. It focused on eradicating poverty, developing affordable financing alternatives, and helping institutions to steer communities, the country and southern Africa towards sustainable progress. Global economic turbulence deeply affected world markets, creating particular challenges for the DBSA and other financial institutions.

Thabo Mbeki, now President, the Governor and Minister of Finance, Trevor Manuel and Chief Executive Ian Goldin at the DBSA

Although this annual report focuses on the Bank's impact in the local government arena, its development impact is felt far more widely – its lending activities added considerable value to the public and private sectors in support of the installation and maintenance of infrastructure services. Its technical assistance and policy work helped to consolidate a sound delivery system in the region.

Highlights of the past year include the following:

- Projects on which the Bank disbursed funds promoted job creation and integrated development, creating 30 000 jobs during the construction period and contributing R2,65 billion to GDP in South Africa. A further 37 900 long-term job opportunities were created by approved projects and 632 300 households received at least one infrastructure service.
- Co-funding and other partnership arrangements with the private and public sectors and multilateral and bilateral funding agencies attracted record additional financial resources into reconstruction and development.
- The Bank participated in new policy initiatives aimed at promoting effective and sustainable delivery across all infrastructural sectors.
- The DBSA became the implementing agency for 11 institutions that lacked the necessary capacity.
- The Bank largely avoided the impact of the past year's global financial turmoil by carefully timing its funding activities. No significant funding was necessary during the height of market volatility when interest rates were punitive.
- Enhanced risk management practices ensured that no write-offs were incurred and the Bank was rated AAA.

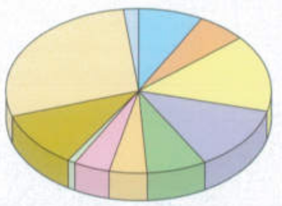
Operations overview

The Bank approved loans of R2,1 billion and guarantees and equity investments of R0,4 billion for the implementation of 121 projects with a total project value of R8,7 billion. Of these projects, 13 are outside South Africa, in other countries of the SADC region. The DBSA disbursed R2,46 billion during 1998/9, compared with R2,18 billion for the previous year. Provision is being made for a disbursement of R2,7 billion during the 1999/00 financial year.

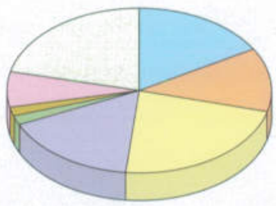
Although loan approvals for the year are below the record levels achieved in the 1997/8 financial year, the Bank is satisfied that it is on a sustainable long-term path, with disbursements still growing from the trend levels of the previous years. As the economic slowdown affected consumers' ability to pay for services and increased repayments on existing debt, the Bank supported clients in delaying new investment projects until the economy improved.

The Bank facilitates infrastructure development throughout South Africa and the rest of SADC, focusing on the most urgent sustainable investments. This is reflected below in the regional and sector breakdown of the Bank's cumulative investment of R11,15 billion over the past five years. Through intensive consultation with key stakeholders, for example as articulated in a Memorandum of Understanding with the Eastern Cape provincial government, the Bank seeks to accelerate its activities in the poorest parts of the region.

DBSA cumulative loan approvals by region, (R11,15 billion) 1994/5 – 1998/9



DBSA cumulative loan approvals by sector, (R11,15 billion) 1994/5 – 1998/9



The DBSA's portfolio in infrastructure investment is expanding. In the year under review the Bank approved major telecommunications projects including a submarine fibre optics project in Mozambique and cellular networks in Zambia and Tanzania. The Mozambique project, valued at R225 million, is 48 per cent co-funded by the Bank. It will provide basic infrastructure, permitting roll-out of the telecommunications network into rural and underserviced areas. The project will enable some 10,5 million people to benefit from access to telecommunications infrastructure. The Bank's loan to Zamcell Limited of Zambia covers approximately a quarter of the cellular project's cost of US$16,9 million (R94,8 million). The project aims to improve telecommunications access, also providing rural services through fixed GSM payphones. The Board also approved a US$12,5 million investment in MIC Tanzania Ltd (Mobitel) for expanding the current telecommunications infrastructure and providing access to previously underserviced rural and agricultural communities.

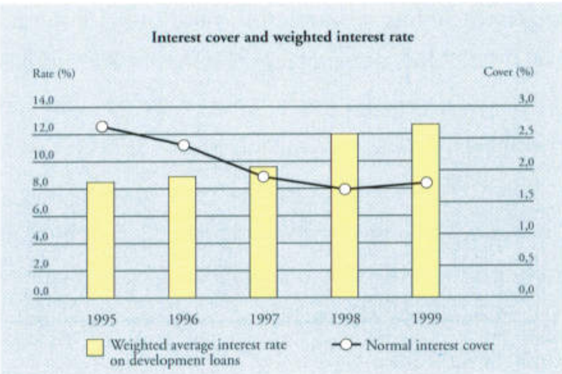
On the policy front, the Bank continued to contribute to several national and provincial policy processes. These included the implementation of the *White Paper on Local Government*; the infrastructure aspects of the budgetary process; the continued evolution of municipal investment and borrowing frameworks; a tourism strategy for the North West province; and new environmental policies. One of the highlights of the year was the release of the first DBSA *Development Report*, titled 'Infrastructure: a foundation for development'. The report reflects the Bank's policy analysis in the field of infrastructure investment, examining how infrastructure supports economic growth, the eradication of poverty and integrated development. The widespread interest in the report underlines the need for ongoing debate to increase our understanding of crucial development linkages and the incentives and approaches required to optimise them.

Financial overview

The Development Bank of Southern Africa, as its name implies, is both a bank and a development institution. The Bank's borrowing and cash management programme is intrinsic to support its development role. Through successful management of its assets and liabilities, the Bank has again been able to widen its development impact, an important measure of which is the record R2,46 billion disbursed to development projects in the year under review.

New borrowings of R1,8 billion (including pre- and post-funding) were fundamental to the Bank's liability management. The long-term debt to equity ratio grew to 93,6 per cent from 88,6 per cent the previous year. Until 1994, the Bank was highly subsidised and funded its lending operations mainly through capital injections from the government. Since 1994, borrowings have constituted the sole source of funding for the Bank's operational growth, while internally generated funds are used to strengthen its capital base. Thus the rapid growth in the Bank's activities has been associated with a rising debt to equity ratio. Nevertheless, the gearing ratio remains substantially lower than the 250 per cent policy limit that was set in consultation with the Bank's credit-rating agency.

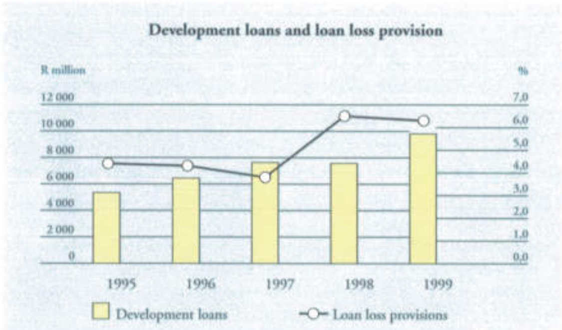
Borrowing conditions were difficult as a result of the Asian debt crisis that affected emerging markets in the second half of the year under review. The Bank mitigated the punitive cost of interest through prudent but innovative borrowing strategies. These included pre-funding about a third of the year's disbursements at very attractive rates prior to the financial crisis in emerging markets. With markets returning to normal, the Bank also undertook hedging strategies, using cross-currency and interest rate swaps to reduce both currency and interest rate risks and to lower its cost of funding. Soon after the financial year-end, and also to complete the borrowing programme of the year under review, the Bank launched a five-year floating rate note in the South African domestic bond market. This financing marked the first non-government, public floating rate note in the domestic market, using a Eurobond-issuance style.



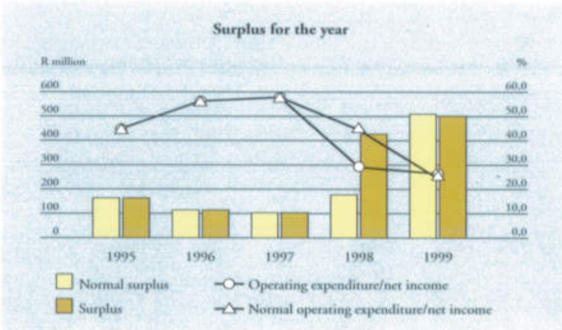
Managing the loan portfolio according to sound banking principles continued to show positive results. Loan pricing fully covered the marginal average cost of borrowing, operating overheads and risk premiums. Thus the financial results show the following:

- Normal interest cover improved for the first time in the last five years to 1,8 times from 1,7 times in the previous year, after declining unabatedly from 2,7 times in 1995.
- The weighted average interest rate on development loans continued to improve to 12,7 per cent from 12 per cent the previous year and from 8,5 per cent five years ago.
- The loan loss provision dropped to 6,3 per cent from 6,5 per cent the previous year.

Key to the application of sound business principles has been the entrenchment of sound risk management policies and practices. Consequently, the quality of the loan book improved markedly – 'low' risk loans now account for 83 per cent of the book as against 53 per cent the previous year. This allowed the loan loss provision to decrease from 6,5 to 6,3 per cent. The section *Risk management* outlines major risk types and their management. As shown, the Bank hedges its foreign currency risks and has adopted a pricing policy and asset/liability management policies to ensure financial sustainability. The strength of these policies and the Bank's comprehensive project appraisal process is reflected in the fact that, despite the rapid growth in its investments and the challenging commercial and institutional environment, the Bank did not incur any write-offs in the year under review.



The Bank's policy is to hedge its foreign currency-denominated debt. Proceeds from borrowings raised in foreign currency are hedged through cross-currency swaps or applied to fund projects with similar cash flow profiles. The Bank manages its interest rate swaps and matches the interest rate profiles of both the relevant assets and liabilities. Counterparty credit risk relating to hedging transactions is managed by adherence to Board-approved exposure limits and by entering into contracts with high-rated counterparties. Where necessary, collateral is used to reduce credit risk.



Tight control of operating expenses, coupled with the efficiency gains of the previous years' restructuring, continued. The operating expenses to income ratio (excluding exceptional items) improved to 9,6 per cent from 12,8 per cent the previous year and 26,3 per cent five years ago. The normal surplus for the year increased by 186,9 per cent to R509 million, showing a return on assets of 3,7 per cent compared with 1,8 per cent the previous year. This surplus will be recycled for development by bolstering the resources and funding position of the Bank.

The Bank currently does not pay dividends to its shareholder, the government. The government has, however, expressed a desire for the Bank to pay tax and dividends in future. Senior management of the Bank and the Department of Finance will discuss issues relating to the required rate of return. Following these discussions, the Board will approve an appropriate dividend policy that will reflect the requirements of both the shareholder and the DBSA.

The Council employed local unemployed workers to assist with the digging of trenches and laying of electrical cables for street lights in eMjindini.

In the meantime, all surpluses are ploughed back into development projects thereby minimising borrowings from the capital market and extending the lead time for recapitalisation of the Bank by the shareholder.

Fitch IBCA again reaffirmed the Bank's domestic premier credit ratings as AAA for long-term and A1+ for short-term borrowings. The DBSA is no longer dependent on subsidies and the erosion of capital has been reversed. The Bank is on a firm, financially sustainable footing.

Human resources overview

The Bank's strategy for human resource development focuses on enhancing core competencies in line with the new mandate, including operations, project finance, banking and general management skills. Its training activities are discussed in more detail in the *Directors' report*. The success of the Bank's affirmative action policy is evident in the composition of its management team. By year-end, 64 per cent of management was black and 28 per cent female. The figures for professional staff are 26 and 30 per cent respectively. Although this is already a significant improvement, the Bank actively addresses continuing imbalances through a recruitment, selection and promotion programme. An Employment Equity Steering Committee, consisting of representatives from management, the union, the Affirmative Action Committee and the Women's Forum, has been established as a consultative body for developing an employment equity plan.

The Bank has appointed an industrial relations specialist and is discussing a new recognition agreement with the union. It is also investigating its flexible remuneration programme and a preferential housing loan scheme for staff and has adopted a new medical aid plan. The performance management system has been overhauled and all staff have contracted to performance-linked salary increases.

The Bank implements best practice in environmental management to create a pleasant working environment for its staff. A non-smoking policy is adhered to, and the offices have won an award for energy efficiency. The grounds are a haven for several species of bird life and have benefited from the planting of indigenous trees.

The way forward

The DBSA has set itself five measurable targets for this year: to maximise its development impact, ensure financial sustainability, optimise the deployment of its human resources, improve stakeholder relations and consistently meet stakeholder expectations, both internal and external. To this end, among the various other key challenges, it will address the following issues:

- The Bank needs to sustain its financial viability in the face of significant risks, such as global financial volatility, sovereign risks in the SADC and institutional risks in the local government arena:
  - At local government level, the primary challenge is institutional as the Bank can only act within the context of appropriate policies, legal and regulatory frameworks and sufficient institutional capacity. Concerted capacity-building programmes are required for enabling local governments to achieve their developmental role and maintain financial sustainability. This role implies effective provision of services in support of integrated planning, affordable and expanded service delivery and developmental benefits like job creation, economic growth and skills development, thus achieving a better quality of life for all. The Bank facilitates this through its involvement in financing infrastructure services and technical assistance in a clear and focused manner.

- Risk mitigation strategies will be enhanced in South Africa and the rest of the SADC, to better understand political, legal and economic factors. Through the analysis of its Operations Evaluation unit and closer consultation with its clients, the Bank aims to improve its ability to meet customers' needs.
- The volatility of the global financial markets affects both long- and short-term interest rates, making it difficult for the Bank to fund loans and for its clients to afford new loans or meet existing debt commitments. To maintain sustainable long-term growth in its commitments, the Bank will investigate new investment instruments, use guarantees more effectively, strengthen PPPs, improve its leverage ratio, 'crowd in' co-investors and assist in deepening capital markets.

