DBSA

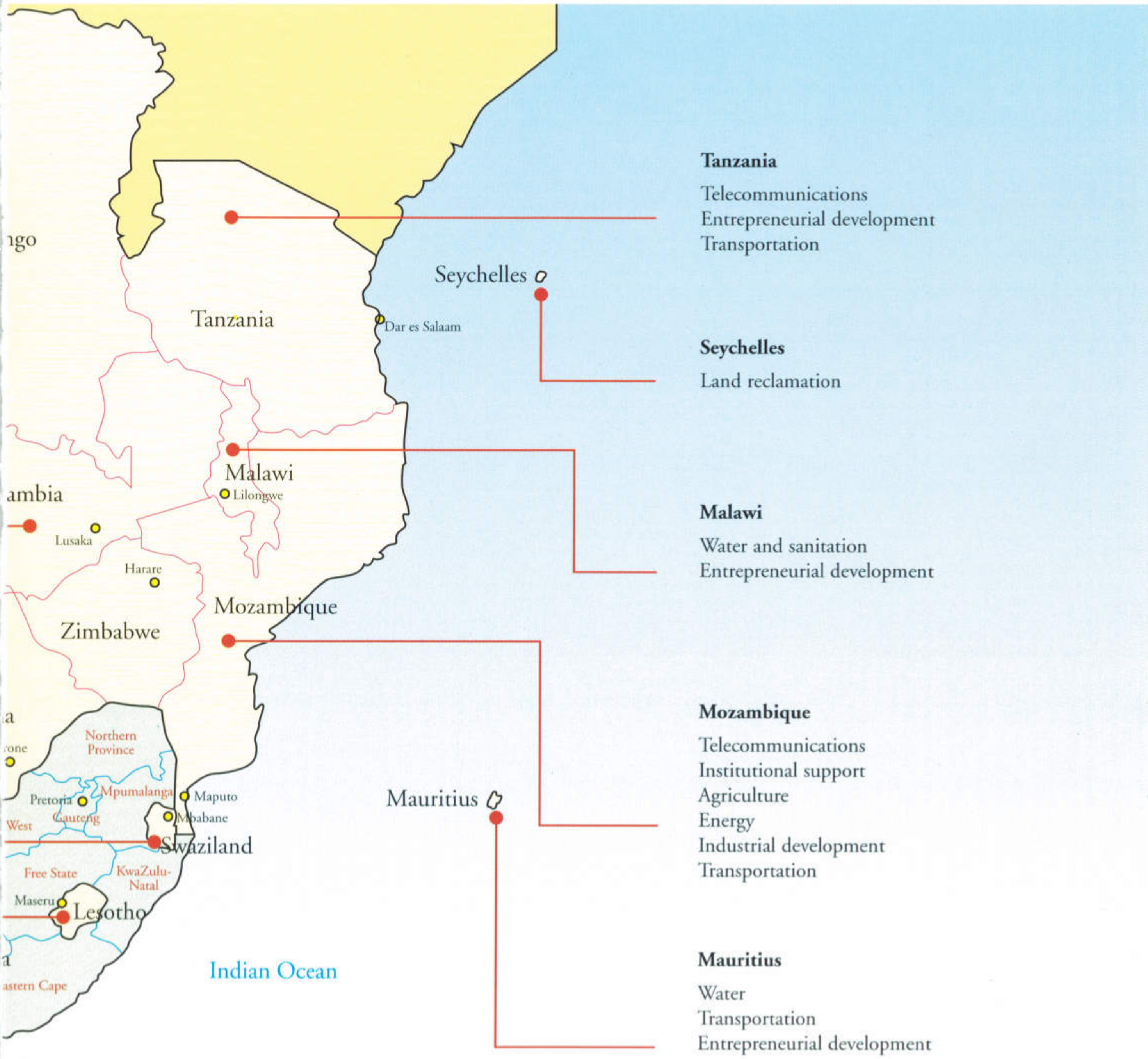
Development Bank of Southern Africa

# ANNUAL REPORT 2000

**Exchange rate**
The average ZAR/USD exchange rate for the year under review was 6,16.

**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 1999/00, 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.



*Building on the successes of the transformation to address the new challenges facing the Bank*

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## ABBREVIATIONS

| | |
|---|---|
| ALMAN | Asset and liability management (system) |
| CSM | Combined Services Model |
| DBSA | Development Bank of Southern Africa Limited |
| DFI | Development finance institution |
| GAAP | Generally accepted accounting practice |
| GDP | Gross domestic product |
| NAWiC | North American Women in Construction |
| NSWCP | North South Water Carrier Project |
| P | Pula |
| PPP | Public-private partnership |
| ZAR/R | South African rand |
| SADC | Southern African Development Community |
| SAWiC | South African Women in Construction |
| TED | Transitional Electricity Distributor |
| UNCTAD | United Nations Conference on Trade and Development |
| USD | United States dollar |
| WiC | Women in construction |
| WUC | Water Utilities Corporation |
| Y2K | Year 2000 |

# 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 at maximising its development impact, being additional to other funding sources and maintaining sound banking principles.

**Development activities**

**Investment support**

Cumulative loan and equity approvals of R21,1 billion

- Municipal infrastructure: 34 per cent
- Bulk and connector infrastructure: 52 per cent
- Entrepreneurial support: 9 per cent
- Social and institutional infrastructure: 5 per cent

Cumulative guarantees of R275 million

Total number of borrowers: 624

**Co-funding**

Leverage ratio of 1:2,2 in 1999/00: co-financing more than doubled the project value of the DBSA's contribution. The cumulative leverage ratio to date is 1:1,1.

**Technical assistance**

Cumulative grant approvals of R51,7 million

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

**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 structure**

Innovative funding instruments and strategies are used to finance the Bank's various projects. The Bank maintains:

- Sound financial and risk management policies and practices
- Conservative loan loss provisioning
- Prudent approach to liquidity management
- Asset/liability management

**Top credit ratings**

The DBSA was assigned an investment credit rating of Baa3 by the international credit rating company, Moody's, in February 2000. This rating is the same as that of the government of South Africa. The national rating, by Fitch IBCA, is AAA for long-term debt and A1+ for short-term debt.

| | |
|---|---|
| **Governance structures** | Sole owner: South African government<br>Shareholder representative: Minister of Finance<br>Chairman: Professor Wiseman Nkuhlu<br>Chief Executive: Dr Ian Goldin<br>Board of 14; 13 non-executive |
| **Board committees** | Audit Committee<br>Remuneration Committee<br>Employment Equity Committee<br>Investment Committee |
| **Management committees** | Executive Committee<br>Management Committee |
| **Functional committees** | Commitments Committee<br>Financial and Risk Management Committee<br>Operations Committee<br>Policy Management Committee<br>Tender Committee<br>Fraud Management Committee<br>Publications Committee<br>Study Aid Committee |

**Human resources**

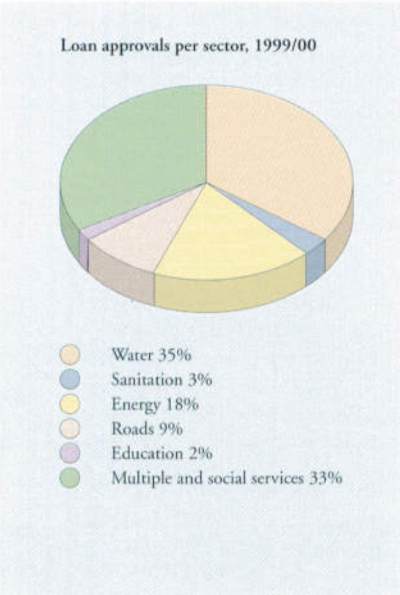
| | |
|---|---|
| Staff complement | 442 |
| **Managers** | **25** |
| Managers as percentage of all staff | 6 per cent |
| Women managers as percentage of all managers | 32 per cent |
| Black managers as percentage of all managers | 64 per cent |
| **Professional staff** | **248** |
| Professional staff as percentage of all staff | 56 per cent |
| Women professionals as percentage of all professional staff | 31 per cent |
| Black professionals as percentage of all professional staff | 29 per cent |
| **Support staff** | **169** |
| Support staff as percentage of all staff | 38 per cent |
| Women support staff as percentage of all support staff | 72 per cent |
| Black support staff as percentage of all support staff | 69 per cent |

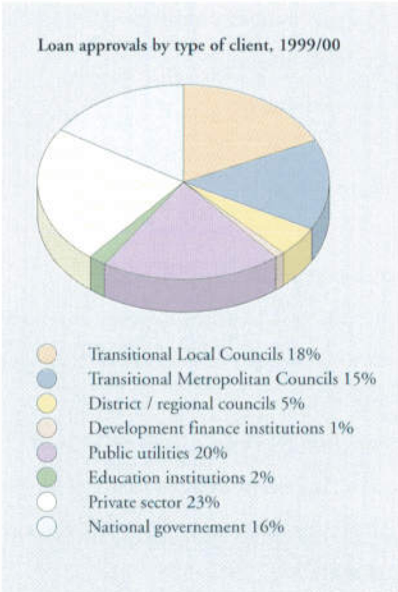
**Training**

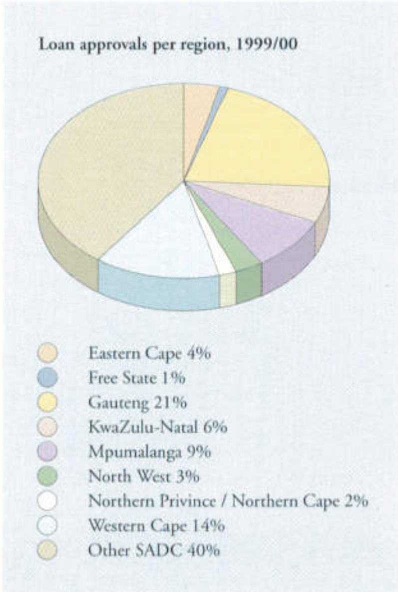
The Bank allocated 3,5 per cent of the total operations budget to training.

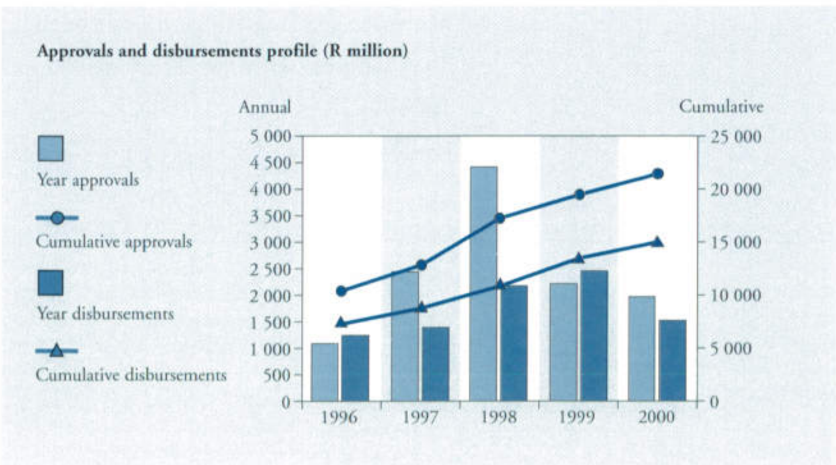
## The year at a glance

- Investment loans approved – R2 008 million
- Total capital value of approved projects – R6 365 million
- Number of new infrastructure projects approved for funding – 98
- Share of lending for local government and public utilities – 58 per cent
- Cash disbursements to projects – R1 701 million
- Grant disbursements for policy development and capacity building – R4,8 million
- Estimated employment generated through Bank loan disbursements during 1999/00 in the construction and related sectors – 24 500 person-years
- Sustainable employment generated in other economic sectors as a result of these investments – 9 200 person-years per year over 20 years
- Estimated stimulation of the South African economy in 1999/00 as a result of loan disbursements – R1,74 billion contribution to GDP
- Sustained economic activity generated by these infrastructure investments – R683 million per year over 20 years
- Numbers expected to benefit from new infrastructure projects in South Africa funded or co-funded by the DBSA – 1,1 million households, or 5,4 million individuals



## Business performance indicators

This *Annual Report* reflects on the progress the Bank has made since its September 1996 transformation, and how it builds on this progress to face future challenges. In keeping with this theme, the table below compares equivalent periods (42 months) before and after the transformation.

| | Annual average, 42 months to September 1996 | Annual average, 42 months to March 2000 | Percentage increase (decrease) between averages | 1999/00 (Actual) |
|---|---|---|---|---|
| Total capital cost of projects approved (R million) | 1 579 | 9 268 | 487 | 6 365 |
| Total DBSA contribution to approved projects (R million) | 1 176 | 3 063 | 160 | 2 008 |
| Percentage of total capital cost funded by other sources | 25,5 | 67,0 | 162 | 68 |
| Disbursements (R million) | 1 039 | 2 051 | 97 | 1 701 |
| R million disbursed per staff member | 1,69 | 3,87 | 129 | 3,90 |
| R million approved per staff member | 1,92 | 5,78 | 202 | 4,61 |
| Total operating costs (R million) | 124 | 102 | (17) | 153 |
| Total operating costs as percentage of disbursements | 11,9 | 5,0 | (58) | 9,0 |
| Total operating costs as percentage of approvals | 10,5 | 3,3 | (68) | 7,7 |
| Total operating income (R million) | 516 | 1 395 | 170 | 1 846 |
| Total operating costs as percentage of total operating income | 24,0 | 7,3 | (69) | 8,3 |
| Average amount disbursed per working day (R million) (247 days) | 4,2 | 8,3 | 97 | 6,9 |
| Average amount approved per working day (R million) (247 days) | 4,8 | 12,4 | 160 | 8,1 |
| Number of clients at end of period | 178 | 583 | 228 | 624 |
| Average number of staff members during period | 613 | 534 | (14) | 436 |
| Number of units | 65 | 27 | (58) | 24 |
| Number of management positions | 65 | 31 | (53) | 27 |
| Percentage of managerial positions filled by employment equity appointments at end of period | 41 | 85 | 106 | 76 |

## The year at a glance

| | 2000 | 1999 | Percentage increase (decrease) |
|---|---|---|---|
| **Financial results** | | | |
| Interest on development activities (R million) | 1 327 | 1 100 | 20,6 |
| Interest on investments (R million) | 519 | 543 | (4,4) |
| Cost of funding (R million) | 1 093 | 789 | 38,5 |
| Surplus for the year (R million) | 418 | 615 | (32,0) |
| Return on shareholders' funds (%) | 6,1 | 9,6 | (3,5) |
| Return on assets (%) | 2,7 | 4,5 | (1,8) |
| Operating cost to income (%) | 23,8 | 19,6 | 4,1 |
| **Financial position** | | | |
| Total assets (R million) | 15 567 | 15 567 | 0,0 |
| Investment in development activities (R million) | 10 374 | 9 272 | 11,9 |
| Government stock (R million) | 3 253 | 3 160 | 2,9 |
| Issued share capital (R million) | 200 | 200 | 0,0 |
| Total capital and reserves (R million) | 7 055 | 6 669 | 5,8 |
| Medium- and long-term financing (R million) | 7 836 | 6 129 | 27,9 |
| Assets under management (11 arrangements) (R million) | 466 | 329 | 41,6 |
| **Ratios** | | | |
| Debt to equity (%) | 111,1 | 91,9 | 19,2 |
| Cash and cash equivalents to total assets (%) | 8,4 | 7,7 | 0,6 |
| Issued capital to assets (%) | 1,3 | 1,3 | 0,0 |
| Total capital and reserves to assets (%) | 45,3 | 42,8 | 2,5 |
| Medium- and long-term financing to investment in development activities (%) | 75,5 | 66,1 | 9,4 |
| Weighted average interest rate on development loans (%) | 13,0 | 12,7 | 0,3 |
| Provision for loan loss as percentage of development loans | 7,3 | 6,3 | 1,0 |
| **Personnel** | | | |
| Number of employees at year-end | 442 | 446 | (0,9) |
| Net contribution per employee, based on number of employees (R 000) | 946 | 1 379 | (31,4) |

*1. Calculations are based on profits excluding exceptional items*

*2. Calculations are based on average total assets*

*3. Cash and cash equivalents include deposits and tradable securities*

*4. Development activities include development loans and investments*

## Seven-year financial summary

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|---|
| **Financial results** | | | | | | | |
| Income excluding provisions and exceptional items (R million) | 762 | 864 | 458 | 277 | 293 | 305 | 392 |
| Interest on development activities (R million) | 1 327 | 1 100 | 590 | 567 | 464 | 380 | 385 |
| Interest on investments (R million) | 519 | 543 | 480 | 42 | 48 | 83 | 162 |
| Cost of funding (R million) | 1 093 | 789 | 621 | 329 | 214 | 174 | 169 |
| Surplus for the year (R million) | 418 | 615 | 177 | 103 | 114 | 163 | 258 |
| Return on shareholders' funds (%) | 6,1 | 9,6 | 3,2 | 2,1 | 2,4 | 3,6 | 6,2 |
| Return on assets (%) | 2,7 | 4,5 | 1,8 | 1,4 | 1,8 | 2,9 | 4,9 |
| Operating costs to income (%) | 23,8 | 19,6 | 34,4 | 47,0 | 46,1 | 40,1 | 27,8 |
| **Financial position** | | | | | | | |
| Total assets (R million) | 15 567 | 15 567 | 12 002 | 7 949 | 6 679 | 5 758 | 5 560 |
| Investment in development activities (R million) | 10 374 | 9 272 | 6 544 | 7 423 | 6 238 | 5 103 | 4 620 |
| Government stock (R million) | 3 253 | 3 160 | 3 160 | 0 | 0 | 0 | 0 |
| Issued share capital (R million) | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Total capital and reserves (R million) | 7 055 | 6 669 | 6 131 | 4 892 | 4 789 | 4 675 | 4 505 |
| Medium- and long-term financing (R million) | 7 836 | 6 129 | 5 432 | 2 668 | 1 818 | 1 055 | 974 |
| **Ratios** | | | | | | | |
| Debt to equity (%) | 111,1 | 91,9 | 88,6 | 54,5 | 38,0 | 22,6 | 21,6 |
| Cash and cash equivalents to total assets (%) | 8,4 | 7,7 | 13,1 | 5,4 | 5,8 | 10,5 | 24,8 |
| Issued capital to assets (%) | 1,3 | 1,3 | 1,7 | 2,5 | 3,0 | 3,5 | 3,6 |
| Total capital and reserves to assets (%) | 45,3 | 42,8 | 51,1 | 61,5 | 71,7 | 81,2 | 81,0 |
| Medium- and long-term financing to investment in development activities (%) | 75,5 | 66,1 | 83,0 | 35,9 | 29,1 | 20,7 | 21,1 |
| Weighted average interest rate on development loans (%) | 13,0 | 12,7 | 12,0 | 9,6 | 8,9 | 8,5 | 8,3 |
| Provision for loan loss as percentage of development loans | 7,3 | 6,3 | 6,5 | 3,8 | 4,3 | 4,4 | 4,9 |
| **Personnel** | | | | | | | |
| Number of employees at year-end | 442 | 446 | 465 | 496 | 529 | 574 | 571 |
| Net contribution per employee based on average number of employees (R 000) | 946 | 1 379 | 381 | 208 | 216 | 284 | 452 |

*1. Calculations are based on profits excluding exceptional items*

*2. Calculations are based on average total assets*

*3. Cash and cash equivalents include deposits and tradable securities*

*4. Development activities include development loans and investments*

*Professor Wiseman Nkuhlu*
*Chairman*

During the year under review, the global economy continued its recovery from the Asian crisis. Economic growth is relatively higher worldwide, and money is returning to emerging markets. The globalisation of international financial markets and liberalisation of trade create new opportunities and new challenges for South Africa and the region. A key consequence of globalisation has been the evolution of creative new financial instruments that allow for swifter capital flows, facilitated by the comprehensive integration of technology in financial engineering. Competition for foreign capital is now much stronger, and Africa is not attracting its proper share of this investment – in 1998, it received only USD 8,3 billion of the USD 166 billion foreign direct investment in developing countries. SADC countries, excluding South Africa, obtained USD 1,9 billion of this amount, and South Africa's share was USD 371 million. Most flows to Africa continue to be development assistance (89 per cent in 1996) rather than productive investments.

A prudent macroeconomic strategy and political stability firmly rooted in the credibility of the democratic government have increased investor confidence in the South African economy since 1994. The government's macroeconomic strategy includes the privatisation of non-strategic state assets and sound monetary policy, and its public sector transformation is strengthening effective governance. This has resulted in declining inflation, steady economic growth and accelerated service delivery, and capital inflows have increased to about 2 per cent of GDP a year. At the peak of the emerging markets crisis, South Africa remained the most popular emerging destination for foreign investment, and the recent upgrade in its ranking by Standard and Poor's will reinforce this. An UNCTAD survey last year also rated South Africa, with Botswana, among the five countries in Africa with the greatest potential to attract investment over the next four years. However, despite these encouraging trends, more international investment flows are still needed to meet the key challenges of job creation, service delivery and poverty alleviation, in both South Africa and the rest of SADC.

## Investment leverage for SADC

South Africa in general, and the DBSA in particular, face the challenge of translating the positive perceptions into investment leverage for SADC. The DBSA is demonstrating its commitment to development in SADC by using innovative financing instruments to crowd in higher levels of investment. Its existing approvals of R4,5 billion would have represented less than 6 per cent of the other SADC countries' total external debt in 1997 and about 8 per cent of long-term public and publicly guaranteed debt in that year. However, these commitments probably play a much more important role in the development of the productive sectors in these countries. While less than 30 per cent of total aid to SADC between 1985 and 1996 constituted productive investment, 99,8 per cent of the Bank's sectoral commitments to other SADC countries are for productive investments. The DBSA extends support to other SADC countries within a context of good corporate governance and sound banking practices, of which prudent risk management is an essential element, ensuring that the Bank remains financially sustainable and maintains its investment grade credit rating.