• During this year, the Bank will address its recapitalisation needs by exploring the options with its shareholder. It also aims to obtain an international credit rating enabling it to borrow internationally without government guarantees.
• The Bank aims to expand its portfolio outside South Africa by strategically prioritising various types of infrastructure and other sectors, in support of both regional integration and the development objectives of the respective SADC member states.
• It will become more active in the communications sector, in which it has taken on its first major projects since 1994. This sector provides significant opportunities for investment, particularly beyond South Africa's borders.
• Internally, the Bank will strive to improve its development impact by focusing on accountability and performance measurement. It aims to set transparent key objectives and measurable benchmarks against which the performance of staff, business units and the Bank as a whole will be evaluated. It is also paying particular attention to streamlining the business cycle.
• The recent listing of the DBSA in terms of the Reporting of Public Entities Act required stricter and more practical reporting of the effectiveness and efficiency of the organisation. This Act will be replaced by the Public Finance Management Act with effect from April 2000, which takes the accountability of state-owned entities to a higher level. Complying with the spirit of this act, the Bank has begun redesigning its systems. It looks forward to improving its business performance management against the objectives set by this legislative framework.
• The Bank is actively pursuing affirmative action, internal restructuring and productivity targets, and is acutely aware that certain core skills need to be refined. It has therefore allocated a significant amount to training for this year.

The DBSA continues to sharpen its operational focus, sustain balanced growth in its disbursement profile and play an innovative financial and development role, especially in the local government sector. Development finance is always characterised by new challenges, shifting targets and implementation complexities. Through its investment profile, improved internal productivity and staff development, the DBSA will contribute even more effectively to achieving a better quality of life for all.

Ian Goldin

Ian Goldin

THE DBSA AND LOCAL GOVERNMENT

The local government elections of 1995 and 1996 established transitional councils throughout the country, with metropolitan councils and substructures in major cities and urban, rural and district councils elsewhere. After these elections, South Africa had 843 municipalities and over 11 000 elected councillors.

Although the transformation of local government[1] has largely been successful, the new municipal structures have encountered major constraints. Many municipalities have insufficient income-generating capacity to meet their operational expenditure, provide sustainable services and meet repayments on infrastructure loans. The results from Project Viability (a government evaluation of the financial state of local authorities) suggest that over two-thirds of municipalities are currently experiencing severe financial difficulties. In addition, the inherited municipal systems are inappropriate, particularly the financial, administrative and service delivery systems. The government has identified these constraints in its *White Paper on Local Government,* which promotes 'developmental local government' – viable and sustainable municipalities that are able to meet the development needs of all their communities and play a central and coordinating role in stimulating local development and redistribution. Legislative measures are currently being implemented to address the financial and systems constraints inhibiting the evolution of developmental local governments.

The Thabazimbi streets and stormwater drainage project has created job opportunities for local communities.

Particular priorities are strengthening the ability of local governments to provide services, especially through involving more effective service providers; raising their political accountability to sensitise them to the needs of their communities; and building their financial management capacity to enable them to manage their different revenue streams effectively, thus widening the scope of service delivery. This relates not only to their ability to collect their own revenue from service payments, but also to make appropriate use of grant funding and to borrow on a sustainable basis. Municipal lending in South Africa continues to be perceived as high risk by most private sector investors. To attract private sector lending to this sector, lending risks have to be mitigated through targeted development finance. Development institutions such as the DBSA are important in this regard, and they add value by optimising the development impact of infrastructure projects and by exploring and promoting best practice. Their loan conditions and project interventions facilitate broader access to services, stimulate productive economic activity and enhance job creation. The DBSA is committed to enhancing the financial sustainability and therefore bankability of this sector.

Development institutions can also assist in addressing other pressing concerns facing local government. Government-sponsored policy work has identified the need to improve revenue streams, reduce recurrent expenditure

1. Includes local authorities, district councils and regional service utilities.

Members of the Swayimana community meet with the Water Development Committee to discuss progress of the project to supply water to the widely dispersed inhabitants of this area.

and restructure debt. The DBSA could well play a role in packaging various forms of finance aimed not only at service provision, but also at placing local authorities on a sustainable financial footing.

With local governments being the primary vehicles for public delivery of basic services, the Bank's support to these institutions has a significant development impact. Local government institutions form the Bank's main client base – the 474 local government borrowers account for approximately three quarters of its clients and 43,5 per cent of its total book debt. The DBSA's portfolio includes loans for infrastructure in 55 per cent of all local government institutions in South Africa, many of these from the LALF. Its financing is coupled with institutional appraisals and support aimed at securing sustainable management of service delivery in the local sphere. In addition, the DBSA has also been active in key policy processes pertinent to local government, as discussed in more detail below. The success of these policies is reflected in the fact that no local authority debt was written off by the Bank in the year under review, despite the unusually stressful economic environment.

Policy on local government institutions

The DBSA mainly targets municipalities with limited access to funding. It will, however, provide loans to financially sound municipalities where the investments focus on marginalised communities or economic development. The Bank also supports financially weaker municipalities through technical assistance to develop the necessary capacity to secure commercial funding. The DBSA therefore has a particular role to play in the evolution of a viable municipal system, as it invests in the specific capacity municipalities need to be sustainable and maintain their infrastructure services.

The Bank actively pursues co-financing with the private sector, first to leverage or extend its own limited resources and, second, to expand the role of the private sector capital market in the municipal sector. It pays careful attention to credit risk management by identifying and managing borrower risk on the basis of borrower appraisals and an internal credit-rating model. Project risk is addressed in the project appraisal process based on financial, economic, technical, environmental, institutional and social modules. The appraisal process, followed by negotiations and loan conditions, promotes sound development projects that are affordable to both the borrower and the users, contribute to economic growth and are institutionally and environmentally sustainable.

The depth of the project appraisal process enables the Bank to price and mitigate risk. It reassures private sector financiers who are invited to co-finance deals, and facilitates further deals that do not require the involvement of the DBSA. Other financial instruments being considered by the DBSA include guarantees (full, partial or limited period), bond-pooling for municipalities requiring small long-term loans, bond insurance and securitisation in the capital market of parts of its current loan book. This approach demonstrates possible mechanisms for municipal lending and helps the Bank evaluate options for credit enhancement.

The Departments of Finance and Constitutional Development and the Bank jointly established the Municipal Infrastructure Investment Unit (MIIU) in 1997. It is staffed with personnel seconded from the Bank and consultants supported by the United States Agency for International Development (USAID). This unit focuses on technical support to municipalities, especially around municipal service partnerships. It now has over 40 projects on its books and has received a further 30 expressions of interest from municipal councillors. The Bank's Private Sector Investments unit also provided technical support for the preparation of a number of innovative PPP projects, notably the Dolphin Coast water and sanitation concession, which was the first such concession to be signed in South Africa.

The local government portfolio

The Bank's infrastructure lending portfolio for local government institutions has grown rapidly since April 1994, especially after the transformation of its mandate in 1996. The portfolio grew from R1,4 billion in 1993/4 to R2,3 billion in 1995/6 and to R7,8 billion, or 40 per cent of total loan approvals, three years later (see Table 1). This rapid growth resulted from the new mandate of the Bank, which refocused its lending operations on infrastructure development such as internal reticulation services.

The transfer of the LALF loan book to the DBSA on 10 January 1998 added approximately 300 local authorities to the DBSA's loan book. The loan debt of the former LALF borrowers was approximately R912 million, constituting 10 per cent of the Bank's total loan debt in January 1998.

Table 1 Growth in the DBSA's lending to local governments

Local government borrowing [1]	31-03-99	31-03-98	31-03-96	31-03-94
Number of local government borrowers	474	452	93	56
Total number of borrowers	611	575	161	139
Local government borrowers as a % of total borrowers	78	79	58	40
Cumulative value of loans to local government borrowers (R billion)	7,8	6,5	2,3	1,4
Cumulative value of total loans (R billion)	19,5	17,3	10,8	8,3
Loans to local government borrowers as a % of the total	40	37	21	17

1. Including regional service utilities.

Table 2 shows the number of local government institutions and the cumulative and average value of loans approved per type of institution as at 31 March 1999.

Table 2 Loans by type of local government client, 1999

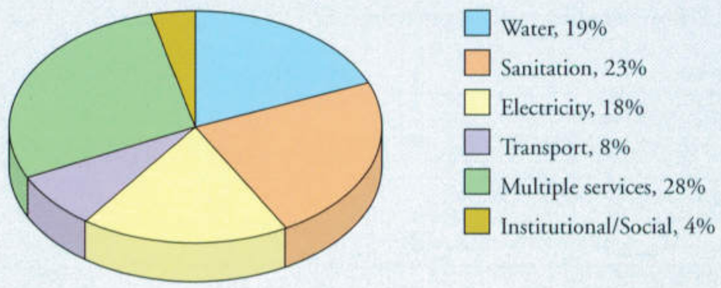
Client type	Number of clients	Total DBSA loan value (R million)	Average per client (R million)
Metropolitan/local councils	427	5 537	13
District councils	30	1 258	42
Regional utilities	17	995	59
Total	474	7 790	16

Table 3 reflects the regional distribution of local government clients and the cumulative value of loans approved as at 31 March 1999, while the chart highlights the relative importance of investments in water, sanitation and electrification.

Table 3 Loans to local governments by region, 1999

Region	Cumulative value of loans approved (R million)			Total DBSA loan value (R million)
	TLCs/TMCs	District councils	Regional utilities	
Eastern Cape	458	17	37	512
Free State	265	135	246	646
Gauteng	1 802	690	58	2 550
KwaZulu-Natal	1 256	68	95	1 419
Mpumalanga	169	178	213	560
North West	208	98	43	349
Northern Cape	122	35	18	175
Northern Province	60	0	36	96
Western Cape	1 197	37	249	1 483
Total	5 537	1 258	995	7 790

Cumulative investment in local government institutions by sector, 1999



Strengthening local government

Since its transformation, the Bank has deliberately stepped up its support for local governments, introducing several changes to its business policy to accommodate market needs. These include new financing instruments, especially to encourage private sector involvement, a flexible pricing policy to match affordability, and a programme loan facility as an umbrella agreement under which individual projects can be prepared and appraised more efficiently.

The DBSA was also restructured into regionally based business units and delayered to strengthen its customer focused and demand-driven approach, and to decentralise and streamline decision making procedures. The business units have considerable freedom to interact with local governments on their infrastructure needs, and to assess the Bank's ability to provide financial and technical assistance in meeting these needs. This technical assistance often includes human resources provided free of charge. The number and value of loans to local governments over the last three years are shown in Table 4.

Table 4 Local government investment, 1996/7–1998/9

Annual investments in local government institutions	1998/9	1997/8	1996/7
Number of programmes or projects approved	**108**	89	90
Value of DBSA loans (R million)	**1 312**	1 928	1 072
Total value of programmes or projects approved (R million)	**4 493**	2 270	1 650
Amount disbursed (R million)	**1 088**	1 005	347
Number of capacity-building initiatives	**21**	13	9
Value of technical assistance grants approved (R million)	**1,2**	1,1	0,4

The Bank has also been active in designing new national policy frameworks for local government. For instance, from 1994 to 1996, Bank expertise supported the drafting of the *White Paper on the RDP*, the National Urban and Rural Development Frameworks and the Municipal Infrastructure Investment Programme. The DBSA has also been involved in many capacity-building initiatives targeted at local government. In 1997/8, it participated in the technical drafting process of the *White Paper on Local Government* and contributed to thinking on cooperative governance, local economic development, institutional reform and new approaches to local service delivery.

The DBSA's total loans to local government institutions amounted to R1,3 billion in 1998/9 and leveraged an additional R3,2 billion in private and public sector contributions. The portion of total project value funded by other sources increased from 17 per cent in 1997/8 to 71 per cent in 1998/9.

In conclusion, the Bank recognises the important role of local governments in facilitating development on the ground. It also recognises the huge challenges faced by this sphere of government. It therefore supports developmental local government not only through a rapidly expanding loan portfolio, but also through technical assistance grants, capacity building initiatives and policy support designed around the very concrete challenge of wider and sustainable service delivery.

THE DBSA'S DEVELOPMENT IMPACT

The Bank's support for development in South and southern Africa is set against the backdrop of concerted efforts to expand access to infrastructure services. This section reflects these efforts, provides an overview of the Bank's broad economic impact and highlights its socio-economic impact in case studies of a few of its projects.

Access to services

Service provision in terms of the Reconstruction and Development Programme has progressed rapidly since South Africa's democratisation in 1994. The infrastructure sectors, in particular, have seen accelerating delivery by all spheres of government reaching ever-increasing numbers of people. Concerns have, however, been raised about quality control during construction and subsequent maintenance, which affects the sustainability of these services. Delivery in South Africa to date includes:

The Swayimana water supply scheme benefits the local community through the supply of water as well as employment opportunities for metre readers.