Moreover, the Bank is using its technical capacity in the region to give meaning to its principles of enhancing development impact and additionality. The DBSA is the interim DFI secretariat and is establishing a development finance resource centre that aims at enhancing cooperation on common issues, joint ventures and alliances. The DBSA is strategically placed in the region because it understands its clients and partners, has credibility, is flexible and proactive, and is able to mobilise funds and expertise to support its investments.

## Flood aid

Its recent funding response to the infrastructure damage due to floods exemplifies the Bank's ability to react quickly to needs. The Bank approved a R200 million credit loan facility for the restoration and upgrading of areas devastated by the recent floods. This facility will be made available on highly concessional terms. The Bank also allocated R375 000 in grant funding for the immediate needs of flood victims in Mpumalanga, the Northern Province and Gauteng. The flood aid will be allocated to projects that create jobs through labour-intensive processes and contribute to skills transfers to affected communities.

## Capacity building in South Africa

Within South Africa, uncertainties about the evolving institutional framework and capacity constraints, especially at the local authority level, resulted in a decline in the Bank's disbursements and new loan approvals. The DBSA encouraged its clients to build the requisite institutional, financial and project management capacity and not to undertake unnecessary borrowing ahead of the municipal demarcation process. The uncertainty generated by the demarcation will continue to affect new loans to local governments over the short term. The Bank supports municipal restructuring by providing a higher level of technical assistance to its clients. This technical support is aimed at strengthening clients' capacities to prepare projects, thus ensuring growth in the DBSA pipeline and contributing to development capacity in South Africa in general. During the year, the Bank also continued to support public-private partnerships in service delivery and development projects. In particular, its Community Private Partnership Programme is an innovative way of assisting communities in areas with a strong natural resource base to attract public and private investment. Likewise, the Investment Project Preparation Fund focuses on the development of communal and state land.

## Shareholder relations

The DBSA maintains a constructive partnership with its shareholder, the South African government. To continue meeting the dynamic development challenges in the region, the Bank is refocusing its corporate strategy and has adopted a longer-term approach to business planning. The outcome is Vision 2004 – a strategy that anticipates and identifies regional development challenges and spells out initiatives to meet those challenges. They include initiatives around public-private partnerships, financial instruments, and technical capacity building, especially at local government level in view of the municipal demarcation and the forthcoming local government elections. Vision 2004 is discussed in more detail in the Chief Executive's report.

I would like to acknowledge the efforts of the Bank's management and staff, under the capable leadership of the Chief Executive, Dr Ian Goldin, in sustaining performance levels during the year. I would also like to thank the Minister of Finance, Trevor Manuel, for his unstinting support to the Bank during my tenure as Chairman. The Board of Directors provided their skills, experience and commitment to ensure the development of the business and staff of the Bank; they deserve a special word of thanks. 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. I am confident that the DBSA will continue to grow and support development in South Africa and the region in the years ahead.

Wiseman Nkuhlu

## BOARD OF DIRECTORS

| | |
|---|---|
| Name and designation: | **Ms Lucienne Abrahams**<br>Independent consultant, Associate: Vodacom Link Centre, School for Public and Development Management |
| Academic qualifications: | Post-graduate diploma in Public and Development Management, University of the Witwatersrand (1995); BSc (Chemistry), University of Cape Town (1983) |
| Date of birth: | 4 September 1960 |
| DBSA director as from: | 1 June 1995 |

| | |
|---|---|
| Name and designation: | **Ms Ann Bernstein**<br>Executive Director: Centre for Development and Enterprise |
| Academic qualifications: | MA (Architecture and Urban Planning), University of California at Los Angeles (1981); BA Hons (History), University of the Witwatersrand (1977); BA (History and Philosophy), University of the Witwatersrand (1975) |
| Date of birth: | 17 January 1955 |
| DBSA director as from: | 1 June 1995 |

| | |
|---|---|
| Name and designation: | **The Rev Frank Chikane**<br>Director-General: Office of the President |
| Academic qualifications: | MA (Public Administration), JF Kennedy School of Government, Harvard University (1995); MA Th, University of Natal (1992); Diploma in Ministry, Pan African Bible College (1979) |
| Date of birth: | 3 January 1951 |
| DBSA director as from: | 1 August 1997 |

| | |
|---|---|
| Name and designation: | **Professor Brian De Lacy Figaji**<br>Vice-Chancellor: Peninsula Technikon |
| Academic qualifications: | M Educ (Administration, Planning and Social Policy), Harvard University (1989); Diploma in Tertiary Education, University of South Africa (1987); Graduate Diploma (Engineering), University of Cape Town (1985); BSc (Engineering), University of Cape Town (1972); BSc (Science), University of the Western Cape (1969) |
| Date of birth: | 11 August 1944 |
| DBSA director as of: | 1 August 1997 |

| | |
|---|---|
| Name and designation: | **Dr Ian Andrew Goldin**<br>Chief Executive and Managing Director: Development Bank of Southern Africa |
| Academic qualifications: | PhD, Oxford University (1984); MSc (Economics), London School of Economics (1979); BA Hons (Economics), University of Cape Town (1977); BSc (Mathematics), University of Cape Town (1976) |
| Date of birth: | 3 March 1955 |
| DBSA director as from: | 1 January 1998 (Chief Executive as from April 1996) |

| | |
|---|---|
| Name and designation: | **Mr Christo Ferro Liebenberg**<br>Chairman: Nedcor Limited |
| Academic qualifications: | Harvard University AMP (1987); INSEAD PMD, Fontainebleau (1980); Cranfield School of Management PMD (1970); Institute of Bankers Diploma (CAIB), Institute of Bankers (1958) |
| Date of birth: | 2 October 1934 |
| DBSA director as from: | 1 August 1997 |

| | |
|---|---|
| Name and designation: | **Mr Johannes Bhekumuzi Magwaza**<br>Executive Director: Tongaat-Hulett Group Limited |
| Academic qualifications: | MA (Industrial Relations), Warwick University, UK (1985); BA (Psychology and Social Anthropology), University of Zululand (1966) |
| Date of birth: | 5 May 1942 |
| DBSA director as from: | 1 June 1995 |

Name and designation: **Dr Renosi Mokate**
Chief Executive Officer: Central Energy Fund

Academic qualifications: PhD, University of Delaware (1986); MA, University of Delaware (1983); BA, Lincoln University (1980)

Date of birth: 9 February 1958

DBSA director as from: 1 August 1997

Name and designation: **Professor Wiseman Lumkile Nkuhlu**
Chief Executive and Chairman: Economic Equity Investment Promotions (Pty) Ltd

Academic qualifications: MBA, New York University (1983); CA (SA) (1976); BCom, University of Fort Hare (1970)

Date of birth: 5 February 1944

DBSA director as from: 1 July 1983 (Chairman of the DBSA Board since January 1993)

Name and designation: **Mr Jayaseelan Naidoo**
Director: J&J Group

Date of birth: 20 December 1954

DBSA director as from: 1 May 2000

Name and designation: **Ms Hixonia Nyasulu**
Director: TH Nyasulu and Associates

Academic qualifications: International Programme for Board Members, IMD, Lausanne (1997); B Hons (Psychology), University of Zululand (1978); BA (Social Work), University of Zululand (1976)

Date of birth: 13 September 1954

DBSA director as from: 1 August 1997

Name and designation: **Dr Robin Allan Plumbridge**
Director of Companies

Academic qualifications: LlD (Honoris Causa), Rhodes University (1989); MA (Mathematics), Oxford University (1957); Rhodes Scholar, Oxford University

Date of birth: 6 April 1935

DBSA director as from: 1 June 1983

Name and designation: **Ms Maria Da Conceicao Das Neves Calha Ramos**
Director-General: Finance

Academic qualifications: MSc (Economics), University of London (1992); BCom Hons (Economics), University of the Witwatersrand (1987); BCom, University of the Witwatersrand (1986); Institute of Bankers Diploma (CAIB), Institute of Bankers (1983)

Date of birth: 22 February 1959

DBSA director as from: 1 August 1997

Name and designation: **Mr Zamindlela Titus**
Director-General: Provincial and Local Government

Academic qualifications: LlB, University of Fort Hare (1980); B Juris, University of Fort Hare (1977)

Date of birth: 26 October 1956

DBSA director as from: 1 August 1997

# CHIEF EXECUTIVE'S REPORT

## Strategic overview

*President Thabo Mbeki, the Minister of Finance and Governor of the Bank, Trevor Manuel and the Chief Executive, Ian Goldin.*

The past few years have seen fundamental economic and political changes in the international and in the national environment, and within the DBSA itself. Well over three years have passed since its September 1996 transformation, and the theme of this *Annual Report* is 'building on the successes of the transformation to address the new challenges facing the Bank'.

The restructured DBSA mobilises finance and expertise to improve the quality of life of the people of southern Africa, mainly through the provision of infrastructure. During the past year, the Bank was a key agent for socio-economic development as it built on its unique mix of strengths – development skills, financial base, its network of relationships with stakeholders, its knowledge base and its commitment to development. Highlights of the year include:

- Approximately 1,1 million households, or about 5,4 million people, were connected to basic infrastructure through Bank projects.
- The DBSA completed its Vision 2004, which includes the development of new products and services.
- Bank funding created or maintained an estimated 33 700 person-years of employment.
- The Bank was awarded an investment grade Baa3 rating by Moody's, the international credit rating agency.
- The DBSA facilitated stakeholders' involvement in its activities, and signed several memoranda of understanding with other development agencies.
- The Bank leveraged funding from other sources at a rate of R2,17 for every R1 it invested.
- The Bank's risk management policy and procedures were benchmarked by international experts and found to be sound.
- The DBSA introduced the concept of a development fund to provide grant funding for capacity building in clients that are not currently creditworthy.
- The Bank established a public development information centre and provided policy and capacity support to stakeholders such as the Office of the President, the Department of Finance and the Worldwide Fund for Nature.
- The DBSA continued to position itself strategically in the SADC and international development arena.
- The Bank's Y2K programme was completed successfully and no Y2K-related incidents occurred.
- The National Productivity Institute of South Africa presented the Bank with a Gold Award for productivity improvements.

In the dynamic development arena, the Bank faces many new challenges; it has to respond to globalisation, position itself within regional cooperation and integration, help to effect political and institutional changes at local government level, and remove impediments to the disbursement of funds and the coordination of development activities. The past year also underlined the need for the Bank to be innovative in its products and services if it is to maintain the impact and growth of the previous years. Not only has its main target market, the local authorities, approached the limits of its capacity to absorb loans, but the process of municipal demarcation has also restricted the ability of these organisations to access loan funding. Likewise, while the expectation had been that the DBSA's exposure in the rest of SADC would increase rapidly, the rate of progress during the year, although positive, indicated that this market will take time to reach maturity.

In response to these challenges, the Bank developed a proactive new longer-term business strategy, Vision 2004. The strategy highlights the Bank's commitment to improving the quality of life of the people of southern Africa and is designed to respond to and identify business and development opportunities. It capitalises on the Bank's unique ability to make development happen through the mobilisation of funds and development partners, the understanding and caring about needs of its customers, and its commitment to delivering a flexible, professional and prompt service. Through its Vision 2004, the DBSA has focused on pursuing effective delivery, developing new customer-oriented products and services, venturing into new markets, and strengthening its comparative advantage over the next five years, while ensuring its financial sustainability.

To realise this vision, the Bank has adopted the following guiding principles:

- Additionality, in that its activities complement the efforts of government, the private sector, other development finance institutions and civil society
- Maximisation of its development impact, in that it aims at improving the quality of life, contributing to broad socio-economic goals and monitoring and evaluating its development impact
- Financial sustainability, in that it emphasises sound banking and risk management practices in its investments and projects. It provides affordable services to communities and borrowers while pursuing full cost recovery on its activities.

The main elements of Vision 2004 are set out on the inside cover of this *Annual Report*.

In keeping with the theme of the *Annual Report*, the rest of the Chief Executive's report describes first the post-transformation trends and then the year under review for the Bank's operations, finance and human resources.

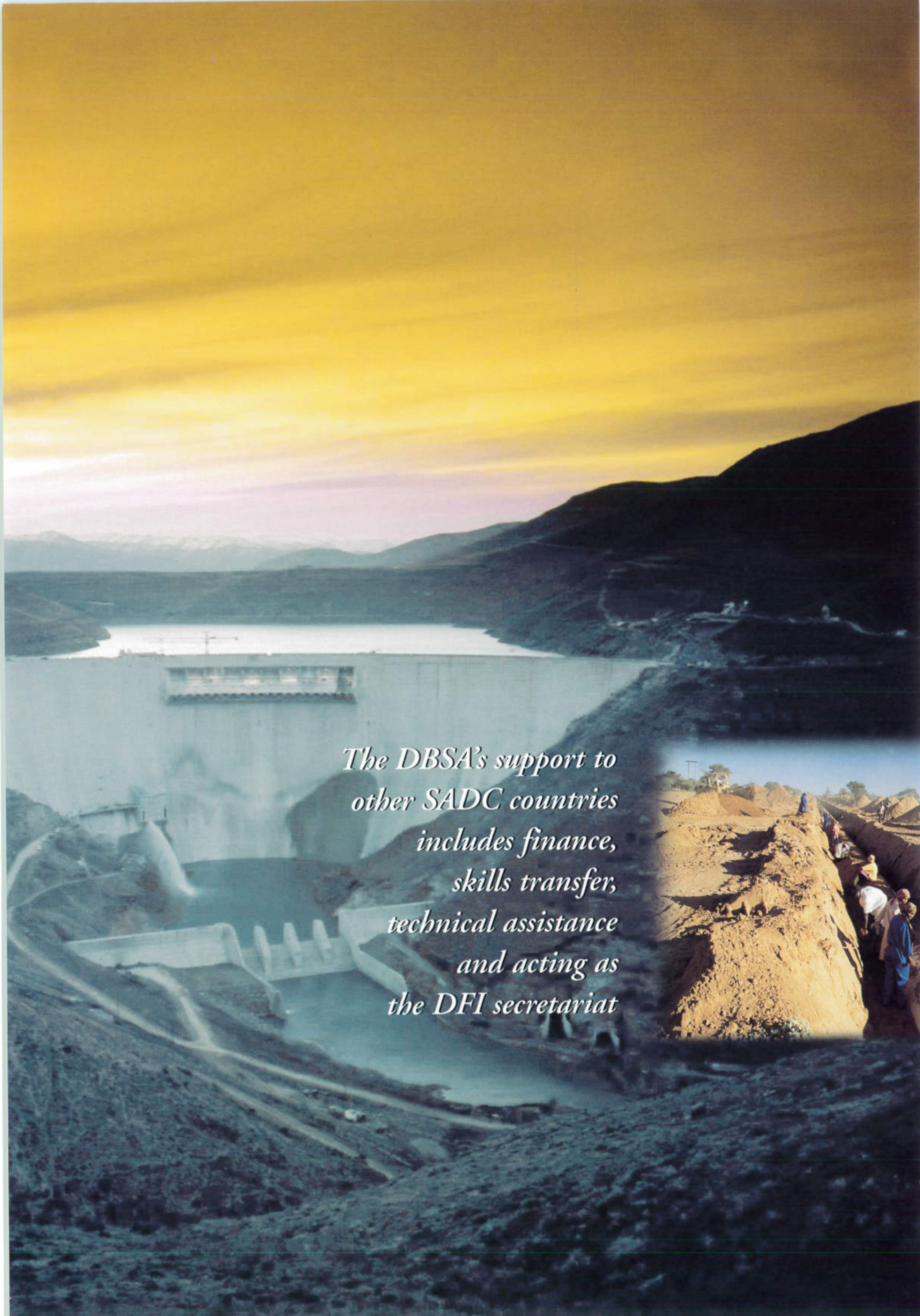
## Operations overview

Since the transformation of the DBSA's mandate, the investment portfolio has grown rapidly, with cumulative loans approved increasing from R10,3 billion in March 1996 to R21,1 billion by March 2000. The transformed mandate resulted in a substantial institutional, sectoral and geographical shift in the Bank's lending and technical assistance operations.

In the year under review, the Bank approved loans of R2,0 billion for the implementation of 98 projects, of which R1 273 million was for infrastructure development in South Africa and R735 million in other SADC countries.

## Increased investment lending for local infrastructure development

During the first two years after the transformation, most of the DBSA's new lending operations were targeted at the alleviation of infrastructure backlogs at the local government level. At the end of the 1995/96 financial year, the Bank had 93 local government institutions on its loan book, with cumulative lending of R2,9 billion. Between April 1996 and March 2000, loans of R4,7 billion were approved for the provision and upgrading of services infrastructure at local government level. By the end of 1999/00, as a result of the higher level of investment at local government level and the transfer of the loans of the former Local Authorities Loans Fund to the DBSA, the local government investment portfolio comprised 480 clients with a cumulative loan value of R7,5 billion. This represents 34 per cent of the DBSA's cumulative loan approvals of R21,1 billion.



*The DBSA's support to other SADC countries includes finance, skills transfer, technical assistance and acting as the DFI secretariat*

The local government market is now mature and risk management considerations, as well as the demarcation process, meant that the Bank's local government investment was lower in 1999/00 than in recent years. As a result of the demarcation process, the number of local authorities will decrease dramatically. The consequences of this are uncertain, especially on the division of responsibility between different structures. As new councils are only due to be elected late this year, it is anticipated that the reduced level of business with local authorities will continue until the next financial year. Meanwhile, the Bank has increased its technical assistance to local authorities, focusing mainly on strengthening planning capacities and initiatives, policy and technical aspects, and building institutional capacity. It is also pursuing new investment opportunities by developing innovative instruments for financing local governments, including through support for public-private partnerships (PPPs) and the provision of guarantees, and through activites designed to support the municipal bond market.

**Expanding operations in the SADC region**

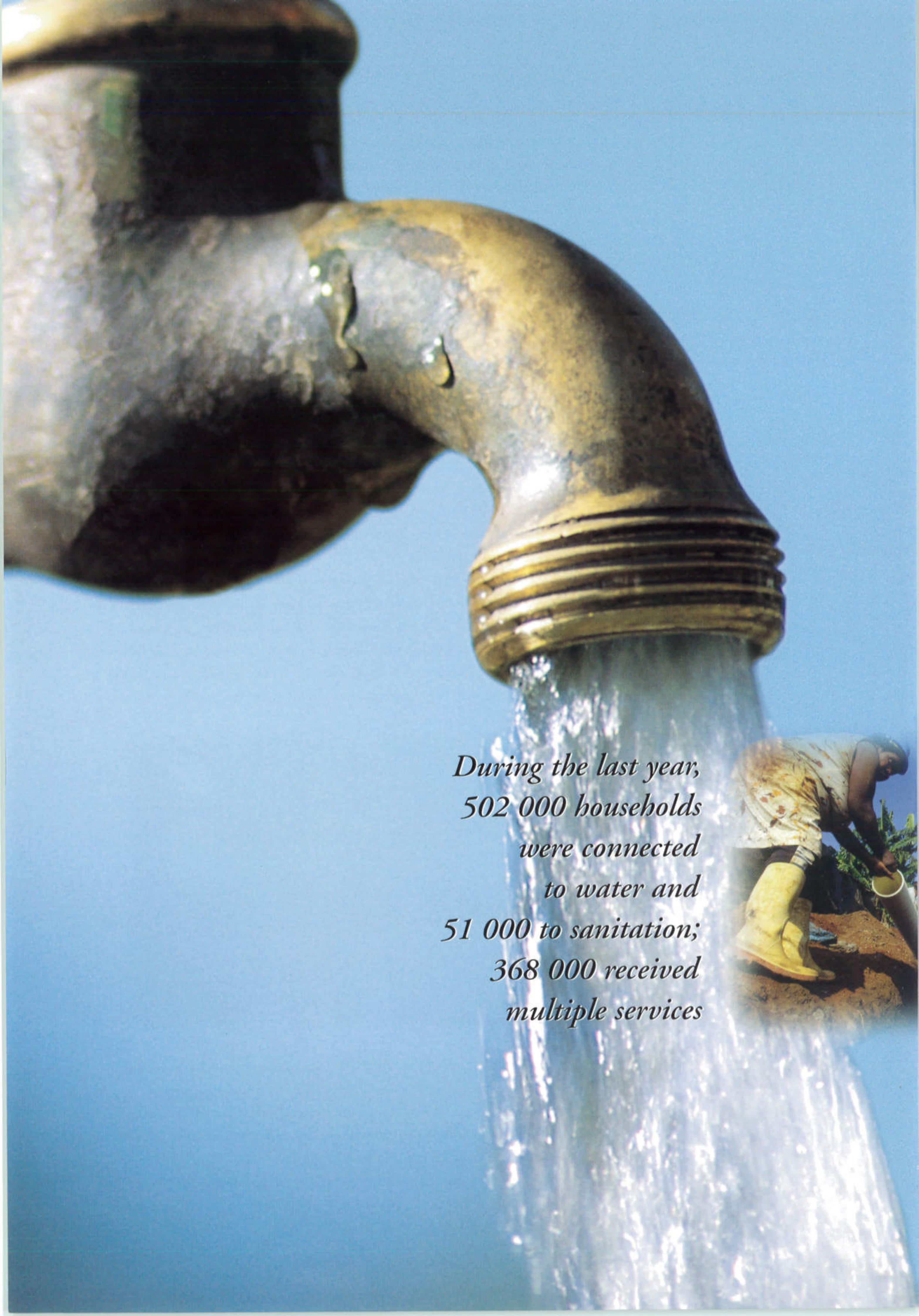
In keeping with its transformed mandate, the DBSA increasingly focused its support on the broader SADC region. In March 1996, investment in these countries amounted to R605,6 million, 6 per cent of total cumulative loans approved. By March 2000, the total value of loans approved amounted to R4,5 billion, which is 21 per cent of cumulative loan approvals.