- **Electricity:** Since 1994, 1 300 houses have been electrified daily. In total, some 2,2 million new connections were made and an estimated 63 per cent of households had access to electricity by the end of 1998 compared with 46 per cent in 1994. The target is to electrify 70 per cent of houses by the year 2000.
- **Water and sanitation:** Between 1994 and 1998, some 3,1 million people in total, or 1 700 people per day, gained access to clean water through over a thousand projects. Latest estimates show that almost 80 per cent of households have access to water and 61 per cent to sanitation, as against 75 and 60 per cent respectively in 1994.
- **Telecommunications:** Since 1994, 750 telephones have been installed daily. Last year this increased to 1 370 a day – the national utility company, Telkom, having delivered 503 000 new lines in the 1998/9 financial year. It is committed to installing 2,8 million lines, including 120 000 payphones, and replacing more than 1 million non-digital lines by 2002. Some 35 per cent of households (as against 31 per cent in 1994) have access to a telephone in their dwelling, or to a cellular phone, while some 2 million people have subscribed to cellular services.
- **Transport:** South Africa's estimated road network of 488 000 km is used by approximately 6,5 million licensed vehicles. The government's strategic planning transport study 'Moving South Africa' focuses on the structure and functioning of the transport system. It indicated that only 18 per cent of national roads are in a good condition.
- **Housing:** Currently 15 000 houses are being built each month. The total number of houses completed or under construction at the end of September 1998 was 630 000, well over half the target of 1,0 million houses. Since 1994 nearly 940 000 subsidies have been approved.

Table 5 Access to services, 1998

Service	Number of households with access (millions)	Percentage households with access
Electricity	5,9	63
Water	7,5	80
Sanitation	5,7	61
Telephones	3,3	35
Road network	**Km**	**% distribution**
Total	488 000	100
National	7 000	1
Provincial	175 000	36
Urban roads	85 000	18
Rural roads (unproclaimed)	221 000	45

Note: These estimates are based on the SSA 1996 Census household figures of 9 059 million and an average annual growth rate of 2,09 per cent per year. The number of households with access to services denotes the following:

- *Water: Piped water in dwelling, on site or from public tap*
- *Sanitation: Flush toilet or ventilated, improved pit latrine*
- *Telephones: Telephone in the dwelling or a cellular phone*

The DBSA's contribution to these delivery achievements is substantial. In the last year alone, South African projects funded or co-funded by the Bank benefited 632 300 households, many of which obtained access to more than one type of service. Some 224 000 households were connected to water, 579 000 to sanitation and 250 000 to electricity. Bulk infrastructure projects are estimated to have benefited 155 000 households. On the whole, the DBSA's disbursements of 1998/9 are estimated to amount to 18 per cent of total South African investment in electricity, gas, water and sanitation.

Economic development impact

The impact of the Bank's loan finance is not limited to meeting basic needs. On a macrolevel, these investments also stimulate economic growth and create jobs both during construction and in the longer run. Many of these jobs directly benefit poor households. The economic value of such impacts can be estimated through econometric models of the economy. As the impact of the Bank's exposure in other SADC countries has not yet been modelled, and policy analysis in these countries is less advanced, the discussion focuses mainly on South Africa.

The macro-impact of projects funded or co-funded by the Bank comprises both a short-term stimulatory effect during the project cycle (generally 3–5 years) and a sustainable contribution to future growth, generally over the expected life cycle of the capital assets (taken as 20 years).

In the short term, during the construction or rehabilitation of infrastructure, an average of between 12 and 16 person-years of employment are created for each R1 million spent on construction. After tourism and community services, construction activity is the most labour intensive of the economic sectors. About one-third of employment generated through construction is for 'low-skilled' workers. Most of their income accrues to households earning less than R2 500 per month. The DBSA actively encourages the employment of small and micro-contractors; this again benefits mainly low-income households.

The Bank's disbursements of R1,89 billion in South Africa are estimated to contribute approximately R2,65 billion to GDP. This expenditure is estimated to yield 30 000 jobs and contribute R230 million to the earnings of low-income households. In addition to disbursing on prior commitments, the Bank also approved loans and guarantees to the value of

R1,6 billion in South Africa, and a further R0,8 billion in loans and equity in other SADC countries. This was used to leverage funding from public, private and foreign sources, such that the total project value geared by the Bank amounted to R4,35 billion for South Africa and a further R4,38 billion for other SADC and African economies. This should stimulate the South African economy by R6,15 billion over the next 3–5 years. In turn, this is expected to provide an additional 69 000 jobs during the construction period and contribute R528 million to the earnings of low-income households.

Table 6 Estimated total short-term impact of the DBSA's lending during the construction period

	Impact on GDP	Jobs created	Impact on low-income household earnings
Disbursements of DBSA loans	R2,65 billion	30 000	R230 million
DBSA loans approved	R2,47 billion	28 000	R213 million
Total project value approved	R6,15 billion	69 000	R528 million

The impact of the DBSA's lending is not restricted to a short-term stimulus of the construction sector. Assets in the form of infrastructure, buildings, machinery and equipment contribute to the capital stock of the economy and stimulate future production, distribution, service activity, employment, income and wealth. The sustainable stream of economic benefits from these additions to the capital stock was estimated through capital to GDP, employment to capital and capital to household income ratios for the various economic sectors. These generally suggest that investment in social infrastructure, electricity and telecommunications yields the highest impact in terms of GDP growth. By contrast, water provision, agricultural and social infrastructure perform well in terms of sustainable employment creation.

In addition to the short-term construction impact mentioned above, the Bank's disbursements of R1,89 billion in South Africa during 1998/9 can also be expected to contribute R821 million to the GDP annually for the next 20 years. This translates into approximately 17 000 sustainable jobs (or person-years every year) and roughly R103 million a year to low-income households. The total project value of R4,35 billion approved by the Bank and its co-financiers in 1998/9 could contribute approximately R1,87 billion per year to the GDP of the South African economy. This translates into about 38 000 sustainable jobs or person-years per annum. At least R220 million per year will accrue to low-income households.

Table 7 Estimated sustainable impact of the DBSA's lending activities annually over 20 years

	Annual contribution to GDP	Annual contribution to employment	Annual contribution to low-income household earnings
Disbursements of DBSA loans	R821 million	17 400 person-years	R103 million
DBSA loans approved	R753 million	15 900 person-years	R89 million
Total project value approved	R1 870 million	37 900 person-years	R223 million

The provision of services and infrastructure alone is not sufficient, seen from a sustainability perspective. Maintenance of existing and new infrastructure is an important development priority. The DBSA therefore pays considerable attention to technical, financial and social issues that may affect the sustainability of infrastructure and services. The level of technology, short- and long-term financial affordability, payment systems and community participation in identifying priorities are all appraised as part of the DBSA's support strategy for infrastructure development. The case studies illustrate such projects.

Project case studies

The DBSA financed 121 projects in 1998/9. A sample of these projects, as evaluated by the Bank's independent Operations Evaluation Unit, is described here to illustrate aspects of the Bank's development impact on the ground. As the projects are still being implemented, the evaluations are preliminary. An ex post evaluation of a completed project is also included, that of Swayimana (1995). The full list of last year's projects can be found in the annexure to this report, *Projects of 1998/9*, which is published separately, while all of the Bank's projects are listed on the Bank's website, www.dbsa.org.

Thabazimbi streets and stormwater project

Thabazimbi is a relatively isolated town of about 17 000 people in the Northern Province. The original agreement that the DBSA would provide financing of R9 million for street paving and stormwater drainage was signed in May 1997. This was conditional on Thabazimbi reducing its debt exposure and achieving a sustainable institutional and financial basis for borrowing. With DBSA's assistance, this was achieved in August 1998.

The first issue was whether the work would start in Thabazimbi's new middle-class residential area, Extension 8, or in the poorer township, Regorogile. The Council and community jointly decided to start in Extension 8, partly because the relatively wealthier residents were more able to contribute to the initial cost of the project. To create work for residents, and given the high transport costs, the municipality decided to use concrete block paving rather than bitumen. Concrete block paving requires less maintenance, allows easier access to underground infrastructure for repair and is more heat-resistant.

Once the DBSA agreed to fund the paving and stormwater project, the TLC bought its second block-paving machine and set up a factory to mass-produce concrete blocks. Paving in Extension 8 was finished in June 1998 and all the empty stands have now been sold, thus improving the TLC's tax base. Paving in Regorogile is under way, employing an average of 120 workers a month, 85 per cent of whom are female. About 250 people have received on-the-job-training, a few of whom are now self-employed. The project injected about R18 000 a month into the local economy, and payment levels for services and rates are now between 70 and 75 per cent of Regorogile households. The project more than meets the predetermined performance criteria in terms of metres per annum paved and average cost per square metre.

The project alleviated the dust problem, thereby making stands more attractive, increasing the tax base of the town and, according to residents, increasing the value of their properties. It has also improved the management of stormwater drainage, formerly a critical problem especially in Regorogile. It is a good example of how the development impact of projects can be optimised by close collaboration between the DBSA and a developmentally minded TLC.

Barberton urban infrastructure development project

Barberton is a town in the Mpumalanga province with 36 000 inhabitants. The urban infrastructure development project consisted of three elements: upgrading roads and stormwater management, electrification and street lights, and social infrastructure – primarily the development of a small play park in the township. For road upgrading, Barberton chose bitumen over the more labour-intensive concrete block-paving process, although the TLC did involve three labour contractors. In the electrification project, the emerging contractors engage in 'joint ventures' with established

Home owners in eMjindini benefit from the electrification project. Local electricians have been employed and trained to do installation and repairs.

contractors. The Council employed 30 local unemployed workers for trench digging, about half of whom were female, and their wages contributed R67 000 to the local economy. The electrical contractors employed 25 unskilled, unemployed and predominantly male workers.

The presence of streetlights is said to have reduced crime in the suburb of eMjindini. This visible delivery has also promoted payment of rates and services, which is currently at between 93 and 98 per cent. Alongside the paved roads, people are beginning to establish sidewalk gardens.

The Barberton TLC is actively protecting its environment. In addition to the positive environmental impact of the stormwater drainage and electrification, the TLC is also reclaiming an overgrown brook area for public use.

This was the third year that the DBSA and the Barberton TLC cooperated on the capital budget. Municipal officials emphasised that without the Bank's concessionary financing, many of the projects would have been impossible. Up to now, the work funded by the Bank has been completed on time, within budget and according to the development principles agreed to between the TLC and the Bank.

Healdtown water supply project

The Greater Fort Beaufort Development Forum initially identified as a top priority the supply of potable water for 26 000 people living in the 16 villages that comprise Healdtown in the Eastern Cape. It secured National Economic Forum (NEF) funding for projects in Keiskammahoek, Alice, Middledrift and Healdtown, of which R2,1 million was earmarked for Healdtown. The Ciskei's Community Support Programme (CCSP), financed entirely by the DBSA, agreed to augment the NEF funding for Healdtown with a further R3,5 million.

The first phase of the project entailed bulk infrastructure with grant funding from both the NEF and the DBSA by way of the CCSP. The second reticulation phase was financed by the DBSA and grant donors including the Departments of Public Works, Water Affairs and Forestry, and the Amatola District Council.

The second phase was started in February and completed in November 1998. Sixteen pipe-layers and five bricklayers were trained. The contractors used labour-intensive methods and employed workers from the nearest village. This phase created employment equivalent to 22 000 person-days, of which 1 115 were taken up by women and 2 900 by people under 25 at R49,55 a day. At its peak, it employed 267 persons a day. Six local workers are to install prepaid meters on all the standpipes. Consumers will pay R4 per kilolitre of water, as against R100 per kilolitre for potable water supplied by donkey cart.

The Healdtown Transitional Rural Council (TRC) took over the project in 1995. Village water committees were established, one member of which serves on the steering committee together with two members of the Healdtown Development Forum and two members of the TRC. Training and facilitation, also on village level, totalled some 4–5 per cent of project costs. According to observers, the training has generally improved development management. For instance, the District Council was able to refurbish community halls without formal community facilitation. In addition, the TRC is said to have gained in capacity, particularly on community consultation.

The overall development impact of the project is significant. Not only did it create 22 000 person-workdays, but it also supplies affordable water to 26 000 people. This supply of potable water allows water from other sources, such as rain tanks and boreholes, to be used for vegetable gardens, for example.

Mozal aluminium smelter project

In early December 1998, the DBSA began disbursing its US$70 million loans for part financing one of the SADC region's biggest development projects, the Mozal aluminium smelter. The smelter is being established in the Beluluane Industrial Park, an industrial free zone, near Maputo in Mozambique. The smelter will cost US$1,34 billion to build, *The Mozal aluminium smelter project is a major stimulus for the vital Maputo Corridor, which will be an engine for economic growth in southern Africa, and Mozambique in particular.*

with shareholders being Billiton (47 per cent), the Industrial Development Corporation (24 per cent), Mitsubishi Corporation (25 per cent) and the government of Mozambique (4 per cent). The overall financing structure reflects a debt to equity ratio of 50:50. Construction of this technologically advanced smelter commenced in May 1998 and the first aluminium will be produced in late 2000. Initial production is expected to be 250 000 tonnes per year, with the design allowing for a doubling of capacity.

The smelter is a major stimulus for the vital Maputo Corridor, which will be an engine for economic growth in southern Africa, and Mozambique in particular. The DBSA investment is assisting in establishing key infrastructure elements both on- and off-site, which include upgrading the Matola port with a new berth, building new roads and upgrading existing ones, and providing a water supply, a sewerage treatment plant and accommodation for construction workers and key personnel.

The project will double Mozambique's export value and add more than 7 per cent to its GDP. During the construction of the project about 6 500 jobs will be created, more than 65 per cent of them local. When the smelter is in full operation as from 2001, approximately 800 people will be employed, with 90 per cent of staff being locally sourced and trained. The establishment of support industries should create a further 2 500 jobs.

Owing to the large workforce required during the construction and commission of the smelter, industrial relations is an essential issue and is managed through an industrial relations office established on-site. An industrial relations workshop was held during February 1999 with participation by Mozal, the project management team and a range of Mozambican stakeholders, including the Department of Labour and the Construction Union.