In 1999/00, loans of R734,9 million were approved for projects in other SADC countries. Lending to institutions in these countries represents 36 per cent of total loan approvals for the year, which is in line with business targets. To ensure sustainability, the Bank put in place country strategies and risk exposure limits, as detailed elsewhere in this report. It will also continue to encourage cooperation in project financing with other international and local development finance institutions.

**Mobilisation of private sector involvement**

A key strategic objective of the DBSA's transformation process was to promote increased private sector involvement in the financing and management of infrastructure services. Starting from a zero base in September 1996, the Private Sector Investment Unit's portfolio of approved investment projects exceeded R1 413 million in 1999/00, or 6,8 per cent of cumulative approvals.

During 1999/00, lending to the private sector was also higher than in previous years, as a result of the continued development of the private sector investment


*During the last year,*
*502 000 households*
*were connected*
*to water and*
*51 000 to sanitation;*
*368 000 received*
*multiple services*

portfolio, and reached a total of R443 million. Private sector lending constituted 23 per cent of the total value of loans approved during the year, compared with 15 per cent in 1998/99. Almost 82 per cent of the lending for private provision of infrastructure is in South Africa and 18 per cent is in the rest of SADC.

### Technical assistance

Since its inception, the Private Sector Investment Unit has provided technical support and advice to various public sector institutions. This includes advisory services to the Nelspruit and Dolphin Coast local councils for the preparation and finalisation of PPP transactions involving water and sanitation services. The DBSA also entered into a management contract with the Department of Constitutional Development when establishing the Municipal Infrastructure Investment Unit, which provides technical assistance to municipalities that wish to pursue PPPs in municipal services.

In 1999/00, advice and assistance were also provided to national government on the establishment of a PPP policy unit in the Department of Finance, and to the Department of Water Affairs and Forestry regarding amendments to the Water Services Act.

During the year, the Bank disbursed technical assistance grants of R4,8 million for various policy and capacity building initiatives. It is also investigating how best to increase substantially the mobilisation and application of resources for capacity building to support the restructuring and transformation of local government. The Bank's capacity to deliver technical assistance and other services will be improved through more diligent management and transfer of knowledge, and better use of development information and intelligence. In total, 14,4 per cent of its operational complex costs were utilised for technical assistance and related staff support.

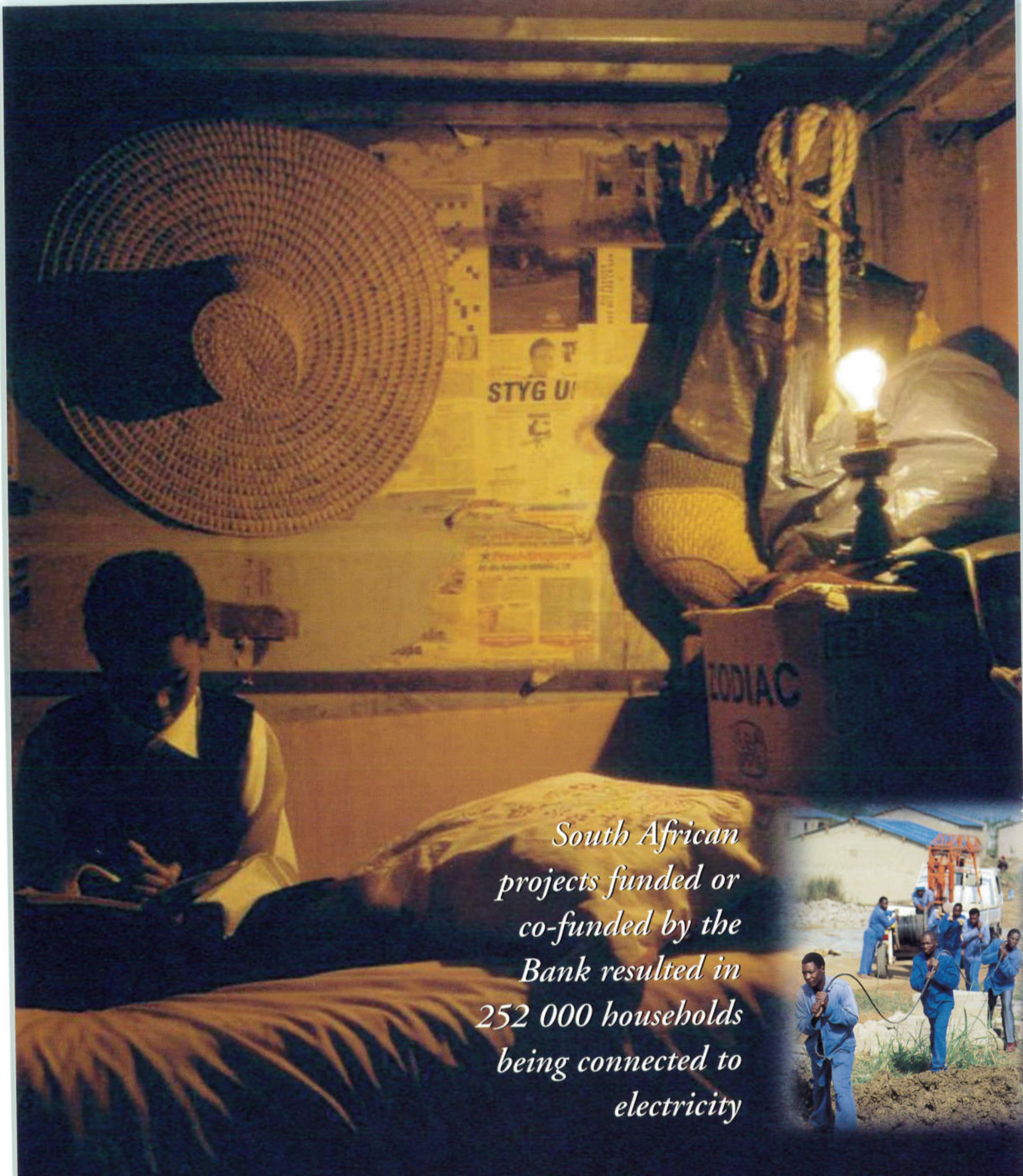
### Financial overview

The post-transformation period saw fundamental changes to the funding structure of the DBSA, its investment activities and its approach to risk management. The Bank

implemented several innovative financial strategies; the success of these is evident from its strong balance sheet, improved returns on its investments and its good standing in the local and international financial markets.

### Sources of funding

One of the main challenges facing the DBSA was to find viable alternative sources of funding for the government grants that ceased in 1994. As noted, the Bank obtained a



*South African projects funded or co-funded by the Bank resulted in 252 000 households being connected to electricity* foreign currency investment grade international rating from Moody's Investor Service. The rating of Baa3 is equivalent to the sovereign rating of the Republic of South Africa. At the same time, Fitch IBCA also reaffirmed the Bank's AAA rating for local currency debt, enabling it to borrow foreign funds at competitive terms. It is currently in discussion with Standard and Poor's to secure a second international rating.

Diversifying the sources of funding remains a priority. The Bank established a presence in the local and international capital markets and has borrowed from a variety of foreign lenders. As at 31 March 2000, 49 per cent of funding was drawn from local capital markets, 16 per cent from international capital markets and 35 per cent from multilateral and bilateral institutions. The corresponding percentages for March 1999 were 55, 19 and 26. All foreign currency risks are hedged through derivative financial instruments and natural hedges.

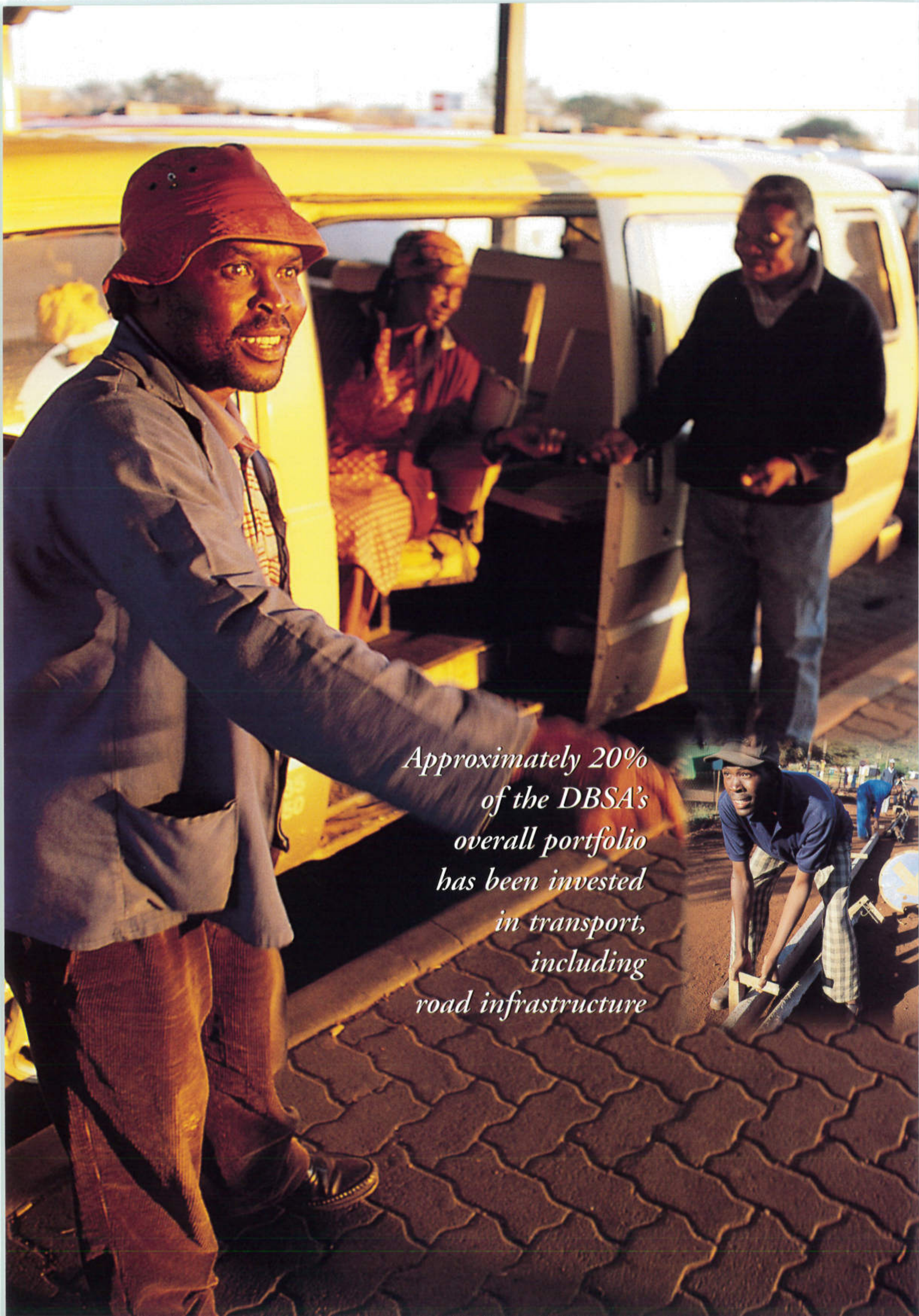
During the year under review, the Bank mobilised R1 912 million, 48 per cent through the capital markets and the remainder from international development agencies. The capital market borrowing comprised a five-year floating rate note amounting to R500 million and two private placements consisting of a zero coupon bond of R500 million, on which proceeds of R200 million were received, and a 13,5 per cent placement of R215 million. Funds were raised from the development agencies through drawdowns of the lines of credit concluded with these institutions. To reduce the cost of borrowing and maintain prudent currency management, some of the funds were swapped into floating rate and into rand, as appropriate. The resulting cost of borrowing was below the Bank's target levels, enabling it to reduce its own lending rates.

The debt-equity ratio moved from 54,4 per cent in March 1997 to 111,1 per cent

at 31 March 2000. This is comfortably below the limit of 250 per cent set by the DBSA Act. Medium- and long-term financing increased by R1,7 billion from March 1999 to R7,8 billion at 31 March 2000. Based on current trends, recapitalisation will probably only be required well after 2005.

**Returns on investment**

To address the challenge of increasing returns on development investments to a sustainable level, the DBSA implemented a new pricing strategy and negotiated the



*Approximately 20% of the DBSA's overall portfolio has been invested in transport, including road infrastructure* early settlement of former homeland government debt, which took the form of R150 bonds. This 1998 agreement effectively rendered a major portion of the Bank's assets risk free and secured a return of 12 per cent per year, as against approximately 8,6 per cent a year on the loans to former homeland governments.

After the new interest rate policy was introduced in 1998, the return on assets grew from 1,4 per cent in March 1997 to 2,7 per cent for the year to March 2000. The weighted average interest rate per year on development loans increased from 9,6 to 13 per cent.

The gap between the cost of funding and interest received is closely monitored and is expected to stabilise over the next five years.

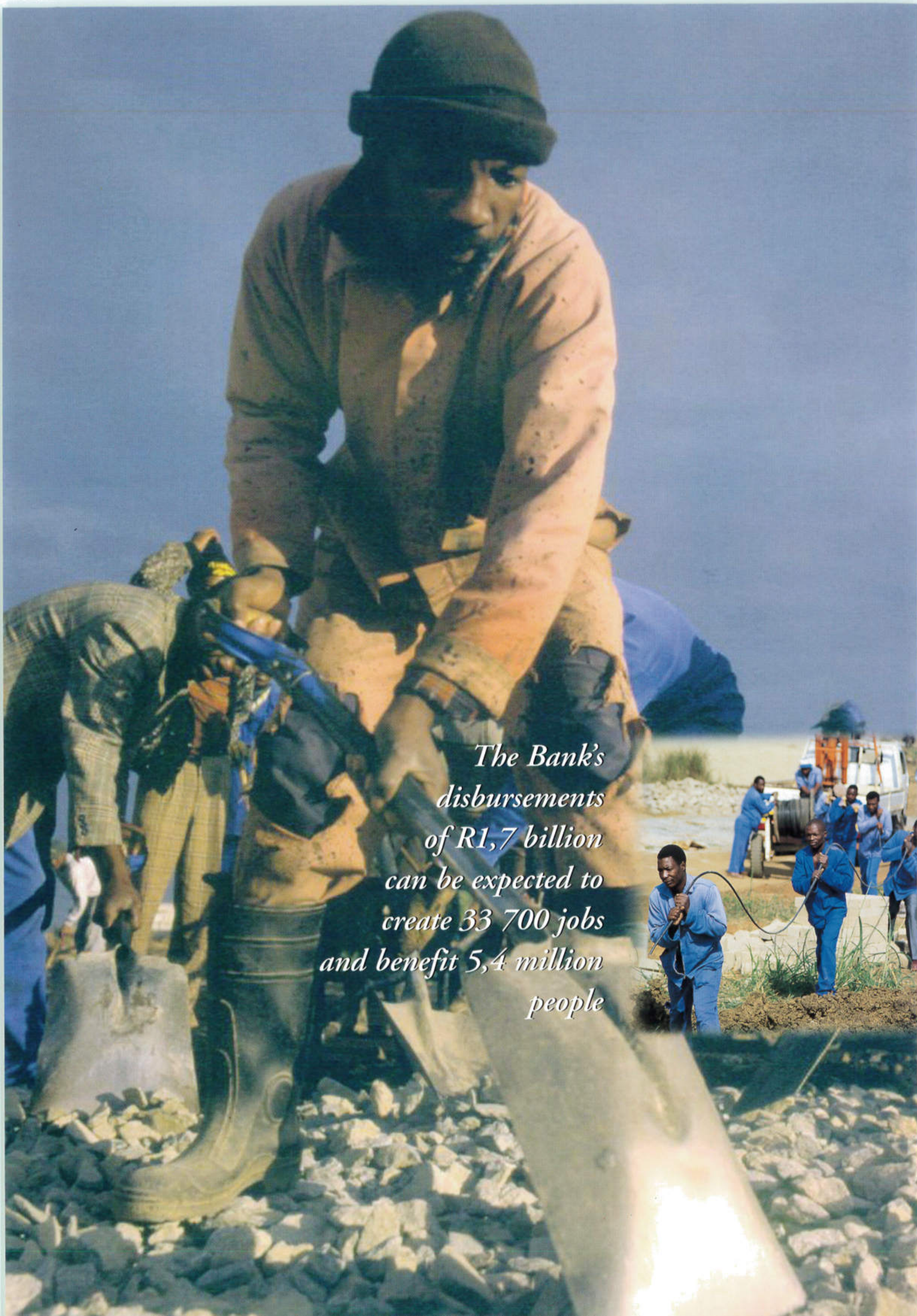
## Risk management

The environment in which the DBSA operates has changed dramatically since transformation. While the government previously guaranteed loans without exception, the Bank's new loans carry no such guarantee. Exposure to market risk has also increased significantly as a result of the change in the Bank's funding structure. A growing appreciation of these risks has engendered a culture of integrated risk management and a continuous enhancement of risk management policies and practices, as detailed in the section on risk management from page 42.

The loan book performed well. Repayments, however, deteriorated over the past few years – the total book debt of non-performing loans amounted to R737 million (6,6 per cent of the total development loan portfolio) at 31 March 2000, as against R106 million (1,4 per cent) in March 1997. Instalments in arrears amounted to R287 million at 31 March 2000, up from R188 million in March 1999. The Bank holds government guarantees for 48 per cent of the book debt of non-performing

loans and 28,8 per cent of the total loan book. Other securities amount to 25,8 per cent of the total loan book.

Clients who fall into arrears generally have inadequate institutional capacity, insufficient financial management expertise or inefficient debt collection. The DBSA, as a development finance institution, works with non-performing clients to solve these problems, ensuring that all monies are ultimately recovered. This explains the Bank's low write-off rate. The period between the Bank's intervention and the recovery of arrears varies between a few months and a few years, depending on the complexity of each case.



*The Bank's disbursements of R1,7 billion can be expected to create 33 700 jobs and benefit 5,4 million people*

Prudent loan loss provisioning accompanies this rehabilitation process. In addition to specific provisions on non-performing loans, a general provision of 4 per cent is maintained on the remainder of the loan book. The loan loss provision increased to 7,3 per cent of the total book at 31 March 2000, up from 6,3 per cent the previous year. This was mainly due to the increase in the specific provision, as existing non-performing borrowers fell further behind.

**Surpluses**

The success of the new interest rate policies and additional income from the R150 portfolio, together with the rapid growth in the development loan portfolio, contributed to the healthy surpluses posted by the DBSA since transformation. The surplus for the year ended 31 March 2000 amounted to R418 million, as against R615 million for the previous financial year.

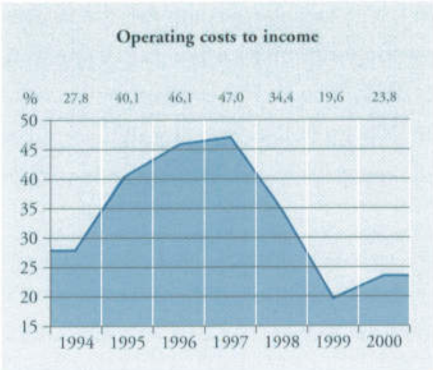
Revaluation adjustments made in terms of the new accounting policies for foreign loans and derivative financial instruments materially affected the results for these two years. The adjusted 1999 results were increased by R109 million from the previously reported R501 million. The surplus for 2000 would have been R513 million using the former methods of calculation, but was decreased by R95 million as a result of the changes in accounting policies. The Bank changed its accounting policies for foreign loans during the year, as required by AC 112. Derivative financial instruments used to hedge loans are stated at fair value. These changes to the accounting policies are detailed in the annual financial statements from page 51.

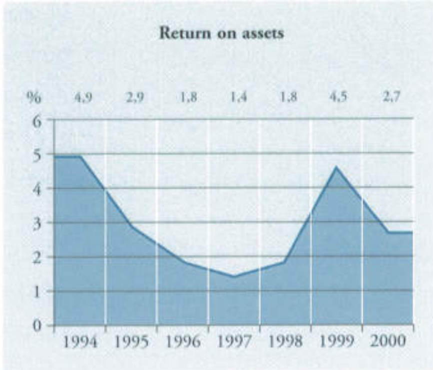
Foreign exchange gains or losses on conversion of foreign loans at closing rate and fair value adjustments to derivative financial instruments are charged either to the income statement or directly to equity. Over the life of the underlying loan and related derivative financial instrument, the net result of the differences on the revaluations

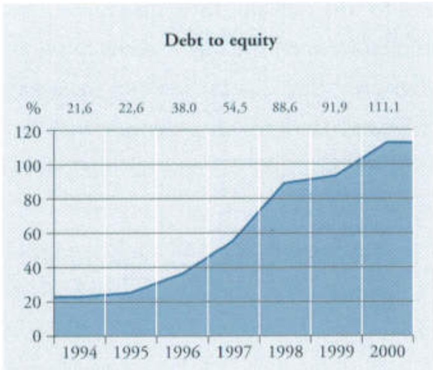
should approximate the cost of cover of the hedge. However, fluctuations from year to year could be significant.

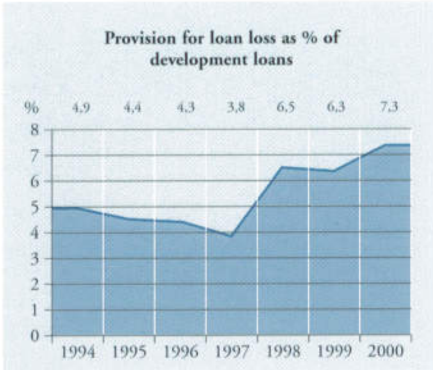
The surplus for the year was also affected by the higher loan loss provision mentioned above.

The Bank maintained strict control over operating expenses and the cost to income ratio for the year was 23,8 per cent, as against 19,6 and 34,4 per cent respectively for the 1999 and 1998 financial years.




## Strategic issues

The DBSA is discussing several issues with its shareholder, the South African government. The first is its future shareholding – its funding structure is to be aligned with the business requirements identified by Vision 2004. A second issue is income tax – although the Bank pays indirect taxes, it has not until now been liable for income tax. The government has indicated that it expects such payments in future, and the details are being discussed. The Bank will probably pay corporate income tax from 2001, and has factored this into its financial modelling and long-term financial planning. The third issue is dividends, in particular the required return and possible allocation of the dividend into a development fund.

The Bank's financial strength, sound risk management and understanding of the development arena prove that it has responded successfully to the challenges of transformation, and that it is well positioned to deliver on the challenges of development in future.

## Human resources overview

Prior to the transformation, human resources management in the DBSA reflected the practices instituted in the apartheid era, which created a culture of entitlement and special arrangements. The remuneration structure consisted of basic salary plus a number of add-on benefits, some of which imposed an unlimited liability on the Bank.

## Performance management

Since the transformation, the human resources function has been moving towards a results-orientated culture with an output-based performance management system. The baselines for measuring improvements in human resources were derived from international benchmarks and trends, an internal training and development performance audit, and an internal climate and culture survey. Employees' remuneration is now based on the size of their jobs (through the introduction of the Hay Grading System) and their performance (through the introduction of variable pay). Defined benefits with an unlimited liability to Bank are being eliminated. The DBSA's human resources policies and procedures are transparent and consistent. The Bank has moved to levels of remuneration that are market related, and has sought to reduce income differentials that are based on factors other than job size or performance.

The Human Resources Unit has moved from exercising a purely administrative function to being a business partner and acting as a catalyst for change in a number of areas. Strategically aligned core competencies were identified, and training courses customised and delivered in-house, to improve the DBSA's core competency levels. Responsibility for the management and development of staff has shifted to the managers, with the Human Resources Unit providing systems, expertise and management information. The management information capability has been significantly improved through the implementation of the PeopleSoft human resources management system. Employee relations have changed from management dealing with several employee representative groups to a single trade union (SACCAWU) dealing with employee issues.

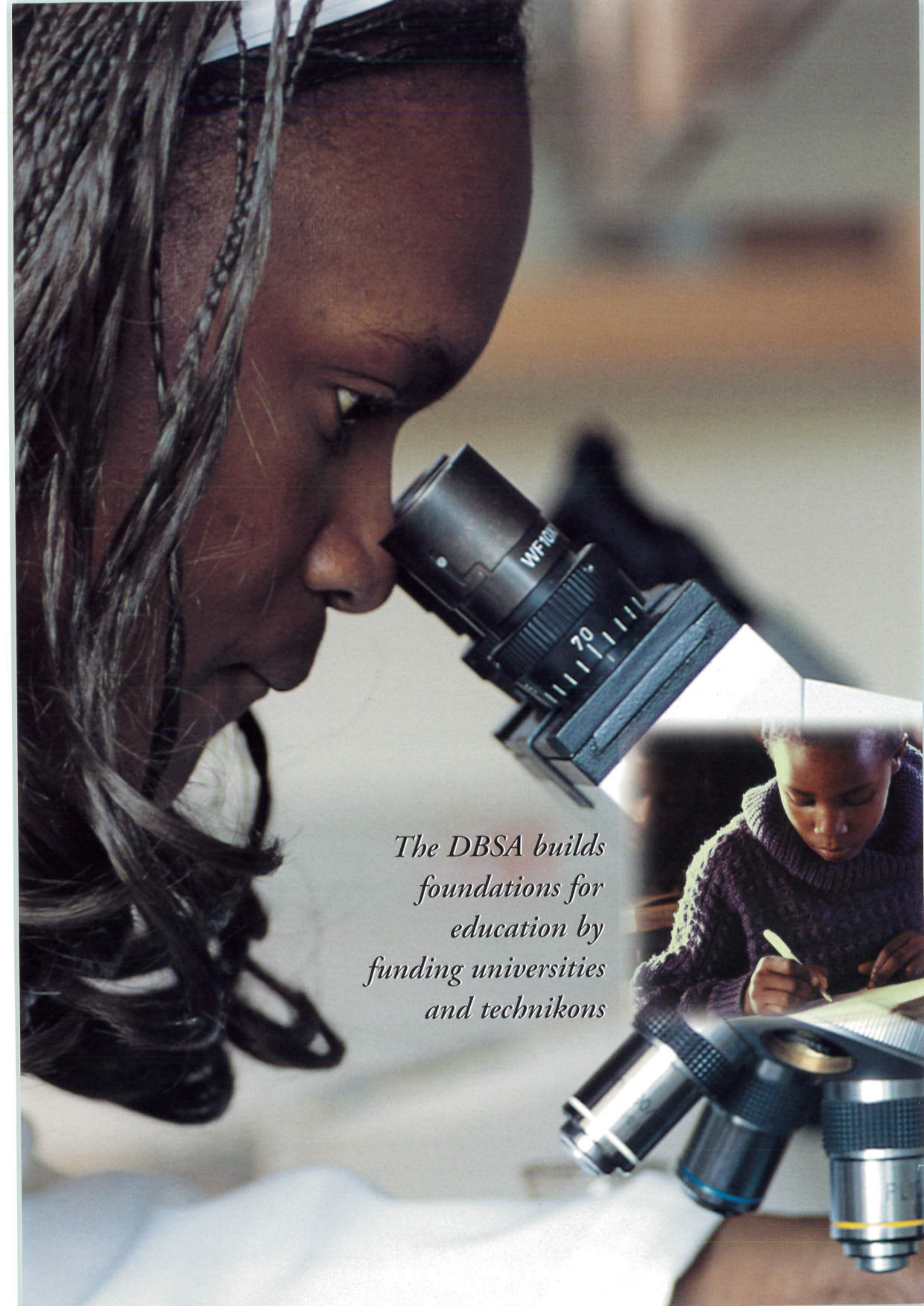
## Training and development

The year under review brought many challenges to human resource management in the Bank, most notably the promulgation of the Skills Development Act and the Employment Equity Act. The DBSA is registered under the Banking Sectoral Education and Training Authority and has initiated a process to align all its training and development initiatives with the South African Qualifications Authority.

To strengthen the Bank's core competencies and competitive advantages, a significant portion of the training budget was invested in developing organisational core competencies in risk management, monitoring and evaluation, financial modelling and treasury management.

The first employment equity report, which was developed through a participatory process involving management, the trade union, the Affirmative Action Committee, and the Women's Forum, was submitted to the Department of Labour. The draft employment equity plan will be submitted to the Board in the second half of this year. The Bank also signed a relationship agreement with the trade union.

The Bank changed the study aid scheme for employees' children, formerly a closed scheme, to an open bursary scheme. The new scheme will be operative from January 2001. An amount of R2 million will be budgeted for the bursary scheme. The open bursary scheme is intended to help the Bank achieve its future human resources objectives, particularly employment equity targets.



*The DBSA builds foundations for education by funding universities and technikons*

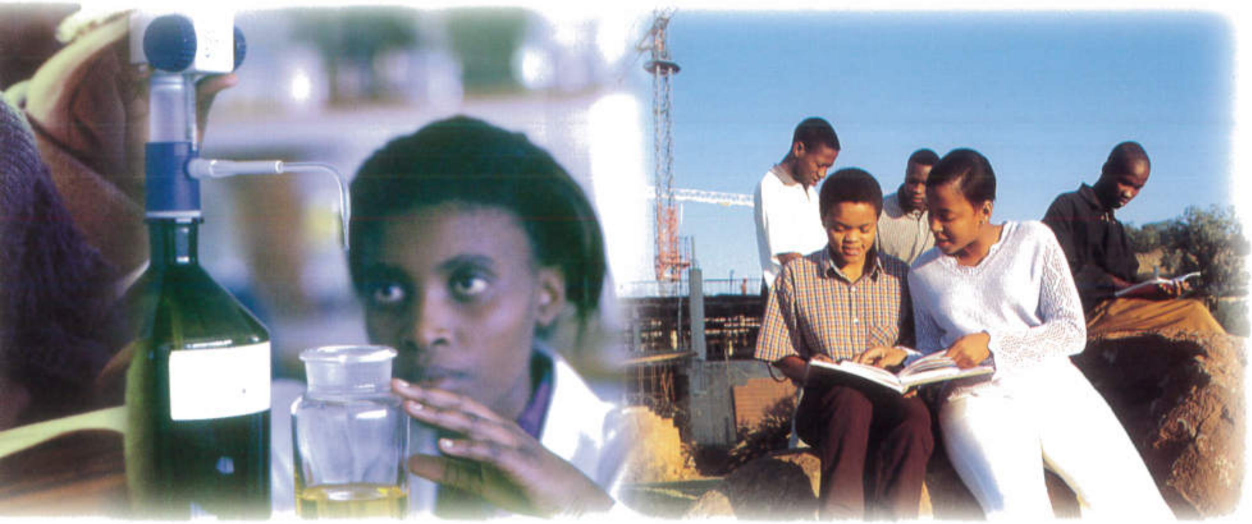
## Way forward

During the year ahead, and in accordance with Vision 2004, the Bank will support national government priorities by focusing on the elimination of poverty, economic growth and development, job creation, sustainable rural development, urban renewal, infrastructure development, human resource development, tourism and facilitating black economic empowerment.

To this end, it will pursue the following business objectives:

- Improve the quality of existing projects and pursue new investments
- Enhance internal and external capacity building and human resource development
- Constantly improve its business processes, information systems and instruments
- Strengthen and maintain effective risk management, and enhance risk management capacity
- Ensure alignment with the current government policies, programmes and legislative requirements, as well as principles of good corporate government
- Develop new client-oriented products and services
- Develop new instruments, especially to enhance public-private partnerships and strengthen the municipal bond market, to mobilise equity or venture contributions, and to make available sub-sovereign and other guarantee instruments
- Introduce new competencies and incentive systems aligned with business goals
- Establish a development fund to enhance technical assistance.

The Bank's five-year vision builds on the progress made since the transformation and enables the institution to face the challenges of growth, poverty alleviation and ensuring a better life for all in a more effective, efficient and sustainable way. The Bank



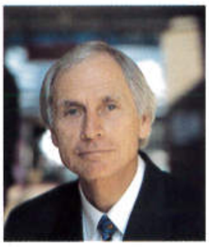
will continue to transform itself, as required, in response to the needs of the country and the region.

Ian Goldin

## Chief Executive

| | |
|---|---|
| Name and designation: | **Dr Ian Andrew Goldin**<br>Chief Executive and Managing Director: Development Bank of Southern Africa |
| Academic qualifications: | PhD, Oxford University (1984); MSc (Economics), London School of Economics (1979); BA Hons (Economics), University of Cape Town (1977); BSc (Mathematics), University of Cape Town (1976) |
| Date of birth: | 3 March 1955 |
| Chief Executive as from: | April 1996 |
| Managing Director as from: | 1 January 1998 |

## Executive Managers



| | |
|---|---|
| Name and designation: | **Jacob Henry de Villiers Botha**<br>Executive Manager: Operations |
| Academic qualifications: | Pr Eng (1978); BSc (Eng) (Civil), University of Pretoria (1972) |
| Date of birth: | 17 May 1949 |
| Executive Manager as from: | 1 October 1996 |
| DBSA staff member as from: | 1 October 1988 |

| | |
|---|---|
| Name and designation: | **Makaziwe Phumla Mandela**<br>Executive Manager: Corporate Services |
| Academic qualifications: | PhD (Anthropology), University of Massachusetts (1992);<br>MA (Sociology), University of Massachusetts (1988);<br>BA Hons (Sociology), University of Natal (1984); BA (Social Work), University of Fort Hare (1981) |
| Date of birth: | 1 May 1954 |
| Executive Manager and DBSA staff member as from: | 1 November 1998 |

| | |
|---|---|
| Name and designation: | **Mandla Sizwe Vulindlela Gantsho**<br>Executive Manager: Finance until seconded to the World Bank |
| Academic qualifications: | CA (SA), PAAB (1987); BCom Hons (Financial Management), University of Cape Town (1986); BCom (Accountancy), University of Transkei (1983) |
| Date of birth: | 2 June 1962 |
| Executive Manager and DBSA staff member as from: | 1 October 1996 |
| Seconded to the World Bank: | 1 April 2000 |

| | |
|---|---|
| Name and designation: | **Nkosemntu Gladman Nika**<br>Executive Manager: Finance |
| Academic qualifications: | CA (SA) (1987); BCompt Hons, University of South Africa (1984); BCom, University of Fort Hare (1980) |
| Date of birth: | 15 October 1957 |
| Executive Manager and DBSA staff member as from: | 1 July 2000 |

- Board of Directors
  - ~~Ian Goldin~~ Mandla Gantsho
    Chief Executive
    - Norman Weitz
      Internal Audit
    - Nkosemntu Nika***
      Executive Manager: Finance
      - Lewis Musasike
        Treasury
      - Ros Thomas
        Risk Management
      - Salome Fourie
        Corporate Accounting and Budgeting
      - Graham Tate
        Information Technology and Services
      - Pule Mokhobo
        Legal Services
      - Tladi Ditshego
        Operations Evaluation
    - Makaziwe Mandela
      Executive Manager: Corporate Services
      - Snowy Khoza
        Policy
      - Dumisani Majozi**
        Human Resources
      - Oupa Mokuena
        Strategic and Business Planning
      - Makgoshi Sindane
        AA/Gender Desk
      - Tinka Wiswe
        Corporate Secretariat
      - Zaid Nordien*
        Corporate Relations
      - Tom Snyman
        General Services
    - De Villiers Botha
      Executive Manager: Operations
      - John Barton-Bridges
        Private Sector Investments
      - Christina Golino
        ~~Specialists~~ Western Region
      - Bane Maleke
        Region: Southern Africa
      - Luther Mashaba
        Region: Northern
      - Dennis Zimu
        Region: Southern
      - Thladi Ditsego ~~Jenny Tjobeka~~
        Region: Eastern
      - Landiwe Mahlangu
        Operations Secretariat
      - Stephen Mncube
        Development Information
      - Specialists

* *As from 1 May 2000; previously Chris More*

** *As from 1 July 2000; previously Alvin Rapea*

*** *As from 1 July 2000; previously Mandla Gantsho*

| | |
|---|---|
| Front row from left to right: | *Bane Maleke; John Barton-Bridges; Tinka Wiswe* |
| Second row: | *Christina Golino; Salome Fourie; Oupa Mokuena* |
| Third row: | *Ian Goldin; Jenny Tyobeka; Makgoshi Sindane; Zaid Nordien* |
| Fourth row: | *Snowy Khoza; De Villiers Botha; Makaziwe Mandela; Tladi Ditshego; Pule Mokhobo* |
| Fifth row: | *Lewis Musasike; Landiwe Mahlangu; Luther Mashaba; Tom Snyman* |
| Not in picture: | *Graham Tate; Ros Thomas; Norman Weitz; Dennis Zimu*<br>*(Dumisani Majozi - as from 1 July 2000; Nkosemntu Nika - as from 1 July 2000)* |

The DBSA's contribution to the government's service delivery achievements is substantial. In the last year alone, South African projects funded or co-funded by the Bank benefited 1,1 million households (5,4 million individuals), many of which obtained access to more than one type of service. Some 502 000 households were connected to water, 51 000 to sanitation and 252 000 to electricity; around 368 000 received multiple services.

During 1999/00, the Bank disbursed R1 701 million on infrastructure projects in South Africa. These disbursements are estimated to amount to 12,5 per cent of total South African investment in electricity, gas, water and sanitation. The investment multiplier effect generates further demand, estimated at an additional R1,74 billion of GDP in 1999/00. More jobs are created when projects are implemented, for instance in the construction of road works, dams and buildings. Altogether, the Bank is estimated to have created 24 500 jobs in the construction sector during the year under review.

The money spent by the Bank on infrastructure also creates an investment in or addition to the nation's capital stock. This infrastructure generally serves as the basis for further economic activity. It is estimated that, as a result of the Bank's investments, R683 million will be added to GDP every year the infrastructure remains functioning. In order to operate and maintain these facilities, approximately 9 200 permanent jobs will be created.

The DBSA believes that it cannot simply provide services and infrastructure without ensuring their sustainability. Therefore, maintenance of existing and new infrastructure is an important development priority. The Bank pays considerable attention to technical, financial and social issues that may affect the sustainability of infrastructure and services. The level of technology, short-term and long-term affordability, payment systems and community participation in identifying priorities are all appraised as part of its support for infrastructure development. The case studies below illustrate the Bank's assessment of its projects.

The DBSA financed 98 projects last year, a few of which are described here to illustrate the Bank's development impact. The full list of projects can be found in the annexure to this report, *Projects of 1999/2000*, which is published separately. This information, as well as detailed evaluations of the projects described below, is also on the Bank's web site, www.dbsa.org.

**Botswana North South Water Carrier Project**

In Botswana, surface water resources are severely limited and many parts of the country are arid or semi-arid. Rainfall averages only about 200 mm a year in the south-west. In 1993, the Government of Botswana commissioned the North South Water Carrier Project, as part of its national water master plan, to provide for future water demand in the rapidly developing southern towns of Gaborone and Lobatse.

The DBSA's involvement with the NSWCP was initiated at the end of the planning period and was undertaken primarily for strategic purposes. Because the other financiers had already appraised the project, the Bank did not have to do a full appraisal, and its involvement was limited to part of the pipeline.

### Project objectives

The main objective of the NSWCP project was to meet increased water demand in the rapidly expanding urban centres and villages in the south. The project was also intended to promote private sector involvement, local contractor development, training, local manufacture of pipes, as well as decentralisation of government activities.

### Evaluation of project implementation

- *Project scope:* The project involved the construction of the Letsibogo dam on the Motloutse river in the north-east of the country, a 360 km pipeline, pumping stations, break pressure tanks and treatment works. The pipeline will carry raw water from the dam, to be treated at Palapye, Mahalapye and Mmamashia treatment centres.
- *Implementation schedule:* The contracts were divided into smaller elements to involve local contractors in housing and access road construction. Large and small contractors were twinned to promote skill transfer; this achieved employment creation and the linking of various contracts. A glass-reinforced pipe factory was established to supply pipes. The factory has served more than the project; over 300 km of pipe, valued at R400 million, has so far been exported to Namibia, Zimbabwe and South Africa.
- *Project cost:* The original budget of the project was R1,5 billion (P1,2 billion) but, due to variation orders from numerous consultants, the final cost is now estimated at about R1,9 billion (P1,5 billion). The DBSA loan, totalling R242,3 million (P190 million), financed a 230 km section of the pipeline. The pipeline itself was completed within budget. The government bought a 50 per cent equity in the project.
- *Financial viability:* The tariffs of the Water Utilities Corporation (WUC) are based on cost recovery principles, but water demand will be the key determinant of revenue. The WUC has not only been able to mobilise funding from both domestic and international financiers, but has also brought this important project to fruition – it is almost fully disbursed.
- *Project implementation scheme:* Administratively, the NSWCP Coordinating Unit reports to the Permanent Secretary in the Ministry of Water Affairs. The WUC, mandated to maintain an acceptable level of water supply to six urban centres in its jurisdiction, employs 925 people and has broad autonomy in determining a cost-effective tariff structure. Its organisational structure is appropriate and in keeping with its size, and its management is sound. To strengthen the institutional capacity of the WUC, 43 employees were trained in Botswana and abroad. A number of households were affected by the project, and some 95 farmers received compensation according to Botswana policy guidelines. Construction of the dam meant that 43 households, located mainly around cattle outposts, needed to be resettled. The project was laid within the road reserve and had little environmental impact. The WUC is monitoring the rehabilitation of areas disturbed by the pipe laying.

*Botswana North South Water Carrier Project*

### Project impacts

- *Socio-economic aspects:* Laying most of the pipeline inside the road reserves minimised the cost of land. Where the pipeline went through tribal land, the communities were reimbursed and involved in de-bushing. As far as possible, the project was broken up in smaller chunks to benefit all communities. Although the 3 m depth of the pipeline trench required mainly mechanical equipment, close to 2 000 people were employed, all Botswana citizens.


Mondi

- *Payment:* A strict cut-off policy is in place for consumers who do not pay for their water supplies. Some consumers are reluctant to pay as boreholes used to be highly subsidised and water supplied through standpipes in certain townships is also free of charge. During the latest increase in water tariffs, a distinction was made between public sector users and private users, to balance the water bill.
- *Design and construction:* International consultants used recognised engineering standards in the design, and construction followed successfully within accepted tolerances. A technical assessment showed that the technical objectives would in all probability be met.

### Conclusion

The successful implementation of the Botswana North South Water Carrier Project provides valuable lessons. These include the timely manner of this project, a tribute to the forward-looking planning of the Botswana Government in dealing with potential water scarcity in the economically promising southern part of the country. The ability of the government to mobilise both local and international funds for this project also augurs well for future development. The project's success has also been dependent on meticulous attention to technical details and successful negotiations with the various communities through whose lands the pipeline passes.

## Durban Wastewater Recycling Project

In December 1998, Durban Water Recycling (Pty) Ltd won a build, own, operate and transfer contract worth R74 million to modernise the secondary treatment system of the Durban Metro Services wastewater treatment plant and to build a new facility to generate 43 000 m$^3$ per day of reclaimed water for industrial use. The concession will run for 20 years, after which the plant will revert back to Durban Metro. The DBSA is providing an R18 million loan.