The value of the 227 contracts and purchase orders awarded to the various suppliers, contractors and subcontractors at end March 1999 amounted to US$714 million. Of these contracts, 95 were awarded to contractors with major empowerment commitments. By March 1999, an off-site training facility, the Machava Training Centre, had provided training for 2 703 workers, mainly in construction skills. Opportunities have also been created for women to obtain training in these skills. The total workforce on-site at end March 1999 numbered 6 382, of whom 65 per cent were Mozambican.

Environmental and social issues are receiving special attention from the DBSA and the International Finance Corporation (IFC). A full environmental impact assessment was conducted and a state-of-the-art environmental management plan drawn up. A comprehensive resettlement action plan was also developed and its implementation was coordinated by a full-time team of consultants. An on-site health service was also established. Consultation between Mozal, the government of Mozambique and the Beluluane community is extensive and ongoing.

The government of Mozambique and Mozal are very aware that this project is a model for future projects in Mozambique and all parties are committed to its success. Although the project is still in the construction phase, initial indications suggest that this goal will be achieved.

Swayimana water supply project

Swayimana is a rural area with about 35 000 widely dispersed inhabitants some 50 km from Pietermaritzburg. The terrain, which is divided into five wards, is rugged and undulating. The project itself covers three wards under one enlightened traditional authority but with three different headmen.

Swayimana's development committee approached the Umgeni Water Board for assistance in providing water. A feasibility study was conducted in the early 1990s during a period of considerable political violence. The DBSA was approached for the total loan amount of R30,9 million, which was approved in 1995.

Local plumbers have been trained to do installation and maintenance of the Swayimana water supply scheme.

The project was designed to supply water to within 200 metres of dwellings where it was feasible and cost effective to do so. It includes some 7 000 homesteads, or about 60 per cent of the total number of homesteads in the area. Owing to the difficult terrain, the cost of supplying water to the remaining 40 per cent of households is unaffordable. About 62 per cent of the population covered by the scheme now have metered connections, the connection fee being R400 and the cost per kilolitre R2,95. Currently about 80 per cent of the consumers are paying for this service. Water committees are responsible for disconnecting households that have not paid their accounts after 120 days.

The Umgeni Water Board is still responsible for the operation and maintenance of the scheme and has devolved much of this responsibility to local water committees. Once the local government structure planned for the area is in place, it may, with the ongoing involvement of the water committees, take over 'ownership' of the project.

Up to 3 000 temporary workers a day, with a male to female ratio of 60:40, were employed at a rate (after some labour unrest) of R35 a day. The project permanently employs 16 people to read the meters once a month at R1,30 per meter. Each of the three water committees also has the services of a trained clerk. Currently, 12 plumbers who work for the water committees are also employed for private connections. In training, the emphasis was on transferring the skills for maintaining the scheme to the three water committees and contractors, eg the plumbers.

Regarding the development impact of the project, water is now available at people's homes instead of kilometres away. Diseases, particularly diarrhoea, are less prevalent than before and the inhabitants, especially the women and children, have more free time at their disposal. The water supply enables people to engage in economically productive activities like brick-making and vegetable gardening. Furthermore, by bringing the people together, the project was instrumental in reducing tension and violence in the area.

The DBSA's role in the project was not confined to funding. It also contributed significantly to an understanding of the social aspects of the project – for instance, the importance of explaining to the communities why the ruggedness of the terrain meant that not everyone could be connected. Moreover, the DBSA assists emerging local governments in rural areas. For example, in the case of Healdtown, while the Bank did not fund the second phase itself, it was instrumental in arranging NEF funding for refurbishing the 16 community halls in the Healdtown district, and the grants from the Departments of Public Works and Water Affairs.

RISK MANAGEMENT

To achieve its mandated objectives, the Bank often operates in an environment where risks are higher than in normal commercial situations. Sound risk management is therefore a strategic imperative. Risks inherent in the Bank's operations include the following:

Credit risk

Losses on the loan book (counterparty default) constitute the largest potential risk exposure for the Bank. The DBSA has therefore developed and refined a number of risk management policies and methodologies for addressing this issue:

- The internal credit-rating methodology implemented during the 1997/8 financial year was further refined.
- Local and international commercial credit-rating agencies are used.
- The risk mitigation policy, including security for loans granted, is consistently applied.
- The risk-pricing policy involves a transparent allocation of an interest rate margin for risk.
- The portfolio-concentration policy approved during 1997/8 has been fully implemented.

Monitoring risk exposure in other SADC countries was a strategic priority for this year. Areas of progress include:

- Country risk assessments were completed for countries in which the DBSA operates.
- The legal framework assignment analysed the different legal systems of the SADC countries and the DBSA's legal status as a lender to projects in those countries.
- Local attorneys are being appointed in each of the relevant SADC countries to strengthen due diligence at project level. Thus far, attorneys have been appointed in seven SADC countries.
- Country limits are being finalised as part of the portfolio diversification policy.
- The newly acquired 'Africa Live Database' of the World Bank and other collaboration arrangements strengthened the database for risk modelling.

Market risk

The market risk to which the Bank is exposed includes:

- **Exchange rate/currency risk:** The Bank enters into appropriate forward exchange contracts or currency swap agreements with reputable counter-parties to hedge its currency risk.
- **Interest rate risk:** The spread between cost of borrowing and return on the asset portfolio is continually managed to ensure a sustainable spread consistent with the Bank's role as a development finance institution. An asset/liability management software system is being implemented to manage the mismatches between the Bank's asset and liability portfolios.
- **Price risk on investment assets:** Limiting investments to particular markets, instruments and periods controls price risk. As in previous years, the portfolio is used as a liquidity buffer and is managed in close relationship with the borrowing portfolio.

Liquidity risk

The Bank rigorously adheres to its policy on liquidity and also uses a range of instruments for accessing funds over a wide maturity spectrum. Over the last financial year, the Bank's conservative liquidity policy has enabled it to avoid higher interest rates caused by financial market turbulence.

Project and development risk

The project appraisal process is orientated to the measurement and mitigation of risk. It addresses risks in financial, institutional, economic, technical, socio-political and environmental areas. Loan agreements include conditions for ensuring that borrowers attend to identified risk issues and provide information for monitoring compliance during the project implementation and post-completion phases.

Internal operational risk

This includes transactions, fraud (which is a subject of transactions risk), human resource risk and information technology risk. Functional management of these risks rests with the relevant unit managers.

- **Transactions risk** is managed through procedures and system requirements. Compliance is monitored by internal and external audits using the DBSA's comprehensive risk analysis framework. During last year, consultants were engaged in quantifying the Bank's potential exposure to fraud, and a fraud prevention and response programme was developed and implemented.
- **Human resource risk** includes attracting, placing and retaining the core skills necessary for the efficient and economic attainment of the Bank's objectives. These risks are addressed by, *inter alia*, providing market-related remuneration, a fair and transparent personal appraisal and promotion process, and a comprehensive programme of skilling, reskilling and cross-skilling. The Bank has a robust affirmative action policy and is committed to adhering to the terms of the Employment Equity Act. Staff groupings and the union are regularly consulted.
- **Information technology (IT) risk** includes:
  - Day-to-day operational risk – system security, viruses, hackers, access to information, etc.
  - Continuity of operation – contingency risk around disasters or malicious attempts to damage or destroy the Bank's IT infrastructure.
  - Staffing – the IT industry is particularly susceptible to shortages of skills and high staff turnover. Loss of key staff with specific systems knowledge is a constant risk.
  - Supplier risk – with skills shortage and the outsourcing trend, the viability of these suppliers is critical. This also covers the ability of suppliers to fulfil maintenance or warranty obligations.
  - Change management – too much change or the lack of change, eg on Y2K exposure, can create unnecessary business risk.

  The Bank has several strategies and contingency plans with supporting policies and procedures for mitigating these risks (see also the next section, *Year 2000 compliance*).

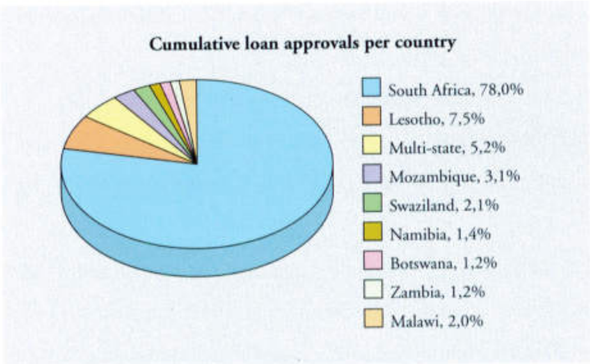
Pure risk exposures

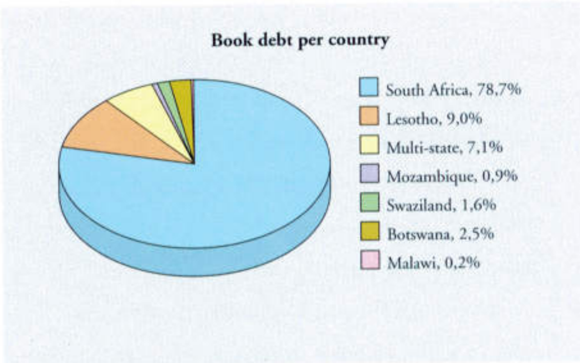
During the year under review, the Bank's insurable risk exposures were reconsidered with the aid of a consultant to ensure cost-effective mitigation. The Bank's policy on pure risk is currently being revised.

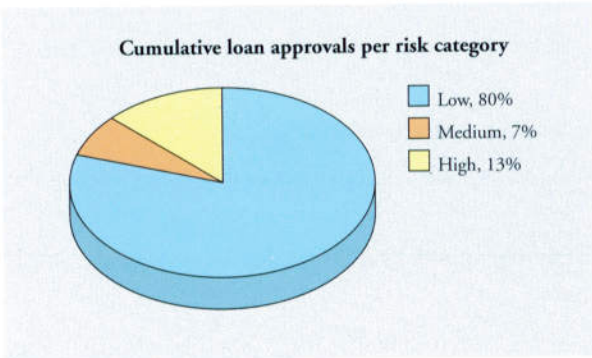
Organisational aspects

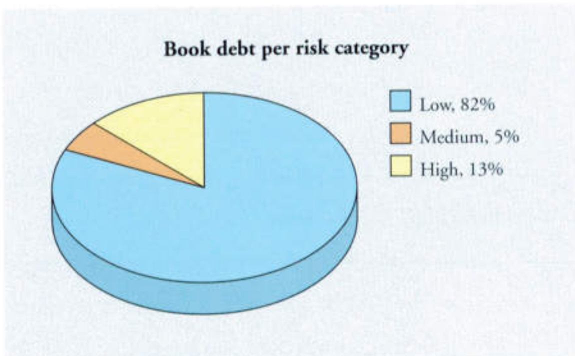
The Audit Committee of the Board thoroughly analyses all risk management policies, monitors their implementation and reviews the Bank's risk exposures on behalf of the Board of Directors. The Finance and Risk Management Committee initiates and reviews risk management policies for submission to the Audit Committee. The Risk Management Unit operates independently and reports through the Finance and Risk Management Committee to the Audit Committee.

Profile of cumulative loan approvals and book debt as at 31 March 1999









YEAR 2000 COMPLIANCE

The Bank's Year 2000 (Y2K) project commenced in January 1998 and addresses both its internal and external Y2K risk exposure. It consists of four phases: awareness, assessment, rectification and monitoring.

Internal Y2K compliance

The Bank's internal systems will be Y2K compliant by the end of September 1999. Where appropriate, systems and equipment have been upgraded or replaced, and software vendors certified that required upgrades had been applied. All Y2K costs formed part of expenditure on normal operational upgrades.

The Bank is implementing a new and integrated strategic operational system for supporting its changing business processes and clients' needs. This Y2K-compliant system will be operational by September 1999. No further changes to the Bank's information systems infrastructure will be implemented after this date, to ensure stability of its Y2K status.

The monitoring phase of the internal Y2K project aims to maintain compliance into January 2000.

External Y2K compliance

The Bank's external Y2K risk stems from the possible lack of Y2K compliance among its clients, which could affect their business continuity and ability to repay loans. The Bank has mitigated this risk by contractually requiring and monitoring Y2K compliance for all new projects since July 1998.

Local authorities, which constitute a large proportion of the Bank's clients, cover the entire Y2K spectrum – from small municipalities with relatively unsophisticated IT infrastructures to the larger, sophisticated metropolitan structures. The Y2K risk obviously varies, with many larger structures being in an advanced stage of their Y2K rectification process while many small structures lack the resources necessary for engaging in this process. The government and the private sector have established a forum in a joint venture to assist in mobilising the necessary resources, assisting local authorities in becoming Y2K compliant, coordinating communication and designing contingency plans. The Bank believes that this forum will contribute to mitigating the Y2K risk.

Several local authorities may experience cash-flow difficulties during the first half of next year as their systems may not be able to process monthly accounts in time. As the rectification process continues, they are likely to resume meeting their full obligations to the Bank. The Bank's potential financial Y2K risk centres on the March and June 2000 repayment cycles, with total repayments due amounting to approximately R783 million. Of this amount, about R470 million relates to clients who are in the process of testing and final rectification with regard to Y2K compliance. The majority of remaining clients are expected to achieve compliance before the year-end. Those clients that constitute a high risk to the Bank are mainly local authorities with relatively small loans.

Although the Bank's exposure in this regard is expected to decline over time, the DBSA will continually address its funding plan to ensure that appropriate liquidity levels are maintained during this period. The Bank also maintains communication with significant clients to evaluate and rate their progress and contingency plans, where appropriate. The risk posed by the Y2K status of the Bank's clients will be managed well into 2000.