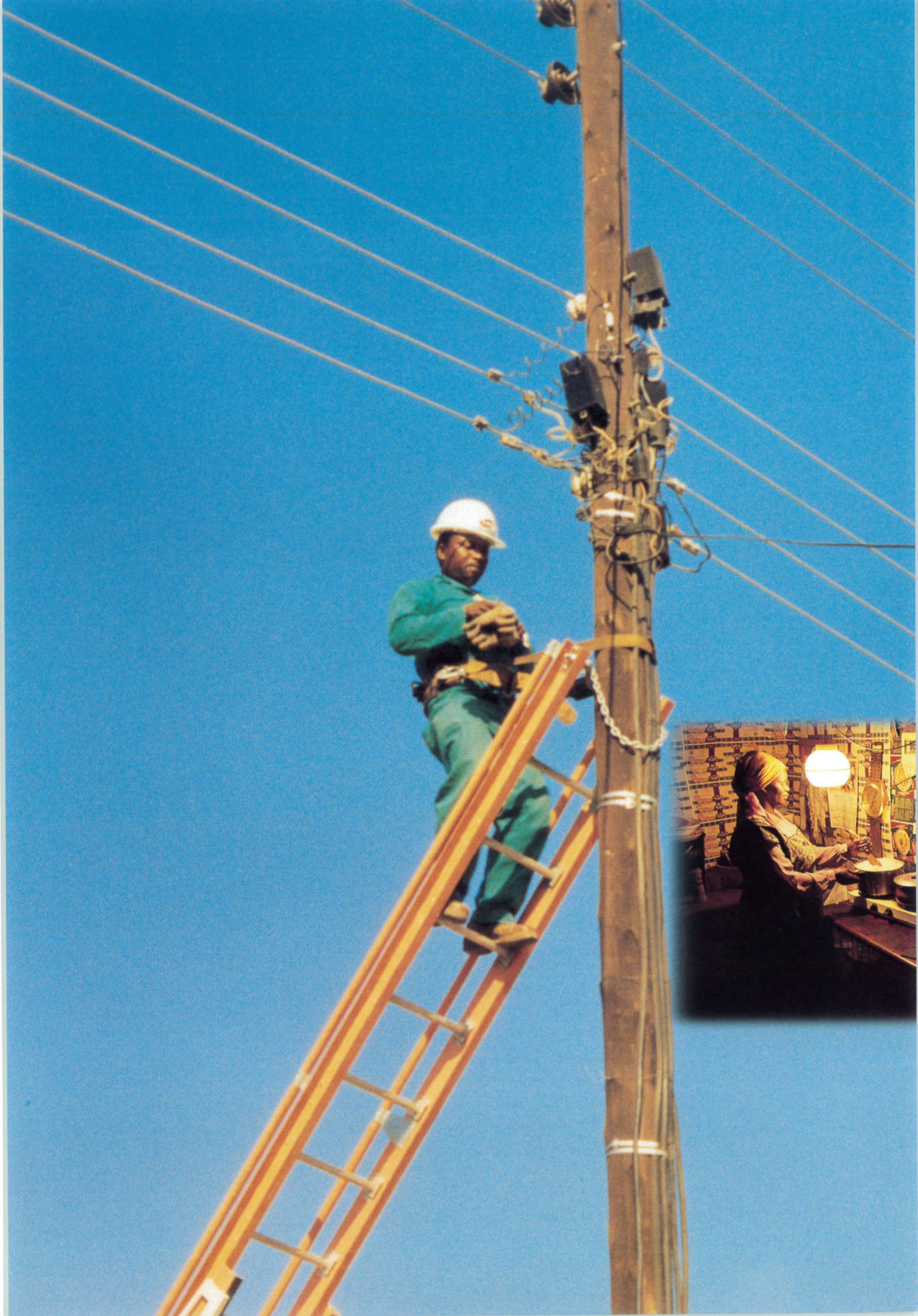
*Durban Wastewater Recycling Project*

### Project objectives

The overall objective of the project is to treat domestic wastewater at the Durban Metro Wastewater Treatment Works to an acceptable standard for industrial use. The treated water will then be sold to high-volume local industrial consumers in the southern Durban industrial basin. The new plant will release to Durban Metro an additional 47 000 m$^3$ of treated water per day for domestic use and delay the capital expansion programme by five years, thereby freeing up metro resources for investments in other areas.

### Background

After preliminary investigative studies and negotiation with the trade unions, Durban Wastewater invited both local and overseas companies to submit bids. Initially, 18 submissions were received. The Metro narrowed its choice to four bidders and finally the French company Omnium de Traitement et de Valorisation SA (OTV), a subsidiary of the Vivendi Group, emerged as the preferred bidder. OTV registered a South African company, Durban Water Recycling (Pty) Ltd. The contract committed the concessionaire to complying with various issues such as local content, the Employment Equity Act, a bursary programme for tertiary education and an extensive training programme.



### Evaluation of project implementation

- *Project scope:* The construction of a clarified pumping station to feed the tertiary treatment is nearly complete.
- *Implementation schedule:* The design phase of the new plant is complete and physical construction has begun. The construction phase is scheduled to take 20 months, ending with the commissioning date.
- *Project cost and funding mechanism:* The funding arrangement is pioneering, at least for the DBSA – it is a PPP that also uses external funds in a special form of on-lending. The total investment is estimated at R72 million, of which the DBSA contributes R34 million and Rand Merchant Bank R21 million. The DBSA contribution also includes a French export credit facility of approximately R15 million.
- *Financial viability:* The sale of 33 000 $m^3$ of water per day is secured under the contractual take-or-pay agreements. In the first year of operation, this will generate R27,9 million. Following interest shown by other companies, the plant's planned production capacity of 47 500 $\ell^3$ per day could soon be utilised, and the availability of wastewater will be crucial. The project's operating costs are fairly low, as it is fully automatic. It is estimated that the plant can be fully manned by 15–20 people.

### Economic benefits

- *Capital cost savings:* This project will achieve important cost savings in the capital budget of the Durban Metro. In addition, Durban Metro will become the owners of the facility after 20 years.
- *Surrounding industries:* Industries such as Mondi Paper, the petrol refineries, SASOL and AECI will pay only 70 per cent of the price of potable water for the recycled water.
- *Future economic development:* This project will release around 47 000 $m^3$ drinking water per day to Durban Metro, and will therefore contribute to sustainable growth of the city in the future.
- *Labour and training benefits:* Although, according to the terms of the contract, most of the equipment will be imported from France, the company committed itself to using local labour, and 15 new jobs will be created. Empowerment groups are involved in the project.

### Conclusion

The project has numerous developmental impacts on the local authority, for industry and for the community of Durban at large. It has brought about a direct foreign investment, and OTV has underwritten the project by more than 50 per cent. The project introduces the latest technology and expertise in water treatment to the South African market. Environmentally, the introduction of a further treatment process will decrease the amount of treated sewage being released into the sea. The project provides evidence that sound and financially viable projects are possible in the water sector, and highlights the potential role that the private sector can play in water management, treatment and distribution.

*Transitional Electricity Distributor Programme: Mpumalanga*

### Transitional Electricity Distributor (TED) Programme: Mpumalanga

The purpose of the TED Programme is to supply electricity to the areas of Nsikazi, Nkomazi and Mswati/Mlondozi in Mpumalanga. The DBSA's funding of Phases I–V was for the electrification of households, commercial and other sites in existing and new developments, with supporting infrastructure for electricity distribution to previously unelectrified areas.

### Evaluation of programme implementation

- *Programme scope:* The total number of connections for Phases I–V was 80 383. At the time of evaluation, most project funds had been disbursed. Phases IV and V of the programme were selected for evaluation because of the involvement of emerging contractors and contractor training.
- *Implementation plan:* The programme design at appraisal included many innovative aspects:
  - Access of potential beneficiaries to the electrification programme was increased through a novel joint venture, the electricity distributor being part owned by the borrower and the community, and through consultative planning of the electrification.
  - Capital cost was reduced through the adoption of more appropriate network design standards, by outsourcing project management to the private sector and by accessing management expertise from Eskom.
  - Financial sustainability was improved by minimising up-front infrastructure investment costs and targeting households with the ability to pay.
  - Employment was enhanced by letting contracts to emerging contractors and providing training.
- *Programme cost:* The total programme cost of Phases I–V was R192,1 million, of which the DBSA contributed 78 per cent. Substantial grant and subsidy transfers from the National Electricity Regulator and Eskom augmented revenue flows.

### Evaluation of operation, maintenance and sustainability

TED's core business and part of its success lies in delivering a single service electricity distribution in the region. It follows a demand-driven approach, involving the participative identification of concentrations of potential customers who are willing and able to pay. TED has adopted a least-cost, upgradeable network design that incorporates overhead power lines, and set some new standards for electricity distributors:

- It adopted an incremental, consultative strategy for electrification supply and connections to households and small businesses.
- It provides training, including technical training, for its own staff members and emerging contractors.
- It has achieved a 95 per cent level of payment for services and is seen to be a credible and client-focused service delivery organisation.
- It deals with non-technical losses through good revenue management, and innovative preventive and surveillance measures for electricity theft and illegal connections.

### Programme impacts

TED has so far connected 50 per cent of the total potential customers in its supply area. It has enabled households and small businesses to use electric lighting and appliances. Its approach has been selective, favouring those better able to afford electricity, with possibly adverse social consequences. The impact of the electrification is also dependent on the affordability of appliances.

The economic viability of the project is improving; this should continue as electricity consumption increases. In addition, electrification has directly benefited the business operations of small sugar-cane farmers and other small enterprises. Emerging farmers have enjoyed significant gains from growing sugar cane under irrigation, using electric pumps.

During construction, TED contributed to employment creation and capacity building – 360 people were employed in Phases IV and V, and contracts were awarded to 58 emerging contractors.

The TED has legislative responsibilities concerning environmental management and requires more environmental expertise. The Environment Conservation Act of 1989 lists the construction or upgrading of facilities for commercial electricity generation and supply as activities that may have a substantial detrimental effect on the environment. To achieve broader sustainability, TED's consumer education programme is encouraging energy conservation through efficient use of electrical appliances.

### Conclusion

TED has provided evidence that electricity distribution can be made affordable and can become profitable and sustainable over time, even in poorer areas. These are valuable lessons for the future governance of the regional electricity distributors and raise the possibility that the TED could be used as a pilot project for future schemes of a similar nature. Because of the absence of integrated development planning in Mpumalanga, however, this programme does not form part of a broader network of service delivery.

## SAWiC programme

The entry of women into the construction industry marks one of the important changes currently under way in infrastructure development. The DBSA supports the meaningful participation of women in the construction sector. Women frequently face obstacles to entry into the industry from poor track records, the absence of effective networks in the sector, inadequate certification and training, and difficulties in obtaining finance. SAWiC is a dedicated organisation that assists and negotiates in the construction industry on behalf of women. It originated as the Women in Construction (WiC) Interest Group initiated by the DBSA and the University of Pretoria in 1997. The DBSA and the WiC Interest Group officially founded the SAWiC Business Trust in August 1999. The objective of SAWiC is to empower women in the construction industry, by enabling them to gain access to training, networks, finance and contracts.

### Networks and activities

To promote gender sensitivity in the construction field, SAWiC and DBSA evaluated several projects. Five project teams received joint SAWiC-DBSA awards for gender sensitivity. The SAWiC work gained such momentum that workshops were held in all nine provinces, and provincial coordinators were elected. Some workshops were also attended by SADC delegations from Zimbabwe and Lesotho, and the secretariat presented the SAWiC programme at the Gama 2000 conference in Gaborone, Botswana.


Black Business
DEVELOPMENT PROGRAMME

Internationally, SAWiC affiliated with NAWiC (North American Women in Construction) in September 1999, gaining access to a large information and training network. Some SAWiC members visited France and participated in the Batimat Building Expo in Dijon during November 1999. As a result, French companies are approaching SAWiC for exchange students and small business opportunities in construction. Negotiations are also under way with the British Council, the Scottish Trade International and the British Consulate.

### Finance

Bridging finance is still a major obstacle. One of the important roles of the SAWiC Business Trust is to mobilise funds. In the meantime, women are organised into joint ventures by SAWiC when two or more have the joint resources to take on a contract. They are also linked into joint ventures with established contractors.

Khula Enterprises guarantees up to 90 per cent of the funding required for a project once a commercial bank has screened the application. However, many women small contractors do not have track records and are disqualified by commercial banks. Fedsure and MCK insurance companies are now developing packages for personal and organisational insurance to suit SAWiC members' needs. The National Urban Reconstruction and Housing Agency provides guarantees for low-income housing projects and also ascertains that the projects are viable and well managed. The South African Women's Empowerment Foundation made the first contribution to the SAWiC Trust on 23 August 1999, thereby enabling SAWiC to offer small bridging loans (up to a maximum of R3 500) to its members. These loans are popular and successful, and it is hoped that this facility will be enhanced by other stakeholder contributions.

*South African Women in Construction programme*

### Contracts

Through SAWiC's mediation, its members' share of contracts is so far worth more than R10 million. These contracts include work on sections of the N3 and N4 toll roads and the Maputo Corridor, housing at Ivory Park, the Empangeni prison and the Nelspruit campus of the Pretoria Technikon. Between contracts, members make African jewellery for the national and international markets; undertake child care, which enables other women to take up contracts; provide catering for contractors; supply books to schools; make overalls for construction; or run hardware shops. SAWiC is a good example of an organisation where women are working closely together to keep up their slogan 'constructing a brighter future' for all.

# RISK MANAGEMENT

Risk management is a key focus of the management processes and culture of the DBSA. The objective of risk management is to identify, assess and manage the spectrum of risks to which the Bank is exposed to control the impact of adverse occurrences within acceptable risk parameters. In so doing, risk management protects the balance sheet and the Bank's favourable domestic and international credit rating, which is a vital consideration in accessing low-cost funding.

Risk management also supports the Bank's corporate strategic goals and key management focus areas, which are:

- accountability and diligence
- management of change
- client relations and partnerships
- communication and awareness
- funding and financing
- business renewal
- research and development.

The Bank's risk management capacity was strengthened during the year under review. The development of risk management has improved the organisation's confidence to develop new business initiatives, with capacity for timely risk assessment and mitigation of proposed products and instruments before implementation.

## Risk management structure

Risk is managed and monitored within a risk management framework by the committees of the Board, executive and operational management, the independent risk and compliance functions, and the risk management functions of the operational units. Guided by policies approved by the Board, and supported and monitored by a dedicated centralised risk management unit that focuses on credit risk, the risk management functions are integrated within the business and operational activities where the specialised skills of the business process are vested.

## Key areas in risk management

Credit risk can be defined as the possibility of a loss due to the inability of counterparties or borrowers to meet their repayment obligations. Credit exposure is measured in terms of both current and potential exposure. It is generally represented by the principal value of on-balance-sheet financial instruments, such as the development loans, investments and other assets, and off-balance-sheet direct credit substitutes such as guarantees. Credit risk exposure is measured by internal client credit rating, adjusted by the risk weighting of security held in support of loan debt.

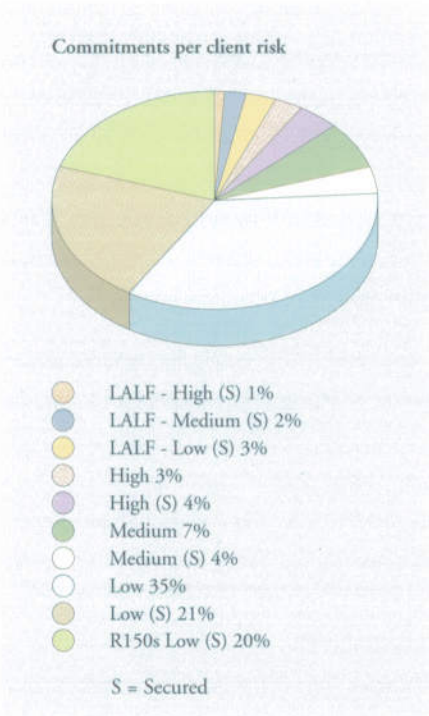
### Credit risk

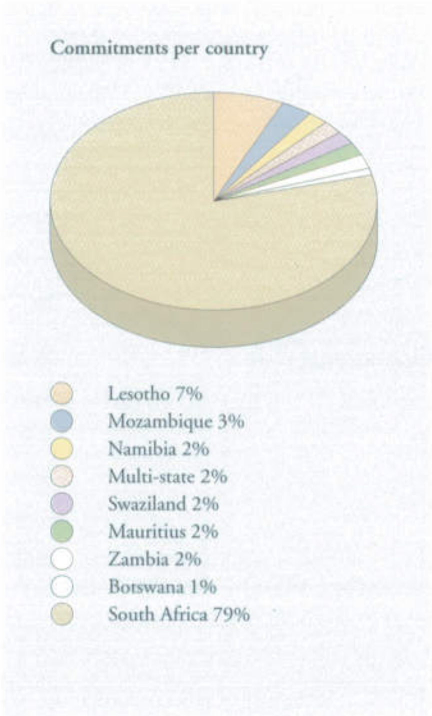
Credit risk is actively managed at the individual project transaction and counterparty levels, using a variety of qualitative and quantitative measures. It is managed from initial credit approval through to repayment of the credit. Initially, a full borrower appraisal and credit rating is conducted, complemented by project appraisal and, where applicable, country risk assessment. Monitoring during implementation and surveillance during the loan repayment period is maintained through client contact, credit rating review and loan loss provisioning. Management of this risk is reflected in the quality of the loan book.

During the year under review, international consultants assisted the DBSA in identifying areas in credit risk management where refinement of policies, measurement and control will ensure that risk management complies with current international best practice. While the assessment of risk management in the Bank was favourable, the dynamics of the environment require regular review of risk control methods. The guidance that was provided established a strong platform from which to address the challenges of new and innovative business development in a changing environment and has identified areas for further research on risk identification and mitigation.

## Portfolio risk

The DBSA's appetite for risk is expressed in its exposure limits policy, which sets maximum single obligor and country limits. The loan portfolio is reasonably diversified between South Africa and the rest of SADC, and within SADC countries. Sectoral and geographic spread is also satisfactory, both in South Africa and in the rest of SADC.




## Market risk

Market risk can be defined as the possibility of a loss due to changes in market prices and rates, and the correlations among them. The market risk to which the DBSA is exposed includes:

- *Interest rate risk:* This is the spread between the cost of borrowing and the return on the loan portfolio. The Bank's lending rate is based on a cost pass-through formula, which traditionally helps limit the interest rate sensitivity of the spread earnings on the Bank's loan portfolio. In addition, the Bank's borrowings have been funded largely with medium- to long-term borrowings, which provide a reasonably stable interest rate basis. The Bank also uses interest rate swaps to closely align the rate sensitivity characteristics of the loan portfolio with that of the underlying funding. Interest rate risk also arises from the different repricing of assets, liabilities and contractual maturities. As part of the asset and liability management process, the Bank is implementing the asset and liability management (ALMAN) system to manage the mismatch between assets and liabilities. The interest rate risk of the Bank's liquidity policy is limited to particular markets, instruments and duration.

- *Exchange rate risk:* The Bank matches its borrowing obligation in any currency with assets in the same currency. In addition, it only enters in forward exchange contracts and cross-currency swap agreements with reputable counterparties rated A2 or better by international credit rating agencies.

**Liquidity risk**

Liquidity risk is the ability of the DBSA to meet its financial obligations as they fall due, and manage the mismatch in the maturing of assets and liabilities. Under the Bank's liquidity policy, aggregate liquid assets holdings should be kept between 15 and 30 per cent of fixed outstanding loan commitments. The Bank uses a wide maturity spectrum to fund its borrowings. Liquidity holdings are held mainly in government securities, call and term deposits.

**Project and development risk**

All elements of development projects are appraised before investment decisions are made. The expected development impact is quantified in a number of indicators serving as benchmarks for later monitoring and evaluation. Financial, institutional, social, technical and environmental elements of projects are likewise appraised, mitigated where necessary and risk rated for later evaluation. Reputation risk is closely related to the interface with co-financiers and clients in project funding. New initiatives in the development of financial lending instruments, in accounting and information technology, and in other spheres of project work, are launched to keep abreast of global developments of products and services.

**Operational risk**

Insurable asset and liability risks are insured and annually reviewed. Systems and procedures are continuously reviewed and appraised. Procurement policy has been overhauled and anti-fraud and corruption measures adopted, supported by a hotline facility to encourage staff to expose any abuse. The DBSA adopted a new code of conduct as the norm for organisational and personal behaviour. Employment equity policy and planning are being implemented, providing not only for bringing about equity in numbers but also providing for skills training and succession planning, both of which are important areas of human resource risk. The Public Finance Management Act requires clear objectives and achievement targets to be set and reported on. Systems have been adjusted or developed to create the capacity to comply with the reporting requirements. With these measures, the Bank's risk profile has become more measurable and manageable.

## Ongoing risk management research and development

During the year of review, substantial progress was made with the refinement of risk classification and measurement policies and methodologies. The DBSA is refining its formal security-requirement policy and its risk-pricing policy and methodology. The Bank commissioned an investigation by international consultants into risk management policies and practices. This research was conducted by Arthur Andersen International, using grant funding from the Programme for Human Research and Development of the World Bank as capacity building assistance to the Bank. The report deals with risk organisation, risk information and benchmarking, and identifies areas where refinements should be introduced over time.

The Bank successfully conducted the Y2K programme as a risk mitigation activity during 1999. The focus was two-fold, internal and external, the latter with technical support and funding assistance to clients. No Y2K problems were encountered.

## Risk management training

The DBSA has promoted risk awareness and engaged in management training, both internally and for external clients. Training of risk staff and operational staff has enjoyed high priority.

- *Internal:* The implementation of risk policies and procedures has also been a tool for fostering awareness and training staff. Selected staff attended local and overseas training courses, and a team of international trainers were contracted to present a ten-day advanced risk management course at the Bank. Exchange programmes with the African Development Bank and others have also been introduced to provide international exposure to Bank staff. Staff are assisted financially to enrol for risk management courses at tertiary institutions.
- *External:* The Bank participated actively in the national Y2K programme. It conducted surveys of external clients to foster awareness of Y2K risk, and provided technical assistance and loan funding to upgrade or replace outdated information technology systems. Several risk awareness presentations were held for clients both at the Bank and at venues such as at the Lesotho Highlands Development Authority. Staff from other development institutions in South Africa and elsewhere in Africa also attended the international advanced training course in risk management presented at the Bank.

The DBSA is committed to continuously reviewing and updating its governance processes and practices to ensure that the Bank is managed ethically and responsibly. The Bank believes that effective corporate governance involves a combination of self-regulation and compliance with the regulatory environment in which it operates.

### Principles of corporate governance

The responsible and ethical leadership of the Bank is supported by the following principles:

- *Ethical leadership:* During 1999, the DBSA conducted a strategic review of the development business of the Bank. In February 2000, the Board supported the Vision 2004 proposals to renew its development approach and expand its business, as described in the Chief Executive's report. These proposals will be developed into implementation strategies in the coming year.
- *Business planning and performance reporting:* The DBSA manages and monitors its business operations through an annual business planning and budgeting process. Performance management and auditing processes underpin the monitoring of and reporting on the achievement of its business objectives. Annual unit and corporate budgeting and control systems further ensure efficiency and effectiveness in achieving these objectives. The Remuneration Committee of the Board evaluates the performance of the Chief Executive Officer and reviews the performance of the executive managers. Frameworks for evaluating the effectiveness of committees of the Board of Directors and of Board members were presented to the Chairman and the committees as part of a self-evaluation system.
- *Code of business conduct:* Since 1988, the Bank has, as part of the conditions of service, set standards of conduct for staff; these include the protection and promotion of the dignity and interests of the Bank. In 1999, the Bank, after a thorough consultation process, adopted a code of business conduct. Subsequently, special arrangements were implemented to ensure that, on an operational level, any staff member who may derive a direct or indirect benefit from a project is excluded from its preparation and from approval of its funding. Likewise, Board members who may have an interest in a project are recused from the Board proceedings during the discussion and approval of the project. A fraud hotline has been installed and the Audit Committee considers regular fraud reports. To date, the Bank has not suffered significant losses due to fraud or theft.
- *Communications with stakeholders*: The Chairman and Chief Executive Officer regularly discuss the business imperatives of the Bank with the shareholder representative, the Minister of Finance. As part of the review of the strategic vision, an executive team engaged with the relevant government departments. The DBSA facilitates regular interaction between its executive, the Portfolio Committee on Finance and the Select Committee on Finance of the National Council of Provinces. Members of these committees visited Bank projects in KwaZulu-Natal and Gauteng. With the replacement of the Reporting by Public Entities Act by the Public Finance Management Act as from 1 April 2000, the Bank is increasing its reporting, especially on risk and financial issues, to the shareholder through the Department of Finance.

- *Regulatory environment:* The Development Bank of Southern Africa Limited was established in 1983 in terms of an Establishment Agreement. It was reconstituted in 1997 as a statutory body with the promulgation of the Development Bank of Southern Africa Act, No 13 of 1997 (DBSA Act). The regulations in terms of the DBSA Act stipulate that:
  - the principles of company law apply to the Bank as though it had been incorporated in terms of the Companies Act, 1973
  - the Bank must adhere to generally accepted accounting practice (GAAP) and implement international corporate practice.

  As required by the Reporting by Public Entities Act, the Bank has established a compliance function. The Board adopted a compliance framework that supports compliance monitoring through self-regulation by functionaries.
- *King Code compliance:* A compliance audit of the requirements of the King Committee code of conduct found that the organisation materially complies with the pertinent recommendations of the report.

## Governance structure

- *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, read with the Reporting by Public Entities Act.
- *Minister of Finance:* 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 line with the stated strategic direction of the Bank.
- *Directorate:* The Board is charged with directing the business of the Bank. It monitors the operational functioning of the Bank through detailed reporting, and annually approves the overall funding and lending strategies. The Bank regularly engages with management to ensure that financial and human resources are optimally employed. The unitary Board, with one executive director out of 14 appointed directors, meets at least six times a year. The Board appoints the Chairman annually, with the consent of the shareholder. Professor Wiseman Nkuhlu served as the Chairman of the Board during the year under review. The chairperson and committee members of the Board are non-executive members and are confirmed annually. The following Board committees were constituted to ensure that the Board operates effectively and efficiently:
  - *Audit Committee*: The Committee has existed since the establishment of the Bank in 1983 and met four times during the year under review. It facilitates systematic interaction between the Board and the Bank's external and internal auditors, and is responsible for monitoring the internal controls of the Bank. Specialised expertise on treasury and audit matters were secured by the co-option of T Sewell and L Konar on the Audit Committee in January 1998. Their advice and support are highly valued.

- *Investment Committee:* Constituted in December 1997, the Committee expedites the approval of projects between Board meetings. It has six core members, but other members of the Board may attend. The Committee meets as required and met once in the year.
- *Employment Equity Committee:* This Committee was established in 1995 to oversee the transformation of the internal structure and human capital. The Committee met twice in the year.
- *Remuneration Committee:* Constituted in February 1998 to deal the remuneration of the Board and executive management, the Committee also assists the Managing Director with the appointment of executive managers and the monitoring of their performance. The Committee meets as required and met twice in the year.

- *Chief Executive Officer and Managing Director:* In terms of the provisions of the DBSA Act, the Chief Executive Officer is charged with the day-to-day management of the Bank's operations, as well as with providing strategic and policy direction to the Board and the shareholder representative.
- *Internal control:* The Board recognises the requirement to maintain internal operational and financial control. The executive managers attend the meetings of the Board and its committees, as required by the Board. The Managing Director and the Chairperson of the Audit Committee regularly meet with the internal and external auditors.
- *Secretary:* In terms of regulation 119, the Board formally appointed a secretary in 1998.

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

In preparing the financial statements:

- Development Bank of Southern Africa Act, No. 13 of 1997, has been adhered to
- Reporting by Public Entities Act, No. 93 of 1992, has been adhered to
- Statements of generally accepted accounting practice (GAAP) have been adopted in respect of the financial statements.

To enable the Directors to meet the financial reporting responsibilities:

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

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

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

The financial statements that appear on pages 51 to 83 were approved by the Board of Directors on 22 June 2000 and signed on its behalf by:

**W L Nkuhlu**
**Chairman of the Board**

**I A Goldin**
**Managing Director**

**R A 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, set out on pages 51 to 83 for the year ended 31 March 2000. 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.

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.

**Scope**

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.

**Opinion**

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 2000, 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.

Ernst + Young

**Ernst & Young**
***Chartered Accountants (SA)***
***Registered Accountants and Auditors***
***Johannesburg***
***22 June 2000***

Gobodo Inc.

**Gobodo Inc**
***Chartered Accountants (SA)***
***Registered Accountants and Auditors***
***Johannesburg***
***22 June 2000***

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2000. 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 2000 and the results of its operations and cash flow information for the year then ended, and were approved on 22 June 2000.

Corporate governance in the Bank is described in the corporate governance statement from page 42.

## Function of the Bank

*Nature of the business*: The DBSA is a development finance institution wholly owned by the South African government. It supports economic development, growth, human development and institutional capacity building in southern Africa, primarily through infrastructure investments. One of five national development finance institutions tasked with promoting development, the DBSA supplements the flow of private and public funds by forming partnerships, with both the public and private sector, for infrastructure development projects.

*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 corporate strategy and business planning activities occur within a three-year business cycle, and an approved annual business plan sets the objectives for the organisation on a yearly basis. The Board of Directors provides the Bank with key corporate goals, objectives and performance criteria. The Chief Executive Officer and his executive management team ensure 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 contract with the executive management, who in turn contract with the Chief Executive Officer, to implement the corporate strategy and business plan, and report on their performance against these objectives at regular intervals.

The Board of Directors approved the business objectives for 1999/00 in March 1999, as required by the Reporting by Public Entities Act. The contracted objectives aim to maximise the development impact of the Bank's investment and to ensure financial sustainability, optimal deployment of human resources and consistently improved stakeholder relations. They also address client expectations, human resources development and the Bank's impact on the environment. During October 1999, these objectives were amended to clarify the objectives for the DBSA's exposure to the rest of SADC and for co-funding to be leveraged from other sources. Monitoring and review of actual progress took place between managers and executive managers on a monthly basis, while quarterly review reports were discussed at management level. The Chief Executive Officer reported on progress at each Board meeting.

The Bank's performance in terms of these objectives is detailed in this report.

**Maximisation of the development impact of the Bank's investment**

New investment loans to a value of R2,0 billion were approved in 1999/00, below the target of R2,1 billion and the total of R2,5 billion achieved in 1998/99. Of these new approvals, 63,4 per cent were in South Africa. The main investment areas were the metropolitan regions of Gauteng and the Western Cape, national projects (such as the N3 toll road) and public-private sector projects in KwaZulu-Natal and Mpumalanga. Projects valued at R734 million were approved in the broader SADC region, increasing total cumulative approvals to the rest of SADC to R4,5 billion, or 21 per cent of the DBSA's cumulative approved projects. The Bank's cumulative approved loans increased by 10,5 per cent from 1998/99, to R21,1 billion. The Bank also made disbursements on investment loans to a value of R1,7 billion, lower than the target of R2,7 billion. The Directors attribute this decrease in disbursements mainly to the reduced capacity of local authorities to implement development programmes and their reluctance to enter into new commitments during the municipal demarcation process. This situation is likely to continue until after the local authority elections.

To enhance the flow of development funding to South and southern Africa, the DBSA set itself a target of leveraging additional funding from other sources in the public and private sectors. The target was R3 from other sources for every R1 approved by the DBSA on all projects and a ratio of 1:8 on private sector projects, and it achieved leverage ratios of 1:2,2 and 1:5,5 respectively. In public sector co-funding projects, it achieved a leverage ratio of 1:1,2, above the target of 1:1. The private sector was relatively hesitant to co-fund public sector projects in South Africa, but mobilising such funding proved easier in the rest of SADC and in pure private sector projects supported by the DBSA. The Bank's Private Sector Unit continued to facilitate the private sector's contribution to socio-economic development in South and southern Africa.

Despite the decline in new approvals, the DBSA continued to assist the development of communities by providing access to appropriate and sustainable infrastructure services. It is estimated that a potential 1,1 million households will benefit from investment in projects approved during 1999/00; this comfortably exceeds the 800 000 target. The DBSA's rigorous appraisal of its projects is aimed at ensuring an optimal development impact, the sustainability of each project, and benefiting the client through attending to the economic, institutional, social, environmental and technical aspects of each project.

One of the principal measures of the development impact of the DBSA's operations is the direct and indirect effect of its investments on employment creation during the construction and operation of these projects. It is estimated that, despite a decline in the approval of new projects, the DBSA's operations during 1999/00 resulted in the creation of 24 500 person-years of new employment opportunities and a further 9 200 person-years through the operation of funded projects. The total employment created during 1999/00 is calculated at 33 700 person-years, as against a target of 35 000. The Bank's continuous appraisal process, which ensures that the development impact of projects is optimised, contributed to this result.

The DBSA made a significant contribution to development through its technical assistance and support. It increased its grant approvals to R6,3 million (R4,9 million in 1998/99) and grant funding to R4,8 million (R2,6 million in 1998/99).

Technical assistance was directed mainly at strengthening planning capacities and initiatives, strengthening the policy and technical aspects underpinning infrastructure provision, and building the institutional capacity of delivery agents and regulatory bodies.

The Bank's staff continued to support clients by participating in developmental processes, providing advice and information, and engaging in policy dialogue. The value of this support is estimated at R7,4 million, giving a total of R12,2 million of technical support provided by the Bank. This figure amounted to 14,4 per cent of the cost of the operational complex, well above the target of 7,5 per cent, and was the result of an increase in the demand for technical support in the latter part of the year as clients increased their development activities after the national elections.

As part of its support activities, the DBSA contributed to the national debate on development issues. Several initiatives were supported, including the application of the Combined Services Model (CSM) in local authority areas and the facilitation of a similar model for district council areas. The value of the CSM as a tool for development received national recognition – the DBSA won a Gold Award from the National Productivity Institute. The Bank continued to promote development thinking on important infrastructure issues through contributing to national committees, providing inputs to, among others, extending the delivery of higher educational programmes in Namibia and Mozambique, and supporting the Office of the President on key research projects.

The DBSA also continued to support a variety of initiatives through agency arrangements. These included the implementation of the government's Spatial Development Initiative Programme, the Investment Project Preparation Fund aimed at promoting development on communal and state land, and the Community Private Partnership Programme, which facilitates new investment partnerships between the public and private sectors and communities, based on the utilisation of natural resources. These agency arrangements involve DBSA support in the form of facilities, funding and administration.

**Financial sustainability**

The Bank applies sound financial and risk management practices. Its financial performance for 1999/00 is reflected in the financial statements in this *Annual Report.*

The DBSA maintained its domestic AAA long-term and A1+ short-term credit rating from the independent international rating agency, Fitch IBCA. During the year under review, the DBSA was awarded a Baa3 international credit rating by Moody's. This investment grade rating is equal to the sovereign rating awarded to South Africa.

The funding liquidity level reported is 23,4 per cent of commitments, which falls within the target of between 15 and 30 per cent of commitments. The DBSA's weighted cost of borrowing decreased to 14,2 per cent from 15 per cent in 1998/99.

The debt-equity ratio for 1999/00 was 1,11:1, as against 0,92:1 for 1998/99; this was still well beneath the ceiling of 2,5:1. The return on assets was 2,7 per cent for the year, as against a target of 2,0 per cent and a 1998/99 figure of 4,5 per cent. The lower return on assets is mainly attributable to changes in accounting policies on foreign loans and derivative financial instruments. As a result, the surplus for the year was decreased by R95 million, while the previously reported 1999 surplus of R509 million was increased by R109 million. Full details on the changes in accounting policies are contained in the annual financial statements.

The Bank continually improves its risk management in support of corporate strategic objectives. Current risk management policies and procedures were validated during the year under review, firstly through benchmarking to international best practice standards and secondly by Moody's in awarding the DBSA its premier rating. The year has seen further development of an exposure limit model for country risks and policies on country risk ratings, risk spread and pricing, security for loans, and on the administration of securities. The Board approved these policies in December 1999.

Risk awareness has grown considerably within the DBSA and among its clients through the borrower and project appraisal process, and through increased attention to corporate governance. During appraisal of any new project, a thorough appraisal of risk factors particular to that client and project are made and, where a client has a high-risk profile, risk mitigation instruments are employed. During this process, the Risk Management Unit also verifies that risk management policies and procedures are complied with and that risks are appropriately identified, quantified and mitigated. As 46,4 per cent of the DBSA's cumulative approved loan programme is currently in the evaluation phase (this phase grew by 30,8 per cent during 1999/00), operations units increased their attention to surveillance. Procedures for surveillance are in place, and the operations units conduct regular project surveillance visits.

### Optimisation of deployment of human resources

The year brought many challenges to human resource management, not least as a result of the promulgation of the Skills Development and Employment Equity Acts. The Bank initiated a process to align its training and development activities with the Skills Development Act and the National Qualifications Framework policies and procedures. The first employment equity report, developed through a participatory process, was submitted to the Department of Labour, and the draft employment equity plan will be submitted to the DBSA Board during the first half of 2000/01.

### Affirmative action results

| Achievements in target staff category | Designated groups | | |
|---|---|---|---|
| | White women (%) | Black men and women (%) | White men (%) |
| Composition of staff (442 in total) | 22 | 46 | 32 |
| Distribution of promotions (14 in total) | 7 | 50 | 43 |
| Distribution of recruitment (35 in total) | 14 | 83 | 3 |

The DBSA further strengthened its staff competency levels and 3,5 per cent of the operating budget was used for training, as against the 3,0 per cent target for the year. In total, 2 040 days were utilised for staff training.

The DBSA's staff complement decreased from 446 to 442 through a natural process of attrition, with 35 new recruitments and 39 resignations. The average job retention rate was 8,7 years for staff employed during 1999/00 and the staff turnover ratio is 10,8 as against 7,9 the previous year. The marginal increase in staff turnover can be ascribed to high demand for black professionals in particular. The DBSA also continued to develop a job cover system and staff retention programmes, such as an incentive programme and the promotion of a good working environment; these are scheduled to be in place by 2000/01. The Bank aims to achieve employment equity through the application of its affirmative action policy and the execution of the draft employment equity plan.

In the performance management process, each staff member enters into a performance contract with management on the objectives and targets for the year. Performance is reviewed on a six-monthly basis, and increases in remuneration and performance bonuses are linked to staff performance. During 1999/00, 99 per cent of staff followed this process; this promoted the alignment of staff and unit activities with corporate objectives.

### Strengthening international relations

The DBSA continued to strengthen its relations with international banking and development institutions from Canada, Europe, Africa and Japan, and collaborated with the World Bank, African Development Bank and other multi- and bilateral development agencies. Relationships with African, European, Japanese, North and South American, Canadian and Australian governments were also maintained, to enhance the DBSA's effectiveness.

### Stakeholder relations

The DBSA continued to operate within its mandate and to keep its shareholders informed. Its business objectives were approved and continuously reviewed by the Board. Regular Board meetings were held throughout the year. In addition, the Chairman and Chief Executive frequently consulted with and reported on the Bank's business imperatives to the Minister of Finance, the shareholder representative. As part of the Bank's review of its strategic vision, the executive team engaged with various government departments, the Portfolio Committee on Finance and the Select Committee on Finance of the National Council of Provinces. The DBSA facilitated a visit by the Parliamentary Committee on Finance to development projects in KwaZulu-Natal, as well as a Board tour to projects in the Western Cape. These visits were aimed at providing exposure to the development issues and operating environment of the DBSA.

The DBSA continually aimed to align its support activities and those of the relevant regulating authorities, governments and development agencies. It has signed three Memoranda of Understanding with provincial governments. Formal arrangements are in place with Swaziland, Malawi, Seychelles, Lesotho (via the Lesotho Highlands Development Authority), the Komati River Basin Water Development Authority, Mauritius (a draft agreement with the Development Bank of Mauritius) and the Development Corporation in Namibia. An understanding was reached with the African Development Bank on support for development in the Seychelles; this provides a basis for further cooperation in the SADC area. The DBSA is also the interim secretariat for the development finance institutions of the SADC area.

All South Africans, especially poor communities and groups with an interest in development matters, are considered stakeholders of the DBSA. Accordingly, the DBSA supported several development-related causes. It made its facilities available and supported activities such as the Women in Construction seminar (September 1999), as the entry of women in the construction industry is one of the key current transformations in development. It also sponsored a workshop on targeted procurement, at the request of the Construction Employment Forum, to promote understanding of this issue among its clients.

The DBSA Policy Unit likewise supported several national and international initiatives aimed at improving the understanding of development and related issues. The Bank became a member of the African Development Policy Network, established in February 2000 as a follow-up to the inaugural meeting of the Global Development Network. The Network is an emerging international association of research institutes and think-tanks on development and on socio-economic and political transition. In response to the need for development information to promote informed decision-making, the Development Information Unit established a public development information centre, which was operationalised during the year under review.

**Satisfying clients' expectations**

To realign itself with the changing operating environment and the needs of its beneficiaries, the DBSA commissioned a review of its marketing plan. This review is due for completion early in 2001. The Bank remained committed to delivering its support to stakeholders within acceptable time frames, seeking to meet their requirements. A client survey is envisaged as part of the marketing plan. Turnaround times on project approvals were the same on average as in 1998/99. The DBSA is critically reviewing its organisational business processes to ensure a further improvement in the efficiency of its operations. The World Bank assisted with funding for these reviews, which now form the basis for the second phase of business renewal, scheduled for 2000/01. The organisation continued to develop its service levels; some units finalised agreements and a draft joint agreement was developed for all units. This process will be completed in the new year.

As a development institution, the DBSA remained sensitive to the needs of the society. The recent floods in southern Africa challenged the DBSA to deliver the most effective and efficient support to meet the urgent needs of communities struck by disaster. In response, the Bank approved and provided grants to the most seriously affected areas in South Africa to a value of R375 000, and also made a facility of R200 million available at special concessionary terms to institutions responsible for repairing flood-damaged infrastructure.

**Moderating possible adverse effects on the environment**

As part of its support for sustainable development, committed Bank teams appraise projects and programmes for environmental risk. Where an appraisal process indicates that a project must engage in certain activities to comply with environmental legislation, this is included as a requirement in the loan agreement. Technical support for local authorities is part of the Bank's contribution to building public sector capacity for environmental management. Various environmental technical assistance grants were approved during the year to support capacity building in local authorities and district councils.

## Health and safety

The DBSA'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, operated in compliance with the Act and met regularly. Only two minor incidents of injury on duty occurred on the Bank's premises during the current financial year. These were not due to the Bank's negligence, and 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 was declared for this financial year.
*Capital expenditure:* R3 165 000
*Investments:* Details of the Bank's significant investments are set out in notes 1.6 and 4 to 6.
*Post-balance sheet events:* No significant events occurred between the year-end and this report. However, funding took place in the ordinary course of business to the amount of R 1 064 million, from various sources.
*Audit Committee information:* The names of the Audit Committee members are reflected in the table below. During 1999/00, four meetings were held.
*Directorate and secretariat:* The names of the members of the Board of Directors appear on pages 10 and 11. Mr William Malema Ramoshaba, who was appointed to the Board in 1997, resigned in February 2000. Board committee memberships are reflected below, and the address of the Bank's Secretariat is on the inside back cover.