CORPORATE GOVERNANCE

The DBSA is committed to improving governance practices. It has taken on the challenge to adopt best practice for improving all facets of its business. Some aspects are discussed below.

- **Principles of best business practice:** Since 1988, the Bank has, as part of its conditions of service, set standards of conduct for staff. In November 1997, the Board, through the Audit Committee, tasked management with the introduction of a Code of Business Conduct. After constructive consultation with the union in 1998, the code was adopted for further discussion with staff, which took place early in 1999. Benefiting from the comments raised during the interaction between staff and management, the code was adjusted and finalised for implementation.
- **Code of ethics:** In November 1998, the Bank initiated the development of a code of ethics in a consultative fashion. It also conducted a corporate culture survey early in 1999, which will assist in finalising this initiative.
- **Legislative compliance:** The Development Bank of Southern Africa Limited was established in 1983 in terms of an Establishment Agreement, and was reconstituted on 23 April 1997 as a statutory body with the promulgation of the Development Bank of Southern Africa Act, No 13 of 1997 (DBSA Act). In terms of the regulations, the principles of company law apply to the Bank as though it has been incorporated in terms of the Companies Act of 1973 (Regulation 121). The Bank also adheres to South African Generally Accepted Accounting Practice (GAAP) and international corporate best practice (Regulation 122). As required by the Reporting by Public Entities Act, No 93 of 1992, the Bank has established a compliance function. Systems are being developed to foster compliance awareness in the Bank and to assess the extent of compliance with the legislative framework set out in the DBSA Act and the Reporting by Public Entities Act.
- **King Code compliance:** A compliance audit of the requirements set out in the report of the King Committee has been performed and, insofar as these requirements are applicable to a statutory body, the organisation materially complies with the pertinent recommendations of the report.

Structural governance

- **Shareholder linkages:** The DBSA, through its Board, is accountable to its sole shareholder, the South African government, and to the South African parliament in terms of the DBSA Act and the Reporting by Public Entities Act.
- **Governor:** The Minister of Finance, as the representative of the government of South Africa, directs the mandate of the Bank and holds the Board accountable for managing and controlling the operations of the Bank in accordance with its strategic direction.
- **Parliamentary linkages:** The Bank focused on creating a better understanding of its business, financial and human resource application by inviting members of the Parliamentary Portfolio Committee on Finance (PCOF) to an interactive presentation and project visits in June 1998. Parliamentarians met the Board and Executive Management and were given an overview of the operations of the Bank, visiting projects funded by the Bank in Gauteng. Although the provisions of the Reporting by Public Entities Act did not require the tabling of the 1998 Annual Report in parliament, the report was presented to the PCOF in parliament in August and was tabled in the National Assembly.
- **Directorate:** In terms of the provisions of the DBSA Act, the Board is charged with the control of the business of the DBSA and must direct its operations. It monitors the operational functioning of the Bank through detailed reporting and approves the overall funding and lending strategies annually. The Board regularly engages with management to ensure optimum employment of its financial and human resources. The Bank has a unitary

Board of 14 members, with one vacancy, and only one executive director – the Managing Director. It meets at least six times a year. The Chairman is appointed by the Board with the consent of the shareholders. Prof Wiseman Nkuhlu was appointed Chairman of the Board with effect from August 1998. The chairpersons of the Board and of all the committees of the Board are non-executive members of the Board and are confirmed annually. The following Board committees have been constituted:

- **Audit Committee:** The Board Audit Committee has been in existence since the establishment of the Bank in 1983 and met four times during the year under review. This committee assesses the adequacy of internal controls and systems, as well as the internal and external audit process. During the year, it established an ad hoc Treasury Subcommittee to guide management in its dealings with volatile financial markets, as well as with the partial outsourcing of the market-making function in the unit. Specialised expertise on treasury and audit matters was secured by the co-option of T Sewell and L Konar onto the Audit Committee in January 1998.
- **Employment Equity Committee:** This committee was established in 1995 to oversee the transformation of the Bank's internal structure and human capital. The committee met three times during the year under review.
- **Remuneration Committee:** The Board established a Remuneration Committee in February 1998 for dealing with the employment and remuneration of the Board and executive management. The committee further guides the Managing Director in appointing executive managers and monitoring their performance. The committee, which meets as required, met twice during the year under review.
- **Investment Committee:** In October 1997, an Investment Committee was constituted by the Board to expedite the approval of projects between Board meetings. The Investment Committee has six core members and other directors can attend. It meets as required and met once during the year under review.

- **Chief Executive and Managing Director:** In terms of the DBSA Act, the Chief Executive is charged with the day-to-day management of the Bank's operations.
- **Internal control:** The Board recognises the need for ensuring that its accounting and information systems, with the related controls and security, function effectively. Executive managers and several other managers attend meetings of the Audit Committee. The chairperson of the Audit Committee regularly meets with internal and external auditors. The Chief Executive and executive management meet with Internal Audit on a monthly basis or on request to discuss the findings of internal audits and other issues affecting the internal control environment. Internal Audit and representatives from management meet with the external auditors every second month to sensitise the latter to the current status of the internal systems and control environment.
- **Delegations:** The shareholder, Board and Chief Executive approved a delegation framework to facilitate the appropriate empowerment and transparency of decisionmaking in the Bank.
- **Secretary:** In terms of Regulation 119, the Board formally appointed a secretary in 1998.

Fraud prevention

During 1997, the Bank engaged Gobodo Incorporated to perform an independent overview of its systems and business practices to assess the inherent risks of fraud in the Bank's key business processes. The Gobodo Forensic Audit Unit, assisted by staff of the DBSA, completed its investigation at the end of July 1998, reporting that no incidences of fraud were discovered. The Bank also initiated a fraud prevention programme managed by a Fraud Management Committee and set up an independently monitored fraud hotline in November 1998.

DIRECTORS' RESPONSIBILITY AND APPROVAL OF FINANCIAL STATEMENTS

The preparation and presentation of the annual financial statements of the Development Bank of Southern Africa Limited and all other information included in this annual report, which must fairly present the state of the affairs of the Bank, are the responsibility of the Directors. The financial statements set out in this report were prepared in terms of the Development Bank of Southern Africa Act, No 13 of 1997, and in accordance with Generally Accepted Accounting Practice (GAAP) and the Reporting by Public Entities Act, No 93 of 1992. These statements include amounts based on judgements and estimates made by management.

In discharging their responsibilities, both for the integrity and fairness of these financial statements, the Directors rely on systems of internal control and risk management procedures applied by management. These systems of control further adequately safeguard, verify and maintain accountability of the Bank's assets.

The Audit Committee meets periodically with management, the internal auditors and external auditors to review the financial statements and accounting policies and the effectiveness of management information and systems of internal control. No information has come to the attention of the Directors to indicate that any material breakdown in the systems of internal control occurred during the year under review.

The going concern basis was adopted in preparing the financial statements. Based on forecasts and available cash resources, the Directors have no reason to believe that the Bank will not be a going concern in the foreseeable future.

The financial statements were audited by the Bank's external auditors who had unrestricted access to all financial records and related data. The Directors submit that representations made to the external auditors during their audit were valid and appropriate. The *Auditors' report* appears on page 43.

The financial statements presented on pages 44–72 were approved by the Board of Directors on 17 June 1999 and are signed on its behalf:

Wiseman Nkuhlu
Chairman of the Board

Ian Goldin
Managing Director

Robin Plumbridge
Chairman of the Audit Committee

REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER OF FINANCE

We have audited the annual financial statements of the Development Bank of Southern Africa Limited, set out on pages 44–72 for the year ended 31 March 1999. Whereas the financial statements are the responsibility of the Bank's directors, our responsibility is to express an opinion on these statements based on our audit.

Scope

The audit was conducted in accordance with statements of South African Auditing Standards. These standards require that an audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. This audit was also planned and performed to obtain reasonable assurance that, in all material aspects, the relevant requirements of the Reporting by Public Entities Act of 1992, as amended, have been complied with.

An audit includes

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion. In our opinion:

- The annual financial statements fairly present the financial position of the Bank as at 31 March 1999, 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 Companies Act of 1973.
- The information furnished in terms of sections 6 and 7 of the Reporting by Public Entities Act of 1992 is fair in all material respects.
- The transactions of the Bank, which were examined during the normal course of our audit, were made in accordance with the applicable laws and instructions and were, in all material respects, in accordance with the mandatory functions of the Bank.

Without qualifying our opinion, we draw attention to the fact that this is the first year that the DBSA is required to comply with the Reporting by Public Entities Act of 1992.

Ernst + Young

Ernst & Young
Chartered Accountants (SA)
Johannesburg
17 June 1999

Gobodo Inc.

Gobodo Inc
Chartered Accountants (SA)
Johannesburg
17 June 1999

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 1999. The report addresses the performance of the DBSA and the relevant statutory information requirements, and should be read in conjunction with other parts of the annual report which contain additional comments on the Bank's performance.

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 1999 and the results of its operations and cash flow information for the year then ended, and were approved on 17 June 1999.

Function of the Bank

Nature of the business: The DBSA is a development finance institution wholly owned by the South African government and supports mainly infrastructural development in the entire SADC region.

Acts and legislation: The Directors' report is compiled in terms of the Reporting by Public Entities Act, No 93 of 1992, as amended, and the Development Bank of Southern Africa Act, No 13 of 1997. The regulations to the latter Act require that the annual financial statements comply with Sections 284–299 of the Companies Act, No 61 of 1973, as amended.

Objectives

The activities of the Bank are in line with its vision and mission. As mandated by the DBSA Act, the objectives of the Bank are

- to maximise the Bank's contribution to development by mobilising and providing finance and expertise that focuses on infrastructure, in order to improve the quality of life of the people of southern Africa, and
- to perform such other functions as may be assigned to it by, or under, the abovementioned Act.

The business objectives for the 1998/9 financial year were approved by the Board of Directors in March 1998, as required by the Reporting by Public Entities Act, No 93 of 1992, as amended. The Bank's performance in terms of these objectives is reported herein. The Bank was officially notified of its listing as a public entity in May 1998 after its objectives were approved. In certain instances, therefore, the definition of the performance indicators and standards for the objectives does not allow report back strictly as envisaged by the said Act. The business objectives, which are reported on, are the following:

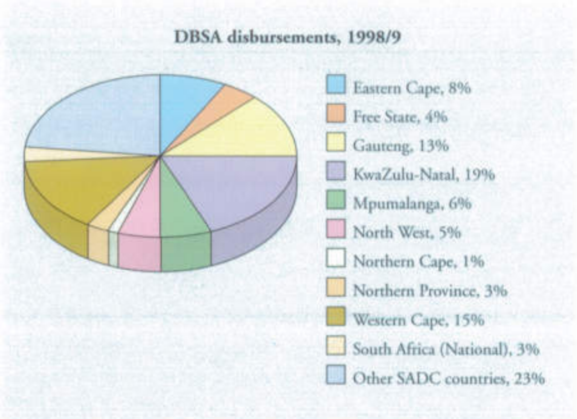
- **Development impact**
  - Increase in the impact of the Bank's investments in the SADC region, with the emphasis on financing economic infrastructure services
  - Facilitation of the mobilisation and flow of resources for socio–economic infrastructure development in South and southern Africa
  - Client support
- **Financial management**
  - Management of financial resources and performance of the Bank
  - Credit ratings
  - Risk management

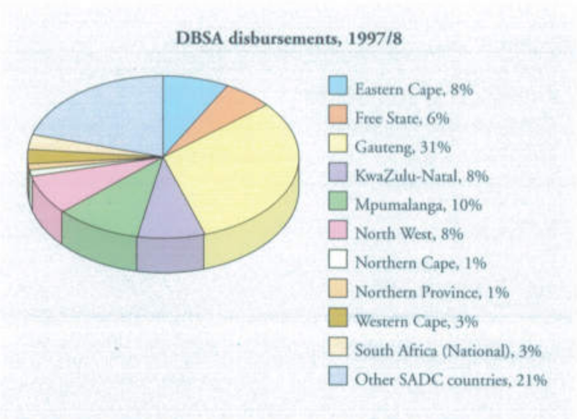
- **Governance**
  - Corporate governance
  - Performance reporting
  - Strategic business planning
- **Human resource development**
  - Employment equity
  - Training and development

The Bank's performance against these objectives is discussed in detail below.

Development impact

The Bank aims to increase the impact of its investment in the SADC region, with the main emphasis being on financing economic infrastructure services. Disbursements were made to clients in South Africa, Swaziland, Lesotho, Mozambique, Botswana and Malawi and loans were approved to clients in the same countries, as well as Namibia, Zambia and Tanzania. Total disbursements for the year amounted to R2,46 billion, compared with R2,17 billion in the 1997/8 financial year. The geographical profile of disbursements for the current year is depicted in the graph below and that of loan approvals, amounting to R1,75 billion, on page 3.





The Bank facilitates the mobilisation and flow of resources for socio-economic infrastructure development in South and southern Africa. It plays a catalytic role in mobilising additional investment through co-financing public and private sector investments, and provides professional and administrative resources for the management of special infrastructure development initiatives on behalf of the government and/or development institutions.

The Bank approved loans, investments and a guarantee to the value of R1,75 billion within South Africa and a further R0,71 billion in other SADC countries. The total project value of these approvals amounted to R4,35 billion for South Africa and a further R4,38 billion for the rest of SADC and other African economies, the difference being attributable to co-financing by public, private and foreign sources.

Financial administration, treasury and project management and project implementation services are provided for eleven third parties that do not have the capacity to perform such functions themselves. Details of the amounts received and disbursed are contained in note 28 on page 69.