## Board committees

| | |
|---|---|
| *Audit Committee* | Dr R A Plumbridge (Chair), Dr I A Goldin, Dr L Konar (co-opted), Prof W L Nkuhlu, Ms H Nyasulu , 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, 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 |

# BALANCE SHEET
## AT 31 MARCH

| | Notes | 2000 R'000 | 1999 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash, cash equivalents and tradable securities | 2 | 1 300 114 | 1 199 075 |
| Trade and other receivables | 3 | 599 581 | 1 894 597 |
| Other investments | 4 | 3 253 000 | 3 160 000 |
| Development investments | 5 | 93 056 | 79 488 |
| Development loans | 6 | 10 280 782 | 9 192 998 |
| Property and equipment | 8 | 40 025 | 40 528 |
| **Total assets** | | 15 566 558 | 15 566 686 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Issued capital | 9 | 200 000 | 200 000 |
| Development fund | 10 | 3 792 344 | 3 792 344 |
| Accumulated surplus | | 3 062 622 | 2 676 460 |
| **Liabilities** | | | |
| Trade and other payables | 12 | 675 371 | 2 476 387 |
| Short-term financing | 13 | - | 291 140 |
| Medium- and long-term financing | 14 | 7 835 964 | 6 128 786 |
| Donor contribution fund | 15 | 257 | 1 569 |
| **Total shareholders' equity and liabilities** | | 15 566 558 | 15 566 686 |

| | Notes | 2000 R'000 | 1999 R'000 |
|---|---|---|---|
| **Operating income** | | 570 232 | 783 453 |
| Interest income | 16 | 1 845 887 | 1 643 428 |
| Cost of funding | 17 | (1 093 268) | (789 316) |
| Net interest income | | 752 619 | 854 112 |
| Specific and general risk provision | 18 | (191 936) | (80 592) |
| | | 560 683 | 773 520 |
| Other income | 19 | 9 549 | 9 933 |
| **Operating expenses** | | (152 563) | (168 869) |
| Technical assistance grants | | (4 743) | (2 580) |
| Foreign exchange (gains)/losses on foreign borrowings | | 28 725 | 903 |
| Personnel | | (127 696) | (122 580) |
| General and administration | 20 | (45 864) | (40 746) |
| Depreciation | 8 | (2 985) | (3 866) |
| **Surplus from operations** | | 417 669 | 614 584 |
| **Retained surplus for the year** | | 417 669 | 614 584 |

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MARCH

| | Notes | Share capital R'000 | Development fund R'000 | Accumulated surplus R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 1998** | | 200 000 | 3 792 344 | 2 034 884 | 6 027 228 |
| - as previously reported | | | | 2 139 014 | |
| - changes in accounting policy | 28 | | | (104 130) | |
| Surplus for the period - restated | | | | 614 584 | 614 584 |
| - reported previously | | | | 501 265 | |
| - changes in accounting policy | 28 | | | 113 319 | |
| Net gains and losses not recognised in the income statement | | | | 26 992 | 26 992 |
| - as previously reported | | | | - | |
| - changes in accounting policy | 28 | | | 26 992 | |
| **Restated balance at 31 March 1999** | | 200 000 | 3 792 344 | 2 676 460 | 6 668 804 |
| **Balance at 1 April 1999** | | 200 000 | 3 792 344 | 2 676 460 | 6 668 804 |
| - reported previously | | | | 2 640 279 | |
| - changes in accounting policy | 28 | | | 36 181 | |
| Net gains and losses not recognised in the income statement | | | | (31 507) | (31 507) |
| Surplus for the period | | | | 417 669 | 417 669 |
| **Balance at 31 March 2000** | | 200 000 | 3 792 344 | 3 062 622 | 7 054 966 |

| | Notes | 2000 R'000 | 1999 R'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | | 64 717 | 1 201 457 |
| Interest received from development activities | 24.1 | 1 327 657 | 1 054 401 |
| Interest received from investments | 24.2 | 506 343 | 519 572 |
| Interest paid | 24.3 | (984 413) | (736 175) |
| Other operating expenditure paid | 24.4 | (784 870) | 363 659 |
| **Net cash outflow from development activities** | | (1 279 790) | (2 183 485) |
| Development loan disbursements | 6 | (1 700 681) | (2 455 703) |
| Development loan principal repayments | 24.1 | 431 006 | 286 488 |
| Development investments | | (3 037) | (9 158) |
| Donor contribution funds disbursed and repaid net of interest received | 15 | (2 335) | (2 532) |
| Technical assistance grants paid | | (4 743) | (2 580) |
| **Net cash outflow from investment activities** | | (3 072) | (4 616) |
| Investment in fixed assets | | (3 165) | (4 616) |
| Net acquisition of other investments | | 93 | - |
| **Net cash inflow from financing activities** | | 1 319 184 | 612 494 |
| Donor contribution funds received | 15 | 1 023 | 1 917 |
| Investments made | | (93 000) | - |
| Short-term financing repaid | | (290 960) | (13 984) |
| Interest-bearing borrowings repaid | | (3 038) | (3 796) |
| Interest-bearing borrowings raised | | 1 705 159 | 628 357 |
| Movement in cash and cash equivalents | | 101 039 | (374 150) |
| Cash and cash equivalents at the beginning of the year | | 1 199 075 | 1 573 225 |
| Cash and cash equivalents at the end of the year | | 1 300 114 | 1 199 075 |

## 1. Accounting policies

### 1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for certain investments and financial instruments, as described in the investment policy note. The policies on which the annual financial statements are based conform with statements of 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, except where indicated otherwise. Changes in accounting policies during the year in respect of derivative financial instruments and foreign currency denominated loans are detailed in note 28.

### 1.2 Property and equipment

**a. Building**

The head-office building was constructed on land donated to the Bank by the South African Government. The building, including improvements, is stated at historical cost. The residual value of buildings is equal to or exceeds the book value, and the building is therefore depreciated at a rate of nil.

**b. Other fixed assets**

All other fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight-line basis, over the expected useful life of the asset.

The rates used to depreciate fixed assets are as follows:

| | |
|---|---|
| Furniture and fittings | 10% |
| Motor vehicles | 20% |
| Computer equipment | 33,33% |
| Other equipment | 20% |

### 1.3 Financial instruments

#### 1.3.1 Bonds

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 bonds or financing costs as at the balance sheet date.

The discount or premium on the issue of registered bonds is amortised over the life of the bond, based on the yield to maturity. Other bond issue costs are amortised based on the straight-line method over the life of the bond. Amortised discounts, premiums and other bond or financing costs are recorded as an element of interest expenditure.

#### 1.3.2 Derivative financial instruments

The Bank is party to a variety of forward exchange contracts and swaps in its risk management activities. Derivatives are classified as hedge instruments according to the intention of management.

In particular, derivatives are accounted for as hedges when the instrument is entered into with the intention to hedge risk on a particular transaction; the hedge instrument is effective in hedging against foreign currency or interest rate volatility and cash flows resulting from the hedge correspond to the cash flows resulting from the underlying transaction.

Forward exchange contracts, cross currency swaps and interest rate swaps are stated at the fair value by using discounted cash flow techniques based on anticipated future interest rates, which are based on interest rates quoted in the financial markets on the reporting date.

Fair value calculations are based on the assumption that the Bank is a going concern without any intention or need to liquidate or materially curtail the scale of its operations.

A derivative instrument or part thereof which fails to meet the criteria of a hedge is classified as a trading instrument. Unrealised gains and losses relating to trading instruments are recognised in the net profit or loss for the period and a corresponding asset (unrealised gains) or liability (unrealised losses) is recognised on the balance sheet.

Unrealised gains and losses relating to designated cash flow hedges hedging against currency or interest rate risks associated with future anticipated cash flows are recognised as a component of equity and a corresponding asset (unrealised gains) or liability (unrealised losses) is recognised on the balance sheet. Accumulated unrealised gains and losses will be recognised in net profit or loss when the anticipated transaction is recognised.

Unrealised gains and losses relating to designated fair value hedges hedging against currency risk directly associated with foreign currency denominated liabilities are recognised in the net profit or loss for the period. A corresponding asset (unrealised gains) or liability (unrealised losses) is raised on the balance sheet.

### 1.3.3 Cash, cash equivalents and tradable securities

The Bank's liquid assets comprise cash and money market and capital market instruments. Capital market assets are valued at market value. Due to the Bank's policy to hold money market instruments to maturity, these instruments are valued at amortised cost. The Bank classifies the cash, deposits and tradable securities portfolio as an element of liquidity in the balance sheet and the cash flow statement in accordance with the Bank's policies governing the level and use of such investments.

### 1.3.4 Repurchase agreements

Where the Bank sells investments from its portfolio and agrees to repurchase these at future dates, with the risk of ownership remaining with the Bank, the consideration received is treated as a loan secured by the underlying instrument and included under current liabilities.

Conversely, excluded from investments are market instruments purchased under an agreement to resell at future dates with the risk of ownership remaining with the counterparty. The consideration paid is treated as an advance secured by the underlying instrument and included under current assets.

### 1.4 Development loans

Development loans are stated at carrying value, which comprises the principal amount outstanding and unpaid interest. Interest that accrues during the interest moratorium period is deferred and does not form part of the carrying value. Revenue recognition treatment is described in note 1.8.

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.

### 1.5 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, such as the presence of securities and the quality thereof, is 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, made during the year are charged to the income statement. Development loans written off, as well as subsequent recoveries, are recorded against the provision for development loans.

**1.6 Investments**

Development investments, which are investments held in development entities, are stated at book value and profits and losses are recognised on realisation. The book value of these investments represents orginal cost plus, where applicable, accrued interest. Development investments, classified as monetary assets, 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 an impairment of an 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, an impairment in the value of the investment has occurred. In these circumstances, the related diminution is written off in the income statement. The repurchase and resale transaction treatment is described in note 1.3.4.

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

**1.7 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 at the rates of exchange ruling at the reporting date. Foreign exchange gains or losses are recognised in the income statement.

**1.8 Revenue recognition**

Interest on development loans is recorded as income on the accrual basis. The Bank does not recognise income on development loans that have been classified as non-performing. Interest capitalised during the interest 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.

Guarantee fees and commitment fees charged on development loans are recorded as income on the 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 the 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.

**1.9 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.

**1.10 Post-retirement benefits other than pensions**

The expected cost of post-retirement benefits other than pensions is charged to income in order to spread the cost over the service lives of employees entitled to those benefits. Costs are assessed in accordance with the advice of qualified actuaries. An actuarial valuation is performed at intervals of no more than three years.

### 1.11 Retirement benefits

Current contributions to the provident fund operated for the benefit of employees are charged against income as incurred.

### 1.12 Comparative figures

Where an accounting policy has changed and the results thereof are material to the appreciation of the financial position of the Bank, the comparative figures have been restated. Where necessary, comparative figures have been reclassified.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **2. Cash, cash equivalents and tradable securities** | | |
| **2.1 Analysis of cash, cash equivalents and tradable securities** | | |
| Fixed deposits | **150 000** | 222 000 |
| Call deposits | **1 005 288** | 261 311 |
| Tradable securities (Government and parastatal traded stock) | **27 712** | 299 997 |
| Cash at bank | **117 114** | 415 767 |
| | **1 300 114** | 1 199 075 |
| **2.2 Maturity analysis** | | |
| Demand | | |
| 0-1 year | **1 322 405** | 1 181 233 |
| 1-3 years | **(73 448)** | 1 655 |
| Thereafter | **51 157** | 16 187 |
| | **1 300 114** | 1 199 075 |

The average annual interest rate on cash and cash equivalents detailed above, amounts to 12,64% for the current financial year (1999: 17,67%).

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **3. Trade and other receivables** | | |
| Resale agreements | **504 516** | 1 812 608 |
| Accrued income on deposits and securities | **102 280** | 90 393 |
| Other receivables | **8 830** | 8 011 |
| Provision for doubtful debts included above | **(16 045)** | (16 415) |
| | **599 581** | 1 894 597 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **4. Other investments** | | |
| Total other investments | **3 253 000** | 3 160 000 |
| Other investments comprise the following: | | |
| Government stock (R150) | **3 253 000** | 3 160 000 |
| Market value | **3 126 846** | 2 873 910 |

The maturity date of the R150 stock is 28 February 2005 and the coupon rate is 12%.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **5. Development investments** | | |
| Unlisted investments: | | |
| Lepelle Northern Water | **62 149** | 71 105 |
| Franchise Fund | **5 000** | 5 000 |
| Commonwealth Africa Investments Limited | **45 836** | 29 950 |
| Unlisted investments at cost | **112 985** | 106 055 |
| Provision for development investments | **(19 929)** | (26 567) |
| | **93 056** | 79 488 |
| Directors' valuation of unlisted investments | **93 056** | 79 488 |

**Unlisted investments comprise the following:**

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **5.1 Lepelle Northern Water** | **62 149** | 71 105 |
| Capital Project Bills of R62,1 million (nominal value R244,1 million) with maturities varying from 30 April 2000 to 31 October 2005. | | |
| **5.2 Franchise Fund** | **5 000** | 5 000 |
| 50 000 (1999: 50 000) Ordinary shares at cost | **50** | 50 |
| 1 700 000 (1999: 1 700 000) 8% Redeemable cumulative preference shares at cost | **1 700** | 1 700 |
| 3 250 000 (1999: 3 250 000) 15% Redeemable debentures at cost. | **3 250** | 3 250 |

The 8% redeemable cumulative preference shares and the 15% redeemable debentures are redeemable on or before 28 April 2005.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **5.3 Commonwealth Africa Investments Limited** | **45 836** | 29 950 |
| 700 (1999: 500) ordinary shares at cost | **4** | 3 |
| 700 (1999: 500) redeemable preference shares at cost | **45 832** | 29 947 |

The development investment in Commonwealth Africa Investments Limited is a dollar-denominated investment.

| | | |
|---|---|---|
| Less: Provision for development investments | **(19 929)** | (26 567) |
| | **93 056** | 79 488 |

## 6. Development loans

### 6.1 Analysis of development loans

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| Total loan book | **11 548 203** | 10 257 453 |
| Balance at the beginning of the year | **10 257 453** | 8 013 725 |
| Movements during the year: | | |
| Loans disbursed | **1 700 681** | 2 455 703 |
| Interest accrued | **1 325 681** | 1 103 519 |
| Development loans written off | **(777)** | - |
| Development loans recovered | - | 19 050 |
| Revaluation of foreign loans | **16 504** | 1 625 |
| Gross repayments | **(1 751 339)** | (1 336 169) |
| Deferred interest | **(453 476)** | (448 705) |
| Balance at the beginning of the year | **(448 705)** | (441 953) |
| Movements during the year: | | |
| Interest capitalised | **(28 668)** | (29 629) |
| Transferred to the income statement | **23 868** | 22 877 |
| Written back due to write-off | **29** | - |
| Gross development loans | **11 094 727** | 9 808 748 |
| Provision against development loans (per note 7) | **(813 945)** | (615 750) |
| Net development loans | **10 280 782** | 9 192 998 |

### 6.2 Expected future transfer from deferred interest to interest income:

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| 0-1 year | **23 600** | 22 255 |
| 1-3 years | **52 015** | 48 325 |
| Thereafter | **377 861** | 378 125 |
| | **453 476** | 448 705 |

Deferred interest is transferred to the income statement at the earlier of the date it becomes due and payable, or received.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **6.3 Loan maturity analysis** | | |
| Detailed breakdown of the maturity analysis for the total loan book as at year end: | | |
| 2000 | - | 786 766 |
| 2001 | **830 138** | 378 818 |
| 2002 | **438 538** | 423 113 |
| 2003 | **461 831** | 435 577 |
| 2004 | **532 538** | 492 055 |
| 2005-2009 | **2 710 039** | 2 431 325 |
| 2010-2014 | **2 879 932** | 2 965 673 |
| 2015 and thereafter | **3 695 187** | 2 344 126 |
| | **11 548 203** | 10 257 453 |
| **6.4 Sectoral analysis** | | |
| Energy, post and telecommunications | **2 653 746** | 2 582 814 |
| Water | **2 249 915** | 2 109 362 |
| Sanitation | **1 638 400** | 1 595 001 |
| Multiple services | **1 973 004** | 1 431 005 |
| Entrepreneurial | **1 140 901** | 1 137 328 |
| Roads and drainage | **1 384 564** | 1 004 282 |
| Education | **323 065** | 274 670 |
| Social infrastructure | **184 608** | 122 991 |
| | **11 548 203** | 10 257 453 |
| **6.5 Geographical analysis** | | |
| Western Cape | **1 026 885** | 706 739 |
| Northern Cape | **161 532** | 148 900 |
| Eastern Cape | **1 130 727** | 1 047 782 |
| Free State | **692 282** | 658 901 |
| KwaZulu-Natal | **1 661 476** | 1 489 938 |
| Mpumalanga | **1 233 206** | 1 192 974 |
| Northern Province | **473 059** | 423 044 |
| Gauteng | **2 203 763** | 2 026 018 |
| North West | **842 276** | 811 218 |
| National | **242 299** | 237 269 |
| SADC (excluding South Africa) | **1 880 698** | 1 514 670 |
| | **11 548 203** | 10 257 453 |
| **6.6 Client classification** | | |
| Local government | **5 515 178** | 4 551 360 |
| Development finance institutions | **2 617 769** | 2 616 824 |
| Public utilities | **2 088 384** | 2 163 386 |
| Private and non-government sector | **830 737** | 375 108 |
| Educational institutions | **380 755** | 284 499 |
| National and provincial government sector | **115 380** | 266 276 |
| | **11 548 203** | 10 257 453 |

|  | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **6.7 Fixed and variable interest rates** | | |
| Fixed interest rate loans | 10 533 306 | 9 805 060 |
| Variable interest rate loans | 1 014 897 | 452 393 |
| | 11 548 203 | 10 257 453 |

R580 million of variable interest rate loans have an interest rate conversion option to convert to fixed rates at any reset date prior to redemption.

### 6.8 Client concentration

| | 2000 | 1999 |
|---|---|---|
| One client as percentage of total loan book | 11,2% | 12,9% |
| Seven clients as percentage of total loan book | 32,9% | 35,1% |

### 7. Provision against development loans

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| Balance at the beginning of the year | 615 750 | 491 208 |
| Amounts recovered during the year | 28 | - |
| Amounts written off during the year | (777) | 19 050 |
| Income statement charge | 198 944 | 105 492 |
| Specific provision | 177 755 | 56 187 |
| General provision | 21 189 | 49 305 |
| Balance at the end of the year | 813 945 | 615 750 |
| Comprising: | | |
| Specific provision | 404 486 | 227 480 |
| General provision | 409 459 | 388 270 |
| | 813 945 | 615 750 |

### 8. Property and equipment

### 8.1 Summary of property and equipment

| 2000 | % Depreciation rate | R'000 Cost | R'000 Accumulated depreciation | R'000 Carrying value |
|---|---|---|---|---|
| Buildings | - | 36 070 | - | 36 070 |
| Computer equipment | 33,33 | 16 807 | 14 248 | 2 559 |
| Furniture and fittings | 10,00 | 514 | 261 | 253 |
| Motor vehicles | 20,00 | 524 | 142 | 382 |
| Other equipment | 20,00 | 1 871 | 1 110 | 761 |
| **Total** | | 55 786 | 15 761 | 40 025 |

| 1999 | % Depreciation rate | R'000 Cost | R'000 Accumulated depreciation | R'000 Carrying value |
|---|---|---|---|---|
| Buildings | - | 35 476 | - | 35 476 |
| Computer equipment | 33,33 | 14 834 | 11 650 | 3 184 |
| Capitalised computer equipment | 33,33 | 909 | 303 | 606 |
| Furniture and fittings | 10,00 | 366 | 239 | 127 |
| Motor vehicles | 20,00 | 580 | 246 | 334 |
| Other equipment | 20,00 | 1 653 | 852 | 801 |
| **Total** | | 53 818 | 13 290 | 40 528 |

The residual value of buildings is equal to or exceeds the book value.

### 8.2 Reconciliation of property and equipment

| **Cost** | R'000 Buildings | R'000 Computer equipment | R'000 Capitalised computer equipment | R'000 Furniture and fittings | R'000 Motor vehicles | R'000 Other equip-ment | R'000 Total |
|---|---|---|---|---|---|---|---|
| At the beginning of the year | 35 476 | 14 834 | 909 | 366 | 580 | 1 653 | 53 818 |
| Additions | 594 | 1 973 | - | 148 | 232 | 218 | 3 165 |
| Disposals | - | - | (909) | - | (288) | - | (1 197) |
| At the end of the year | 36 070 | 16 807 | - | 514 | 524 | 1 871 | 55 786 |
| **Accumulated depreciation** | | | | | | | |
| At the beginning of the year | - | 11 649 | 303 | 239 | 246 | 853 | 13 290 |
| Disposals | - | - | (303) | - | (211) | - | (514) |
| Depreciation for the current year | - | 2 599 | - | 22 | 107 | 257 | 2 985 |
| At the end of the year | - | 14 248 | - | 261 | 142 | 1 110 | 15 761 |
| **Net book value** | 36 070 | 2 559 | - | 253 | 382 | 761 | 40 025 |

### 8.3 Valuation

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,6 million were effected during the 2000 financial year (1999: R0,1 million).

The buildings are valued every three years and were last valued at R97 million on a replacement value basis by Farrow Laing Ntene, 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.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **9. Issued capital** | | |
| **Authorised** | | |
| 500 000 (1999: 500 000) shares at a par value of R10 000 each | **5 000 000** | 5 000 000 |
| **Issued capital** | | |
| 20 000 shares at a par value of R10 000 each | **200 000** | 200 000 |
| **Callable capital** | | |
| 480 000 (1999: 480 000) shares at a par value of R10 000 each | **4 800 000** | 4 800 000 |

The Development Bank of Southern Africa Act 13 of 1997, section 18, allows directors to issue shares from time to time and call upon the shareholders in respect of any moneys to be paid to the Bank.