The Bank seeks to align its business activities with the priorities and needs of its clients as expressed through development plans and consultation. During 1998/9, the Bank continued this process, reached agreements on support frameworks and strategies with main players and provided technical assistance grants to several existing and potential clients.

The following agreements were concluded in South Africa during the current year and represent all agreements currently in place:

- Support strategies: Mpumalanga and KwaZulu-Natal
- Memorandum of understanding: Eastern Cape
- Informal arrangements: Western Cape, Northern Province, Northern Cape and Gauteng

The other SADC countries for which memoranda of understanding and/or support strategies are in place are as follows:

- Memorandum of understanding: Swaziland and Malawi
- Informal arrangements: Zimbabwe, Mozambique, Mauritius, Seychelles and Botswana

A major difference between the DBSA and private funding institutions is the additional support the Bank provides for existing and potential clients to optimise the development impact of its involvement and to strengthen client capacity for delivering services to their communities. Technical assistance grants approved and disbursed during the year are reflected in the table below:

Technical assistance grants	**1998/9 R'000**	**1997/8 R'000**
Technical assistance grants approved [1]	4 854	5 191
Technical assistance grants disbursed [2]	**2 580**	2 936

1. See note 25.2 for more information.

2. Human resources development constitutes 36 per cent of total grants disbursed, as against 22 per cent in 1997/8. Development planning constitutes 24 per cent, as against 9 per cent in the previous year.

The lower grant support of the current year should be reversed in the coming one, as a clearly defined framework for grants has been developed.

Financial management

The Bank applies sound financial and resource management practices. Its financial performance for 1998/9 is reflected in the financial statements presented later in this report. Nothing material to the interpretation of the financial results occurred during the current financial year. A review of the business, operations and results of the Bank is provided in the Chief Executive's report from page 14. The key performance indicators are reflected in the table below.

The DBSA maintained its domestic AAA long-term and A1+ short-term credit ratings by the independent international rating agency, Fitch IBCA.

Risk management in the Bank is continually being improved in support of corporate strategic objectives. The Bank's credit risk and portfolio concentration policies were further developed and refined with benchmarking for improved internal credit ratings and overall risk assessment. Policies on security requirements for investment loans and for the pricing for risk have been approved since the year-end. The methodology was refined to calculate the risk of and provision for loan losses in the financial statements.

Risk awareness within the DBSA and among its clients has grown considerably through the borrower and project appraisal process and focused corporate governance. Staff training in risk management has been identified as a priority.

Key performance indicators	1998/9	1997/8
Gearing		
Long-term debt to equity ratio (%)	93,6	88,6
Total debt to equity ratio (%)	135,3	95,7
Quality of assets		
Write-off rate (%)	0,0	0,04
Provision for losses/development loans (%)	6,3	6,5
Risk-free portion of assets (%)	24,5	38,8
Profitability		
Surplus for the year (R million)	509	177
Return on total average earning assets (%)	4,2	4,6
Weighted average interest rate on outstanding development loans (%)	12,7	12,0
Weighted average cost of funding (%)	15,0	14,9
Operating expenditure/total income (times)	9,6	12,8

Note: The surplus for the year represents the surplus pertaining to the normal activities of the Bank and has therefore been adjusted for exceptional items. The relevant ratios were calculated on amounts after adjustments for exceptional items.

Governance

Corporate governance in the Bank is described in the Corporate governance statement from page 40.

During the period under review, the Bank started the process of implementing performance reporting and auditing as required by the Reporting by Public Entities Act. The current financial year is the first in which the Bank is reporting in terms of the Act. The formal target-setting process, which forms part of performance reporting, has not been completed and will continue to be a focus area in the next financial year. Performance indicators and measurements were finalised for 1999/00. One performance audit assignment was conducted during the year.

The corporate strategy and business planning activities take place within a three-year business cycle. The Board of Directors provides the Bank with key corporate goals, objectives and performance outputs. The executive management team ensures that the design and implementation of the Bank's programmes, projects, policies and strategies are executed. Annual budgets are prepared, based on the strategic direction set out by the Board of Directors. Business and support unit managers are involved in the implementation of the corporate strategy and business plan and reporting of their performance against these.

The Bank is currently refining and developing its monitoring and performance management systems to ensure that various business and support units deliver overall customer satisfaction within the context of the corporate strategy and business plan. In addition, the macro strategic management framework and corporate planning processes are being modified to align the Bank with both local and international changes in policy, development finance, legislation and infrastructure development. Management also recognises the critical role played by employees in the achievement of the corporate strategy and business plan, hence new efforts to promote staff awareness of and involvement in strategic management.

Human resource development

The Bank aims to achieve employment equity through the application of its affirmative action policy and the execution of the employment equity plan currently being developed. The policy on affirmative action ensures that past and present imbalances are redressed and measures are taken to prevent their recurrence. Although no formal targets were set for the current financial year, affirmative action practices were applied in the recruitment and promotion of staff, focusing specifically on those categories of staff identified as being underrepresentative of black people and women. The affirmative action achievements in recruitment and promotion of these categories of staff are detailed below:

Achievements in target staff category	Designated groups (%)		White men (%)
	White women	Black men and women	
Composition of target staff category	19	31	50
Promotions (20 in total)	30	25	45
Recruitment (12 in total)	8	67	25

The training and development of staff is a key focus area. During 1998/9, a human resource development strategy was developed for core skills training to enhance the core competencies required for operationalising the Bank's new mandate. These competencies include new operations, finance and banking, and general management skills and knowledge.

An amount of R2,9 million (R1,6 million in 1997/8) was spent on human resource development during the year, representing 2,9 per cent (1,8 per cent in 1997/8) of remuneration. Of the total of R2,9 million, 74 per cent (R2,1 million) reflects the primary focus on the acquisition of skills through training courses and 9 per cent the acquisition of knowledge through international exposure and attending conferences and workshops. The organisational value of teamwork is reflected by the percentage (12 per cent) of total training expenditure allocated to team building. The cost of ongoing improvement, legislative compliance and best human resource development practice constituted 5 per cent of total training expenditure. Expenditure on both in-house training (49 per cent) and external courses (51 per cent) was apportioned as follows:

Type of training	Percentage
Professional/technical	25
Management	21
General [1]	20
Operational	14
Finance and banking	10
Computer	10

1. Primarily the Adult Basic Education and Life Skills Programme.

Limiting the DBSA's impact on the environment

As part of its support of sustainable development, the Bank has a committed team that appraises projects and programmes in terms of potential environmental risk. Where the appraisal process has indicated that the project must engage in certain activities to comply with environmental legislation, this is included as a requirement in the loan agreements. Technical support for local authorities is a part of the Bank's contribution to building capacity in the public sector with regard to environmental management.

The Bank is committed to continual improvement of its environmental performance. An environmental policy and management plan is to be developed, which will include a formal review of the Bank's environmental appraisal guidelines. This is to be completed by the end of 1999.

Health and safety

The Bank's working environment aims to reflect best practice in environmental management. The Bank has a Health and Safety Committee, as required by the Occupational Health and Safety Act, No 85 of 1993. The committee, which manages the Bank's emergency plan, consists of 10 members who meet every second month. Four minor incidents of injury on duty occurred on the Bank's premises during the current financial year, but were not due to the Bank's negligence. The relevant statutory procedures were followed.

Information required under Schedule 4 of the Companies Act

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

Capital expenditure: The Bank's PABX system was successfully replaced with a platform into the new digital world of communications.

Investments: Details of the Bank's significant investments are set out in notes 10 and 11 on page 62.

Post-balance sheet events: The only significant event that occurred between the year-end and this report is the bond issue, as detailed in note 27 of the financial statements on page 69.

Audit Committee information: The names of the Audit Committee members are reflected below. During 1998/9, four meetings were held.

Directorate and secretariat: The names of the members of the Board of Directors appear on pages 10 and 11 and the address of the Bank's Secretariat on the inside back cover. Board Committee memberships are reflected below.

Audit Committee:	Dr R A Plumbridge (Chair), Dr I A Goldin, Dr L Konar (co-opted), Prof W L Nkuhlu, Ms M Ramos, Mr T Sewell (co-opted)
Remuneration Committee:	Prof W L Nkuhlu (Chair), Mr J B Magwaza, Dr R A Plumbridge
Investment Committee:	Prof W L Nkuhlu (Chair), Dr I A Goldin, Mr C F Liebenberg, Ms H Nyasulu, Dr R A Plumbridge, Mr Z Titus
Employment Equity Committee:	Mr J B Magwaza (Chair), Ms L Abrahams, Rev F Chikane, Prof B D L Figaji, Dr I A Goldin, Dr R Mokate, Prof W L Nkuhlu, Mr W M Ramoshaba

BALANCE SHEET

AT 31 MARCH

	Notes	1999 R'000	1998 R'000
Funds employed			
Share capital	2	**200 000**	200 000
Development fund	3	**3 792 344**	3 792 344
Reserves	4	**2 640 279**	2 139 014
Shareholders' interest		**6 632 623**	6 131 358
Donor contribution fund	5	**1 569**	2 184
Medium- and long-term financing	6.1	**6 206 097**	5 431 633
Short-term financing	6.2	**291 140**	305 125
		13 131 429	11 870 300
Employment of funds			
Property and equipment	7	**40 528**	39 778
Development loans	8	**8 406 232**	6 499 888
Development investments	10	**79 488**	43 863
Other investments	11	**3 199 288**	3 192 840
Net current assets		**1 405 893**	2 093 931
Current assets		**3 880 437**	2 225 235
Cash, deposits and tradable securities	12	**1 199 075**	1 573 225
Receivables	13	**2 681 362**	652 010
Current liabilities			
Accounts payable	14	**2 474 544**	131 304
		13 131 429	11 870 300

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH

	Notes	1999 R'000	1998 R'000
Interest income	15	**1 643 428**	1 405 426
Cost of funding	16	**907 375**	620 742
Net interest income		**736 053**	784 684
Specific and general risk provisions	17	**80 592**	207 943
Non-interest income	18	**9 933**	13 331
Operating income		**665 394**	590 072
Technical assistance grants	19	**2 580**	2 936
Net income		**662 814**	587 136
Operating expenditure		**161 549**	159 748
Depreciation	7	**3 866**	2 739
Foreign exchange gains		**(5 644)**	(143)
Post-retirement medical benefits	20	**4 600**	21 000
Other operating expenses	21	**158 727**	136 152
Surplus for the year		**501 265**	427 388
Analysis of surplus for the year			
Normal surplus for the year		509 011	177 404
Adjustment for exceptional items		(7 746)	249 984
Prior years' Regional Service Council levies and interest thereon		(7 746)	–
Early release of deferred interest on former homeland governments' debt		–	334 668
Increase in general provision		–	(63 684)
Provision for post-retirement medical benefits		–	(21 000)
		501 265	427 388

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH

	Notes	1999 R'000	1998 R'000
Net cash inflow from operating activities		1 201 457	837 526
Interest received from development activities	22.1	1 054 401	982 793
Interest received from investments	22.2	519 572	425 874
Interest paid	22.3	(736 175)	(441 794)
Cash generated from operations	22.4	363 659	(129 347)
Net cash outflow from development activities		(2 183 485)	886 198
Development loan disbursements	8	(2 455 703)	(2 172 779)
Development loan principal repayments	22.1	286 488	3 073 001
Development investments		(9 158)	(7 883)
Donor contribution funds disbursed net of interest received		(2 532)	(3 205)
Technical assistance grants paid		(2 580)	(2 936)
Net cash outflow from investment activities		(4 616)	(3 161 954)
Purchase of fixed assets		(4 616)	(1 954)
Investments made		–	(3 160 000)
Net cash inflow from financing activities		612 494	2 458 078
Donor contribution funds received	5	1 917	4 268
Short-term financing repaid		(13 984)	(42 529)
Medium- and long-term financing repaid		(3 796)	(478 438)
Medium- and long-term financing raised		628 357	2 974 777
Local Authorities Loans Fund transferred to the DBSA	22.5	–	124 772
Net decrease in cash, deposits and tradable securities		(374 150)	1 144 620
Cash, deposits and tradable securities at beginning of year		1 573 225	428 605
Cash, deposits and tradable securities at end of year		1 199 075	1 573 225

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for certain investments as described in the investment policy note. The policies on which the annual financial statements are based conform with South African Generally Accepted Accounting Practice and the International Accounting Standards in all material aspects. The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous year.

1.2 Property and equipment

The head office building 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, including improvements, and is not depreciated.

Where the Bank has the use of leased assets, these are capitalised at an amount which represents the cash price of such assets, and a corresponding liability is raised, being the open market value of the leased assets at the commencement of the lease. Finance charges on leased assets are amortised over the duration of the lease using the implicit rate method.

Other fixed assets are stated at cost and are depreciated on a straight line basis over their expected useful lives.

The rates used to depreciate fixed assets are as follows:

Computer equipment – leased and owned	33,3%
Furniture and fittings	10%
Motor vehicles	20%
Other equipment	20%

1.3 Development loans

Development loans are stated at carrying value which comprises the principal amount outstanding and unpaid interest. Interest that accrues during the moratorium period is deferred and does not form part of the carrying value.

Development loans are classified as non-performing when the payment of principal and interest has become 180 days past due, or when, in the opinion of the Directors, the recovery of the whole loan or a portion thereof becomes doubtful. Once these loans are identified as irrecoverable, they are written off against the provision for development loans. Interest is suspended on non-performing development loans.

1.4 Provision against development loans

Development loans are stated net of specific and general provisions. Specific provisions are made against identified doubtful advances. Risk mitigating factors, like the presence of securities and their quality, are taken into consideration.