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

**10. 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.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| Received to date | **3 792 344** | 3 792 344 |
| **11. General and specific provisions** | | |
| Loan loss provision (note 7, 18) | **813 945** | 615 750 |
| Provision for development investments (note 5) | **19 929** | 26 567 |
| Provision for doubtful debts (note 3) | **16 045** | 16 415 |
| | **849 919** | 658 732 |
| **12. Trade and other payables** | | |
| Repurchase agreements | **499 499** | 2 327 060 |
| Trade creditors and accruals | **35 981** | 31 709 |
| Accrued interest | **139 891** | 117 618 |
| | **675 371** | 2 476 387 |
| **13. Short-term financing** | | |
| Bridging bonds and other short-term financing | - | 290 960 |
| Capitalised lease agreements | - | 180 |
| | - | 291 140 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **14. Medium- and long-term financing** | | |
| **14.1 Summary** | | |
| **Registered bonds (refer schedule A)** | **4 895 671** | 4 561 527 |
| Balance in issue | **12 316 385** | 12 066 386 |
| Unamortised issue discounts on registered bonds | **(7 420 714)** | (7 504 859) |
| **Other loans (refer schedule C)** | **2 975 758** | 1 631 360 |
| Balance in issue | **3 284 117** | 1 637 812 |
| Unamortised issue discounts | **(308 359)** | (6 452) |
| **Hedges - Derivative instruments (refer to note 14.3)** | **(35 465)** | (64 101) |
| **Total medium- and long-term borrowings** | **7 835 964** | 6 128 786 |
| **14.2 Sources and denominations** | | |
| Foreign funding | **3 941 895** | 2 767 884 |
| Rand denomination | **2 257 706** | 1 725 425 |
| Foreign denomination | **1 684 189** | 1 042 459 |
| Domestic funding | | |
| Rand denomination | **3 894 069** | 3 360 902 |
| | **7 835 964** | 6 128 786 |

**14.3 Derivative instruments**

The range of derivative instruments used consists of forward exchange contracts, cross currency swaps and local interest rate swaps.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **Fair value hedges:** | **143 910** | 152 992 |
| 0 - 1 year | **(17 945)** | (8 755) |
| 1 - 5 years | **5 921** | 11 494 |
| Thereafter | **155 934** | 150 253 |
| **Cash flow hedges relating to cross currency hedging:** | **(132 109)** | (102 253) |
| 0 - 1 year | **(22 052)** | (19 746) |
| 1 - 5 years | **(93 458)** | (75 066) |
| Thereafter | **(16 599)** | (7 441) |
| **Cash flow hedges relating to interest rate swaps:** | **(1 650)** | - |
| 0 - 1 year | **(1 650)** | - |
| 1 - 5 years | - | - |
| Thereafter | - | - |
| **Derivatives*:** | **25 314** | 13 362 |
| 0 - 1 year | **(5 217)** | 1 977 |
| 1 - 5 years | **(60 143)** | 11 859 |
| Thereafter | **90 674** | (474) |
| | **35 465** | 64 101 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **Maturity** | | |
| 0 - 1 year | **(46 864)** | (26 525) |
| 1 - 5 years | **(147 680)** | (51 713) |
| Thereafter | **230 009** | 142 339 |
| | **35 465** | 64 101 |

*Represents interest rate derivatives relating to rand-denominated fixed interest rate loans. Hedge accounting was not applied as the underlying loan is not adjusted with movements in the market interest rate.

### 15. Donor contribution fund

| | 2000 | 1999 |
|---|---|---|
| Balance at beginning of the year | **1 569** | 2 184 |
| Grants received | **1 023** | 1 917 |
| Grants repaid | **(319)** | - |
| Interest received on surplus funds | **38** | 89 |
| Grants disbursed: Transferred to income statement (note 19) | **(2 054)** | (2 621) |
| Balance at end of the year | **257** | 1 569 |

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.

### 16. Interest income

| | 2000 | 1999 |
|---|---|---|
| Development loans | **1 320 957** | 1 096 540 |
| Development investments | **5 776** | 3 628 |
| Listed and unlisted investments: | | |
| Government stock | **390 312** | 379 200 |
| Other interest received | **128 842** | 164 060 |
| | **1 845 887** | 1 643 428 |

### 17. Cost of funding

| | 2000 | 1999 |
|---|---|---|
| Interest paid | **949 638** | 822 747 |
| Foreign exchange (gains)/losses | **155 582** | (12 980) |
| Exchange loss on loans | **153 395** | 237 574 |
| Revaluation of currency derivatives | **2 187** | (250 554) |
| Revaluation of derivatives not hedge accounted | **(11 952)** | (20 451) |
| | **1 093 268** | 789 316 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **18. Specific and general provisions** | | |
| Movements related to specific provisions in respect of other receivables (note 3) | **(370)** | (1 467) |
| Movements related to provisions in respect of development investments (note 5) | **(6 638)** | (23 433) |
| Movements related to general and specific provisions in respect of development loans (note 7) | **198 944** | 105 492 |
| | **191 936** | 80 592 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **19. Other income** | | |
| Non-interest income: | | |
| Fees and sales | **11 646** | 9 288 |
| Grants transferred from balance sheet (per note 15) | **2 054** | 2 621 |
| Less: Incremental expenses: | **5 190** | 3 175 |
| Consultants | **5 174** | 3 065 |
| Travel and subsistence | **16** | 108 |
| Other | **-** | 2 |
| | **8 510** | 8 734 |
| | **1 039** | 1 199 |
| | **9 549** | 9 933 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **20. Operating expenses: general and administration** | | |
| are arrived at after taking into account | | |
| Auditors' remuneration | **1 831** | 1 857 |
| audit fee - current year | **1 144** | 1 001 |
| audit fee - previous year | **124** | - |
| other services - current year | **563** | 856 |
| Directors' emoluments | **2 215** | 1 980 |
| Consultants' fees | **6 124** | 3 587 |
| Communication costs | **2 562** | 2 294 |
| Information technology | **7 692** | 7 157 |
| Regional Service Council levies | **3 137** | 6 593 |
| Subsistence and travel | **8 496** | 7 775 |
| Other | **13 807** | 9 503 |
| | **45 864** | 40 746 |

**21. Taxation**

The Bank is exempt from normal taxation in terms of the Income Tax Act (Act 58 of 1962, amended) section 10(1)t and no provision for normal taxation has been made.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|

## 22. Retirement benefits (defined contribution plan)

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, 1956 (Act 24 of 1956), is a defined contribution plan for employees on the permanent staff of the Bank.

The number of employees covered by the plan: 436 (1999: 452)

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| Total amount expensed during the year | **15 684** | 15 460 |

## 23. Post-retirement medical benefits

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| The Bank recognises and prefunds the post-retirement medical benefits liability. Included in personnel costs is a charge for the year | **4 600** | 4 600 |
| The Bank's contribution to the medical aid fund: Number of employees: 410 (1999: 469) | **8 157** | 8 377 |

The cost of funding for the medical scheme contributions after retirement or death/disabilty of the employee was actuarially valued at 1 January 2000 by an independent valuator. The calculation was done for 413 employees and 55 pensioners at a real rate of 2%.

| | 2000 R'000 |
|---|---|
| **Total unfunded liabilty actuarially calculated 1 January 2000** | **96 579** |
| Past service liability | **54 929** |
| Future service liability | **41 650** |
| Market value of assets at 1 January 2000 | **(26 846)** |
| Payment made after 31 March 2000 | **(9 200)** |
| **Unfunded liability** | **60 533** |

The unfunded liability will be funded in a lump sum or over a limited period of 5 to 10 years by the payment of R661 900 per month, actuarially determined per year. This amount may increase as a result of increases in medical scheme contributions.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| **24. Cash flow statement** | | |
| **24.1 Interest received from development activities** | | |
| Gross development loan repayments (refer note 6) | **1 751 339** | 1 336 169 |
| Principal repayments | **(431 006)** | (286 488) |
| Interest repayments from development loans | **1 320 333** | 1 049 681 |
| Interest repayments from development investments | **7 324** | 4 720 |
| | **1 327 657** | 1 054 401 |
| **24.2 Interest received from investments** | | |
| Accrued interest at the beginning of the year | **85 656** | 61 968 |
| Accrued interest (per note 3) | **90 393** | 74 246 |
| Accrued interest on development investments | **(17 918)** | (19 010) |
| Accrued interest included in investments | **13 181** | 6 732 |
| Charged to income for the year | **519 154** | 543 260 |
| Accrued interest at the end of the year | **(98 467)** | (85 656) |
| Accrued interest (per note 3) | **(102 280)** | (90 393) |
| Accrued interest on development investments | **16 993** | 17 918 |
| Accrued interest included in investments | **(13 180)** | (13 181) |
| | **506 343** | 519 572 |
| **24.3 Interest paid** | | |
| Accrued interest at the beginning of the year | **384 388** | 397 608 |
| Current liabilities (refer to note 12) | **117 618** | 94 478 |
| Medium- and long-term liabilities | **266 770** | 303 130 |
| Charged to income for the year | **1 013 582** | 721 287 |
| Interest expense per income statement | **1 093 268** | 789 316 |
| Amortisation of issue discount | **(79 686)** | (68 029) |
| Accrued interest element of funding | - | 1 668 |
| Accrued interest at the end of the year | **(413 557)** | (384 388) |
| Current liabilities (refer to note 12) | **(139 891)** | (117 618) |
| Medium- and long-term liabilities | **(273 666)** | (266 770) |
| | **984 413** | 736 175 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|

### 24.4 Reconciliation of surplus for the year to other operating expenditure

| | | |
|---|---|---|
| Surplus for the year | **417 667** | 614 583 |
| | | |
| Adjustments for: | | |
| Provision against development loans and development investments | **171 356** | 80 592 |
| Technical assistance grants paid | **4 743** | 2 580 |
| Interest expense | **1 093 268** | 789 316 |
| Interest received on investments | **(519 154)** | (543 260) |
| Interest received on development loans | **(1 326 732)** | (1 100 395) |
| Depreciation | **2 985** | 3 866 |
| Foreign exchange revaluation | **(113 028)** | 82 |
| Loss on fixed assets | **591** | - |
| Decrease in receivables | **1 306 903** | (1 805 649) |
| Decrease in accounts payables | **(1 823 469)** | 2 321 944 |
| | **(784 870)** | 363 659 |

## 25. Commitments

At balance sheet date the Bank had the following commitments:

### 25.1 Loan commitments

| | | |
|---|---|---|
| Loans approved by the Board of Directors but not signed | **1 617 232** | 1 341 969 |
| Loans signed but not disbursed | **3 124 961** | 3 544 809 |
| | **4 742 193** | 4 886 778 |

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 40% in 2001, 40% in 2002 and 20% thereafter.

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

### 25.2 Technical assistance grants

| | | |
|---|---|---|
| Grants approved by the Board of Directors but not signed | **1 447** | 729 |
| Grants signed but not disbursed | **3 360** | 4 125 |
| | **4 807** | 4 854 |

| | 2000 R'000 | 1999 R'000 |
|---|---|---|

## 26. Contingent liabilities

### 26.1 Employee loans

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

| | | |
|---|---|---|
| Loan balances secured | **383** | 1 989 |

### 26.2 Guarantees

| | | |
|---|---|---|
| The Bank has approved and issued guarantees on behalf of borrowers amounting to: | **275 758** | 167 974 |

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 R275 million, for one borrower, detailed as follows:

| | |
|---|---|
| Total value of credit line (principal amount) | **R 250 000** |
| Current exposure | **R 250 000** |

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.

## 27. 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, grants and loans.

| | 2000 R'000 | 1999 R'000 |
|---|---|---|
| Balance at beginning of the year | **329 160** | 175 229 |
| Funds received | **391 674** | 460 429 |
| Funds disbursed | **(254 827)** | (306 498) |
| Funds at the end of the year | **466 007** | 329 160 |

## 28. Changes in accounting policy

### Foreign currency denominated transactions

Foreign currency denominated loans and accruals covered by forward exchange contracts or other derivatives were previously recorded at the spot foreign exchange rate ruling on transaction date, with interest costs and forward exchange premiums or discounts accrued at the effective interest rate. In order to comply with the requirements of AC112 (revised), all foreign currency denominated loans and accruals are stated at the closing spot exchange rate at each reporting date and the resulting adjustment is charged to the income statement. The effects of any hedges are ignored in accounting for the loans and accruals.

### Cross currency and interest rate derivatives

Discounts and premiums on forward exchange contracts entered into as hedges were previously recognised over the term of such contracts at the effective interest rate. Interest provisions were based on the effective interest rate rather than the rate stipulated in the loan agreement.

Liabilities hedged by cross currency swaps were recorded at the rand swap rate. Interest provisions were based on the interest rate agreed on in the derivative agreement rather than on the rate stipulated in the loan agreement.

The accounting policy has been changed and all derivative instruments are now stated at fair value.

### Prior year adjustment

Comparative figures have been restated in terms of the above changes in accounting policy.

| | **2000 R'000** | 1999 R'000 |
|---|---|---|
| **Adjustment to opening balance of retained earnings** | | |
| **Adjustments to distributable reserves** | | |
| Adjustment to: | | |
| - opening balance of distributable reserves | **36 181** | (104 130) |
| - reported income for the period | | 113 319 |
| - transfers to distributable reserves | | 26 992 |
| | **36 181** | 36 181 |

As the Bank is currenctly exempt from income tax, see note 21, the above adjustment has no tax implications for the current and previous reporting periods.

# SCHEDULE A
## REGISTERED BONDS AS AT 31 MARCH 2000

| | Authorised value 2000 R million | Authorised value 1999 R million | Coupon rate | Market yield during the year High | Market yield during the year Low | Repayment date | Nominal balance in issue 2000 R million | Unamortised discount 2000 R million | Balance in issue 1999 R million | Unamortised discount 1999 R million |
|---|---|---|---|---|---|---|---|---|---|---|
| **(i) Local** | | | | | | | | | | |
| DV06 | **3 000** | 3 000 | 10,0% | 15,45% | 11,68% | 2001 | **1 257,8** | **81,4** | 1 291 | 128 |
| DV07 | **5 000** | 5 000 | 14,5% | 16,69% | 13,95% | 2010 | **1 895,6** | **60,3** | 2 112 | 70 |
| DV20 | **500** | | Jibar + 50bp | 13,27% | 12,61% | 2004 | **500,0** | **2,3** | - | - |
| LL06 | **Note 1** | - | 14,0% | Note 2 | | 2005 | **163,0** | **6,6** | 163 | 7 |
| Subtotal | **8 500** | 8 000 | | | | | **3 816,4** | **150,6** | 3 566 | 205 |
| **(ii) Foreign** | | | | | | | | | | |
| Euro-rand bond | **7 500** | 7 500 | 0,0% | | | 2027 | **7 500** | **7 221** | 7 500 | 7 250 |
| Euro-rand bond | **1 000** | 1 000 | 13,5% | | | 2028 | **1 000** | **49** | 1 000 | 49 |
| Subtotal | **8 500** | 8 500 | | | | | **8 500** | **7 270** | 8 500 | 7 299 |
| **Total** | **17 000** | 16 500 | | | | | **12 316** | **7 421** | 12 066 | 7 504 |

**Note 1:** Local LL06 registered bonds were taken over from the Local Authorities Loan Fund and were not originally issued by the Bank.

**Note 2:** No trading in the financial markets during the financial year.

| | Risk hedged | Hedge detail |
|---|---|---|
| Agence Française de Développement I | Currency | FRF 88,5 million capital and interest due thereon swapped for a single rand payment<br>FRF 11,5 million capital and interest due thereon covered by forward exchange contracts |
| Agence Française de Développement II | Currency | FRF 150 million capital and interest due thereon swapped for rand payments at a fixed interest rate |
| Agence Française de Développement III | Currency | FRF 67,8 million capital and interest due thereon swapped for rand payments at a floating interest rate<br>FRF 49,9 million capital and interest due thereon swapped for rand payments at a fixed interest rate |
| Chiao Tung Bank Co Ltd. | Currency | USD 8,6 million capital and interest due thereon swapped for rand payments at a fixed interest rate |
| European Investment Bank II.1 | Interest | Fixed interest swapped for a floating rate based on a notional amount of R200 million |
| European Investment Bank II.2 | Interest | Fixed interest swapped for a floating rate based on a notional amount of R100 million |
| European Investment Bank II.3 | Interest | Fixed interest swapped for a floating rate based on a notional amount of R100 million |
| European Investment Bank III.2 | Interest | Fixed interest swapped for a floating rate based on a notional amount of R100 million |
| Euro-rand bond (private placement) | Interest | Fixed interest swapped for floating rate based on notional amount of R200 million and cash inflow of R300 million on maturity |
| Japan Bank for International Cooperation I | Currency | JPY 10 000 million capital and interest due thereon covered by forward exchange contracts maturing on or before April 2005 |
| Japan Bank for International Cooperation II | Currency | JPY 2 510,5 million capital and interest due thereon swapped for rand payments at a fixed interest rate |
| Kreditanstalt Fur Wiederaufbau | Currency | DEM 23,1 million capital and interest due thereon swapped for rand payments at a fixed interest rate<br>DEM 15,5 million capital and interest due thereon swapped for rand payments at a floating rate |
| DV 20 | Interest | Floating interest swapped for fixed rate on notional amount of R200 million |

# SCHEDULE C
## OTHER LOANS AS AT 31 MARCH 2000

| | | 2000 | | | | 1999 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ZAR (m) | | Foreign (m) | | ZAR (m) | | Foreign (m) | Interest rate % | First capital repay-ment | Remaining instalments |
| African Development Bank USD | ZAR | **299,9** | **USD** | **45,8** | ZAR | 23,2 | USD | 3,8 | Note 1 | February 2003 | 20 equal semi-annual payments of USD 2,29 m |
| African Development Bank ZAR I.1 | ZAR | **200,0** | | | ZAR | 200,0 | | | 16,235 | February 2002 | 14 equal semi-annual payments of R14,3 m |
| African Development Bank ZAR I.2 | ZAR | **140,0** | | | ZAR | 140,0 | | | 14,9 | February 2003 | 14 equal semi-annual payments of R10 m |
| Agence Française de Développement I | ZAR | **95,4** | **FRF** | **100,0** | ZAR | 101,6 | FRF | 100,0 | 3,5 | April 2004 | 26 equal semi-annual payments FRF 3,8 m |
| Agence Française de Développement II | ZAR | **143,1** | **FRF** | **150,0** | ZAR | 152,4 | FRF | 150,0 | 3,5 | October 2000 | 12 equal semi-annual payments of FRF 12,5 m |
| Agence Française de Développement III | ZAR | **112,3** | **FRF** | **117,7** | ZAR | 68,9 | FRF | 67,8 | 3,5 | April 2001 | 16 equal semi-annual payments of FRF 7,4 m |
| Chiao Tung Bank Co Ltd. | ZAR | **56,6** | **USD** | **8,6** | ZAR | 55,7 | USD | 9,0 | 3,0 | March 2000 | 14 equal annual payments of USD 0,6 m |
| European Investment Bank I.1 | ZAR | **100,0** | | | ZAR | 100,0 | | | 14,13 | April 2002 | Single payment of R100 m |
| Unamortised discount | ZAR | **(0,2)** | | | ZAR | (3,0) | | | | | |
| European Investment Bank I.2 | ZAR | **50,0** | | | ZAR | 50,0 | | | 13,714 | August 2007 | Single payment of R50 m |
| Unamortised discount | ZAR | **(0,69)** | | | ZAR | (0,740) | | | | | |
| European Investment Bank II.1 | ZAR | **200,0** | | | ZAR | 200,0 | | | 15,25 | January 2004 | Single payment of R200 m |
| Unamortised discount | ZAR | **(4,6)** | | | ZAR | (5,4) | | | | | |
| European Investment Bank II.2 | ZAR | **100,0** | | | | | | | 13,75 | May 2009 | Single payment of R100 m |
| Unamortised discount | ZAR | **(5,0)** | | | | | | | | | |
| European Investment Bank II.3 | ZAR | **100,0** | | | | | | | 15,0 | February 2009 | Single payment of R100 m |
| Unamortised discount | ZAR | **(2,7)** | | | | | | | | | |

| | | 2000 | | 1999 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | ZAR (m) | Foreign (m) | ZAR (m) | Foreign (m) | Interest rate % | First capital repay-ment | Remaining instalments |
| European Investment Bank III.1 | ZAR | 100,0 | | | | 13,25 | August 2010 | Single payment of R100 m |
| Unamortised discount | ZAR | (7,5) | | | | | | |
| European Investment Bank III.2 | ZAR | 100,0 | | | | 13,25 | August 2010 | Single payment of R100 m |
| Unamortised discount | ZAR | (3,7) | | | | | | |
| Euro-rand bond (private placement) | ZAR | 500,0 | | | | - | November 2006 | Single payment of R500 m |
| Unamortised discount | ZAR | (283,9) | | | | | | |
| Japan Bank for International Cooperation I | ZAR | 637,7 | JPY 10,000,0 | ZAR 520.9 | JPY10,000,0 | 3,5 | October 2000 | 20 equal semi-annual payments of JPY 500 m |
| Japan Bank for International Cooperation II | ZAR | 160,1 | JPY 2,510,5 | ZAR 130.8 | JPY2,510,5 | 2,5 | May 2003 | 37 equal semi-annual payments of JPY 67,85 m |
| Kreditanstalt Fur Wiederaufbau | ZAR | 123,4 | DEM 38,6 | ZAR 34.4 | DEM 10,1 | 2,0 | June 2008 | 40 equal semi-annual payments of DEM 0,96 m |
| Nordic Investment Bank | ZAR | 65,5 | USD 10,0 | | | Libor + ,40 | August 2003 | 20 equal semi-annual payments of USD 0,5 m |
| **Total** | | 2 976 | | 1 769 | | | | |

**Note 1:** 6 month Libor, plus 50 basis points, plus the weighted average between 6 month Libor and the African Development Bank's cost of funding relating to Libor-linked advances.

None of the loans are secured over assets of the Bank.

All loan commitments are guaranteed by the South African government, except for FRF 117,7 million in terms of the third loan from the Agence Française de Développement.

| | |
|---|---|
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