In addition, general provisions are maintained to cover potential losses that may be present in the portfolio of development loans, although not specifically identified.

The provisions, both specific and general, are charged to the income statement. Development loans written off, as well as subsequent recoveries, are recorded against the provision for development loans.

1.5 Investments

Development investments, which are investments held in development activities, are stated at book value and profits and losses are recognised on realisation. The book value of these investments represents original cost plus, where applicable, accrued interest. Development investments in foreign currencies are translated at the year-end foreign exchange rate and the profit or loss is recognised in the income statement. Where the Directors are of the opinion that a permanent diminution in the value of the investment has occurred, the investment is written down and the related diminution charged to the income statement.

Other long-term investments that do not meet the criteria for subsidiaries or associates, and where it is management's intention to hold the investment to maturity, are stated at cost, unless, in the opinion of the Directors, a permanent diminution in the value of the investment has occurred. In these circumstances, the related diminution is written off in the income statement. The repurchase and resell transaction treatment is described in note 1.6.

Investments in the trading portfolio are stated at market value and the net surplus or deficit arising thereon is recognised in income.

Investments in the hedging portfolio are valued on a basis consistent with the instruments or exposures being hedged.

1.6 Repurchase agreements

Where the Bank sells investments from its portfolio, agrees to repurchase these at future dates and the risk of ownership remains with the Bank, the consideration received is included in current liabilities.

Conversely, investments purchased under an agreement to resell at future dates, and the risk of ownership does not pass to the Bank, are excluded from investments. The consideration paid is included in current assets.

1.7 Income recognition

Interest on development loans is recorded as income on an accrual basis. The Bank does not recognise income on development loans that have been classified as non-performing. Interest capitalised during the moratorium period of the loan is recorded as deferred interest and credited to income when it becomes due and payable or, when it is received per the loan agreement.

Guarantee fees and commitments fees charged on development loans are recorded as income on an accrual basis. Upfront fees received on the commencement of development loans are deferred and recognised as income over the lifetime of the loan.

Interest on other investments is recorded as income on an accrual basis except where, in the opinion of the Directors, the interest will not be received. Donor contribution funds utilised are recorded as non-interest income. The expenditure incurred relating to these funds is netted off against the income. Income received for non-banking services rendered to third parties is recognised as income when the services are rendered.

1.8 Capital market bonds and Eurobonds

Capital market bonds and Eurobonds are stated at the carrying value, which is the issue price net of the unexpensed portion of discounts, premiums, other bond costs and financing costs as at the balance sheet date.

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 method. Discounts, premiums, other bond costs and financing costs are amortised and recorded as an element of interest expenditure.

1.9 Financial instruments

In the normal course of business the Bank is party to off-balance sheet financial instruments. It 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 transactions are not designated as trading transactions, the instruments are stated at cost and premiums are amortised over the term of the instrument.

Secondary market 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 included in interest expense.

1.10 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 to South African rands at the rates of exchange ruling at year-end and the foreign exchange gain or loss is recognised in the income statement. Assets, liabilities and commitments covered by forward exchange contracts are recorded at the initial cash amount, with interest and forward exchange premiums 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 to the spot exchange rate at the time the forward exchange contract is entered into. Liabilities which are hedged by currency swaps are recorded at the rand swap amount.

Where interest rate swaps are entered into, the net interest of the transaction is recorded as interest paid.

1.11 Donor contribution fund

Grants received from donors are carried in the balance sheet. As costs relating to these grants are incurred, amounts are transferred to non-interest income and the costs are therefore netted off against the income.

1.12 Post-retirement medical benefits

The Bank makes provision for post-retirement benefits and medical aid to eligible employees and pensioners, the cost of which is assessed in accordance with actuarial principles and recognised on a systematic basis over the remaining years of service.

1.13 Cash, deposits and tradable securities

The Bank's liquid assets comprise money and capital market instruments. Capital market assets are valued at 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.

		1999 R'000	1998 R'000
2.	**Share capital**		
	Authorised and subscribed 500 000 (1998: 500 000) shares at a par value of R10 000 each	5 000 000	5 000 000
	Callable capital 480 000 (1998: 480 000) shares at a par value of R10 000 each	4 800 000	4 800 000
	Paid-up capital 20 000 shares at a par value of R10 000 each	200 000	200 000

The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the share capital of the Bank

		1999 R'000	1998 R'000
3.	**Development fund**		
	The fund represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994.		
	Received to date	3 792 344	3 792 344
4.	**Reserves**		
	General reserve		
	Retained surplus		
	Balance at beginning of year	2 139 014	899 318
	Transfer from income statement	501 265	427 388
	Retained income in respect of LALF transferred	–	812 308
	Balance at end of year	2 640 279	2 139 014
5.	**Donor contribution fund**		
	Balance at beginning of year	2 184	1 121
	Grants received	1 917	4 268
	Interest received on surplus funds	89	–
	Grants disbursed: Transferred to income statement (note 18)	(2 621)	(3 205)
	Balance at end of year	1 569	2 184

The purpose of the financial contributions is exclusively to support specific projects. At the end of the projects, certain unspent amounts will be refunded to the respective donors.

	1999 R'000	1998 R'000

6. Medium- and long-term and short-term financing

6.1 Medium- and long-term financing

	1999 R'000	1998 R'000
Registered bonds (refer to schedule A)	4 561 527	4 389 844
Balance in issue	12 066 386	11 966 386
Unamortised issue discounts on registered bonds	(7 504 859)	(7 576 542)
Other loans (refer to schedule B)	1 644 570	1 041 789
Balance in issue	1 651 022	1 042 943
Unamortised issue discounts on other loans	(6 452)	(1 154)
Total medium- and long-term financing	6 206 097	5 431 633
Foreign funding	2 845 195	2 216 842
Domestic funding	3 360 902	3 214 791
	6 206 097	5 431 633

All foreign funding, with the exception of R70 million due to the Agence Française de Developpement, has been guaranteed by the South African government.

6.2 Short-term financing

	1999 R'000	1998 R'000
Bridging bonds and other short-term financing	290 960	305 125
Capitalised leased agreements	575	–
	291 535	305 125
Less: Short-term portion of capitalised lease agreements	(395)	–
	291 140	305 125

7. Property and equipment

7.1 Summary of property and equipment

	1999 Cost R'000	1999 Accumulated depreciation R'000	1999 Net book value R'000	1998 Cost R'000	1998 Accumulated depreciation R'000	1998 Net book value R'000
Buildings	35 476	–	35 476	35 781	–	35 781
Computer equipment	14 834	11 650	3 184	11 672	8 526	3 146
Furniture and fittings	366	239	127	321	90	231
Motor vehicles	580	246	334	364	166	198
Other equipment	1 653	852	801	1 064	642	422
Leased assets	909	303	606	–	–	–
Total	53 818	13 290	40 528	49 202	9 424	39 778

7.2 Movement in property and equipment

	1997/8 R'000 Net book value	R'000 Additions	R'000 Disposals/ recoupments	R'000 Depreciation	1998/9 R'000 Net book value
Buildings	35 781	149	454	–	35 476
Computer equipment	3 146	3 162	–	3 124	3 184
Furniture and fittings	231	45	–	149	127
Motor vehicles	198	216	–	80	334
Other equipment	422	589	–	210	801
Leased assets	–	909	–	303	606
Total	39 778	5 070	454	3 866	40 528

	1996/7 R'000 Net book value	R'000 Additions	R'000 Disposals	R'000 Depreciation	1997/8 R'000 Net book value
Buildings	35 604	177	–	–	35 781
Computer equipment	3 986	1 592	–	2 432	3 146
Furniture and fittings	231	40	–	40	231
Motor vehicles	271	–	–	73	198
Other equipment	471	145	–	194	422
Total	40 563	1 954	–	2 739	39 778

7.3 Valuation

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,1 million were effected during the 1999 financial year (1998: R0,2 million).

The buildings are valued every three years and were last valued at R97 million on a replacement value basis by Farrow Laing, an independent valuer, on 31 March 1999 (31 March 1996: R81 million). The land on which the buildings are constructed is Erf 3, Headway Hill and measures 24,6 ha.

8. Development loans

8.1 Analysis of development loans

	1999 R'000	1998 R'000
Total loan book	10 257 453	8 013 725
Balance at beginning of year	8 013 725	8 332 028
Movements during the year:		
Loans disbursed	2 455 703	2 172 779
Local Authorities Loans Fund	–	910 202
Interest capitalised	1 103 519	658 060
Development loans written off	–	(3 550)
Development loans recovered	19 050	–
Revaluation of foreign loan	1 625	–
Repayment of former homeland governments' debt	–	(3 159 336)
Gross repayments	(1 336 169)	(896 458)
Less: Deferred interest	(448 705)	(441 953)
Balance at beginning of year	(441 953)	(707 870)
Movements during the year:		
Interest capitalised	(29 629)	(85 597)
Transferred to income statement – homeland government debt	–	334 667
Transferred to income statement	22 877	16 847
Gross development loans	9 808 748	7 571 772
Less: Provision against development loans (per note 9)	(615 750)	(491 208)
Less: Short-term portion of development loans (per note 13)	(786 766)	(580 676)
Net development loans	8 406 232	6 499 888

8.2 Expected future transfer from deferred interest to interest income:

	1999 R'000	1998 R'000
0–1 year	22 255	19 864
1–3 years	48 325	45 407
Thereafter	378 125	376 682
	448 705	441 953

Deferred interest is transferred to the income statement when it becomes due and payable or when it is received.

	1999 R'000	1998 R'000

8.3 Loan maturity analysis

	1999 R'000	1998 R'000
0–1 year	786 766	580 676
1–3 years	801 931	671 633
Thereafter	8 668 756	6 761 416
	10 257 453	8 013 725

A detailed breakdown of the maturity analysis for the total loan book as at 31 March 1999:

	1999 R'000
2000	786 766
2001	378 818
2002	423 113
2003	435 577
2004	492 055
2005–2009	2 431 325
2010–2014	2 965 673
2015 and thereafter	2 344 126
	10 257 453

8.4 Sectoral analysis

	1999 R'000	1998 R'000
Energy, post and telecommunications	2 582 814	2 093 427
Water	2 109 362	1 598 466
Sanitation	1 595 001	1 543 965
Multiple services	1 431 005	683 535
Entrepreneurial	1 137 328	992 353
Roads and drainage	1 004 282	760 606
Education	274 670	266 634
Social infrastructure	122 991	74 739
	10 257 453	8 013 725

8.5 Geographical analysis

	1999 R'000	1998 R'000
Western Cape	706 739	353 820
Northern Cape	148 900	124 684
Eastern Cape	1 047 782	957 796
Free State	658 901	562 995
KwaZulu-Natal	1 489 938	1 073 372
Mpumalanga	1 192 974	1 069 325
Northern Province	423 044	377 882
Gauteng	2 026 018	1 682 709
North West	811 218	720 029
National	237 269	162 401
SADC (excluding South Africa)	1 514 670	928 712
	10 257 453	8 013 725

	1999 R'000	1998 R'000
8.6 Client classification		
Local government	4 551 360	3 556 783
Development finance institutions	2 616 824	2 292 464
Public utilities	2 163 386	1 540 945
Private and non-government sector	375 108	224 634
Educational institutions	284 499	198 822
National and provincial government sector	266 276	200 077
	10 257 453	8 013 725
8.7 Fixed and variable interest rates		
Fixed interest rate loans	9 805 060	7 727 572
Variable interest rate loans	452 393	286 153
	10 257 453	8 013 725

Loans amounting to R54,3 million have an interest rate conversion option to convert from variable interest rate loans to fixed interest rate loans, anytime after the final drawdown has been made.

8.8 Client concentration	%	%
One client as percentage of total loan book	12,9	12,6
Seven clients as percentage of total loan book	35,1	39,1
Total of eight clients	48,0	51,7

9. Provision against development loans and amounts written off	R'000	R'000
Balance at beginning of year	491 208	287 101
Transfer from Local Authorities Loans Fund	–	67 505
Amounts written off during the year	–	(3 398)
Amounts recovered during the year	19 050	–
Income statement charge (refer to note 17)	105 492	140 000
Balance at end of year	615 750	491 208
Comprising:		
Specific provision	184 132	152 243
General provision	431 618	338 965
	615 750	491 208

	1999 R'000	1998 R'000
10. Development investments		
Unlisted investments:		
Lepelle Northern Water	71 105	80 543
Franchise Fund	5 000	3 250
Commonwealth Africa Investments Limited	29 950	10 070
Unlisted investments at cost	106 055	93 863
Less: Provision for development investments	(26 567)	(50 000)
	79 488	43 863
Directors' valuation of unlisted investments	79 488	43 863
Unlisted investments comprise the following:		
10.1 Lepelle Northern Water	71 105	80 543
Capital Project Bills of R71,1 million (nominal value R230 million) with maturities varying from 30 April 1999 to 31 October 2005		
10.2 Franchise Fund	5 000	3 250
50 000 (1998: 32 500) ordinary shares at cost	50	32
1 700 000 (1998: 1 105 000) 8% redeemable cumulative preference shares at cost	1 700	1 105
3 250 000 (1998: 2 112 500) 15% redeemable debentures at cost	3 250	2 113
10.3 Commonwealth Africa Investments Limited	29 950	10 070
500 (1998 : 200) ordinary shares at cost	3	1
500 (1998 : 200) redeemable preference shares at cost	29 947	10 069
The development investment in Commonwealth Africa Investments Limited is dollar-denominated.		
11. Other investments		
Total other investments	3 199 288	3 192 840
Other investments comprise the following:		
11.1 Government stock	3 160 000	3 160 000
Market value	2 873 910	3 056 635

	1999 R'000	1998 R'000

11.2 Unlisted investments:

	1999 R'000	1998 R'000
Long-term derivative financial instrument	39 288	32 840
Directors' valuation	39 288	32 840

The long-term derivative financial instrument serves as a hedge for the Agence Française de Developpement loan (refer to Schedule C). Interest is capitalised at a rate of 18,04% per annum.

Management is of the opinion that there is no permanent diminution in the value of the investments and it is their intention to hold the investments to maturity. These investments are therefore not reflected at market value.

12. Cash, deposits and tradable securities

12.1 Analysis of cash deposits and tradable securities

	1999 R'000	1998 R'000
Fixed deposits	222 000	100 000
Call deposits	261 311	123 670
Tradable securities	299 997	1 043 348
Cash at bank	415 767	306 207
	1 199 075	1 573 225

12.2 Maturity analysis

	1999 R'000	1998 R'000
0–1 year	1 181 234	1 063 197
1–3 years	1 655	–
Thereafter	16 186	510 028
	1 199 075	1 573 225

13. Receivables

	1999 R'000	1998 R'000
Resale agreements	1 812 608	–
Short-term portion of development loans (per note 8)	786 766	580 676
Accrued income on deposits and securities	90 393	74 246
Other receivables	8 010	15 038
Provision for bad debts – other receivables	(16 415)	(17 950)
	2 681 362	652 010

14. Accounts payable

	1999 R'000	1998 R'000
Repurchase agreements	2 327 060	–
Trade creditors and accruals	26 714	15 826
Accrued interest	115 775	94 478
Post-retirement medical benefits (per note 20)	4 600	21 000
Short-term portion of capitalised lease agreements	395	–
	2 474 544	131 304

	1999 R'000	1998 R'000
15. Interest income		
Development loans	1 096 540	923 824
Development investments	3 628	967
Listed investments:		
Government stock	379 200	377 555
Other interest received	164 060	103 080
	1 643 428	1 405 426
16. Cost of funding		
Registered bonds	664 517	398 360
Other loans	181 707	210 937
Other interest payable	61 151	11 445
	907 375	620 742
17. Specific and general risk provisions		
Movements relating to specific provisions in respect of other receivables	(1 467)	971
Movements relating to provisions in respect of development investments	(23 433)	66 972
Movements relating to general and specific provisions in respect of development loans	105 492	140 000
	80 592	207 943
18. Non-interest income		
Fees and sales	9 288	10 995
Grants transferred from balance sheet (per note 5)	2 621	3 205
Less: Incremental expenses:	3 175	2 040
Salaries	–	211
Consultants	3 065	906
Travel and subsistence	108	407
Other	2	516
	8 734	12 160
Other non-interest income	1 199	1 171
	9 933	13 331
19. Technical assistance grants		
Technical assistance grants disbursed	2 580	2 936

Technical assistance is provided in the form of grants to complement the Bank's investment activities. There are also policy co-operation grants which assist government and development institutions in policy-making decisions. These are achieved by supporting capacity-building processes aimed at enhancing development delivery.

	1999 R'000	1998 R'000
20. Post-retirement medical benefits		
Charge for the year	4 600	21 000
The Bank recognises and prefunds the liability in respect of post-retirement medical benefits.		

21. Other operating expenses

	1999 R'000	1998 R'000
Auditors' remuneration		
Audit – current year	1 017	717
Audit – previous year	(71)	–
Other services – current year	857	323
Expenses – current year	54	35
Directors' emoluments	1 980	1 205
Consultants' fees	3 587	2 948
Communication costs	2 294	2 079
Information technology	7 157	4 494
Prior years' Regional Service Council levies	3 876	–
Regional Service Council levies	2 717	2 248
Staff-related costs:		
Remuneration	100 643	89 103
Training	2 980	1 571
Other	14 357	13 642
Subsistence and travel	7 775	9 368
Other	9 504	8 419
	158 727	136 152

22. Cash flow statement

22.1 Interest received from development activities

	1999 R'000	1998 R'000
Gross development loan repayments (refer to note 8)	1 336 169	4 055 794
Principal repayments	(286 488)	(3 073 001)
Interest repayments from development loans	1 049 681	982 793
Interest repayments from development investments	4 720	–
	1 054 401	982 793

22.2 Interest received from investments

	1999 R'000	1998 R'000
Accrued interest at beginning of year	61 968	7 206
Accrued interest (per note 13)	74 246	23 894
Accrued interest on development investments	(19 010)	(18 043)
Accrued interest included in investments	6 732	1 355
Charged to income for the year	543 260	480 635
Accrued interest at end of year	(85 656)	(61 967)
Accrued interest (per note 13)	(90 393)	(74 246)
Accrued interest on development investments	17 918	19 010
Accrued interest included in investments	(13 181)	(6 731)
	519 572	425 874

	1999 R'000	1998 R'000
22.3 Interest paid		
Accrued interest at beginning of year	397 608	246 239
Current liabilities (refer to note 14)	94 478	28 290
Medium- and long-term liabilities	303 130	217 949
Charged to income for the year	839 346	548 992
Interest expense per income statement	907 375	620 742
Amortisation of issue discount	(68 029)	(71 750)
Accrued interest element of funding	1 668	44 171
Accrued interest at the end of year	(502 447)	(397 608)
Current liabilities (refer to note 14)	(115 775)	(94 478)
Medium- and long-term liabilities	(386 672)	(303 130)
	736 175	441 794
22.4. Reconciliation of surplus for the year to other operating expenditure		
Surplus for the year	501 265	427 388
Adjustments for:		
Provision against development loans and development investments	80 592	206 972
Technical assistance grants paid	2 580	2 936
Interest expense	907 375	620 742
Interest received on investments	(543 260)	(480 635)
Interest received on development loans	(1 100 395)	(924 790)
Depreciation	3 866	2 739
Foreign exchange revaluation	(4 659)	–
Decrease in receivables	(1 805 649)	(8 189)
Increase in accounts payable	2 321 944	23 490
	363 659	(129 347)
22.5. Local Authorities Loans Fund transferred to DBSA		
Development loans (refer to note 8)	–	(910 202)
Provision for loan loss (refer to note 9)	–	67 505
Medium- and long-term financing	–	155 009
Creditors	–	152
General reserves (refer to note 4)	–	812 308
	–	124 772

	1999 R'000	1998 R'000

23. Provident 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 (No 24 of 1956), is a defined contribution plan for employees on the permanent staff of the Bank.

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

	1999 R'000	1998 R'000
Provident fund Number of employees: 452 (1998: 480)	7 083	5 925
Medical aid fund Number of employees: 469 (1998: 480)	8 377	6 576
	15 460	12 501

24. Taxation

The Bank is exempt from normal income taxation in terms of the Income Tax Act (No 58 of 1962, as revised), Section 10(1)t and no provision for normal taxation is made. The Bank does pay all municipal and regional levies.

25. Commitments

At balance sheet date the Bank had the following commitments:

25.1 Loan commitments

	1999 R'000	1998 R'000
Loans approved by the Board of Directors but not signed	1 341 969	1 992 817
Loans signed but not disbursed	3 544 809	3 451 126
	4 886 778	5 443 943

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable.

The Bank's view of the expected disbursements for these commitments is 55% in 1999 and 45% thereafter.

These commitments are to be financed from funds generated from operations, and funds raised from local financial markets and foreign sources.

	1999 R'000	1998 R'000
25.2 Technical assistance grants		
Grants approved by the Board of Directors but not signed	729	639
Grants signed but not disbursed	4 125	4 552
	4 854	5 191

26. Contingent liabilities

26.1 Employee loans

The Bank has entered into agreements with financial institutions whereby it stands surety for housing- and microloans of its employees.

	1999 R'000	1998 R'000
Loan balances secured	1 989	1 549

26.2 Guarantees

	1999 R'000	1998 R'000
The Bank has approved and issued guarantees on behalf of borrowers amounting to:	167 974	65

It is the opinion of management that the possibility of default by the borrowers is not likely and therefore these guarantees were not recognised in the balance sheet as a liability.

Included in the guarantees is an amount of R165 million, for one borrower, detailed as follows:

Total value of credit line (principal amount)	ZAR 250 million
Current exposure	ZAR 150 million

The DBSA guarantees the payment of any sum of principal, interest, commission, damages, expenses and any other sum to a maximum aggregate of 110% of the principal amount.

	1999 R'000	1998 R'000

27. Events after Balance Sheet date

In April 1999, the Bank issued a five-year floating rate note to the amount of R500 million at a spread of 50 bp above the three-month Jibar rate. This new issue brings the total floating rate debt of the Bank close to R1,1 billion.

28. Funds administered on behalf of third parties

The Bank has entered into agreements with a number of development entities to administer funds on their behalf. The activities of these entities relate to development and include development research, policy formulation and loans.

	1999 R'000	1998 R'000
Balance at beginning of year	175 229	65 633
Funds received	460 429	414 176
Funds disbursed	(306 498)	(304 580)
Funds at the end of year	329 160	175 229

29. Comparative figures

Comparative figures have been restated, where appropriate, to provide more meaningful information.

30. Fair value

All the financial instruments are shown at fair value except for certain derivative instruments where the information for calculating fair value is not readily available. These values do not have a material impact on the financial results, and measures are being put into place to ensure compliance for the next financial year.

DBSA

SCHEDULE A

REGISTERED BONDS AS AT 31 MARCH 1999

	Authorised value 1999 Rm	Authorised value 1998 Rm	Coupon rate	Repayment date	Balance in issue 1999 Rm	Unamortised discount 1999 Rm	Balance in issue 1998 Rm	Unamortised discount 1998 Rm
(i) Local								
DV06	**3 000**	3 000	10,0%	2001	**1 291**	**128**	1 291	167
DV07	**5 000**	5 000	14,5%	2010	**2 112**	**70**	2 012	76
LL06	–	–	14,5%	2005	**163**	7	163	8
Subtotal	**8 000**	8 000			**3 566**	**205**	3 466	251
(ii) Foreign								
Euro-rand bond	**7 500**	7 500	0%	2027	**7 500**	7 250	7 500	7 276
Euro-rand bond	**1 000**	1 000	13,5%	2028	**1 000**	49	1 000	49
Subtotal	**8 500**	8 500			**8 500**	7 299	8 500	7 325
Total	**16 500**	16 500			**12 066**	7 504	11 966	7 576

SCHEDULE B

OTHER LOANS AS AT 31 MARCH

	1999 Rm	1998 Rm	Interest rate %	Commencement date of capital repayment	Number of instalments	Loan currency
Chiao Tung Bank Co. Ltd	**32**	34	3,0	March 2000	15 Equal annual	USD
Agence Française de Developpement	**90**	85	3,5	April 2004	26 Equal semi-annual	FFR
Agence Française de Developpement	**118**	124	3,5	October 2000	12 Equal semi-annual	FFR
Agence Française de Developpement	**70**	–	3,5	April 2001	16 Equal semi-annual	FFR
Export-Import Bank of Japan	**634**	552	3,5	March 2000	20 Equal semi-annual	JPY
Overseas Economic Cooperation Fund	**98**	98	2,5	May 2003	37 Equal semi-annual	JPY
European Investment Bank	**100**	100	14,13	April 2002	1	ZAR
European Investment Bank	**50**	50	13,71	August 2007	1	ZAR
European Investment Bank	**200**	–	15,51	January 2004	1	ZAR
Kreditanstalt Für Wiederaufbau	**36**	–	2,0	June 2008	40 Equal semi-annual	DEM
African Development Bank	**23**	–	Libor+0,45	February 2003	20 Equal semi-annual	USD
African Development Bank	**200**	–	16,25	August 2002	20 Equal semi-annual	ZAR
Total	**1 651**	1 043				
Unamortised discount – EIB	**6**	1				

SCHEDULE C
HEDGING INSTRUMENTS

	1999 Rm	1998 Rm	Original interest rate %	Currency hedging applied
Chiao Tung Bank Co. Ltd	**32**	34	3,0	US$8,1 million due 2000 to 2014, swapped for R29,9 million at a fixed internal rate of return of 4,8%.
Agence Française de Developpement	**90**	85	3,5	FFR100 million due 2004 to 2016, swapped for R76,3 million and hedged through forward exchange contracts at a fixed internal rate of return of 9,65% (nacs). (Refer to note 11.2)
Agence Française de Developpement	**118**	124	3,5	FFR150 million due 2000 to 2006 swapped for R118 million at a fixed interest rate of 12,22% (nacs).
Agence Française de Developpement	**70**	–	3,5	FFR67,8 million due 2001 to 2008 swapped for R69,8 million at a floating interest rate of six-month Jibar less 8 basis points, equivalent to 15,22% at year-end.
Export-Import Bank of Japan	**634**	552	3,5	JPY10 billion due 2000 to 2010, swapped for R403 million and hedged through forward exchange contracts at a fixed internal rate of return of 18,6% (nacs).
Overseas Economic Cooperation Fund	**98**	98	2,5	JPY2,5 billion due 2003 to 2021, swapped for R98,3 million at a fixed interest rate of 13,77% (nacs).
European Investment Bank	**200**	–	15,51	ZAR200 million due 2004, swapped for a floating interest rate of three-month Jibar less 202 basis points, equivalent to 12,95% at year end.
Kreditanstalt Für Wiederaufbau	**36**	–	2,0	DEM10,1 million due 2008 to 2027, swapped for R36,4 million at a fixed interest rate of 11,24% (nacs).
Total	**1 278**	893		

Counterparties credit risk

The above hedging transactions were all concluded with counterparties with a long-term credit rating of A and better.

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DBSA'S COUNTRIES OF OPERATION

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