



Annual Report 2001



Mission

The Development Bank of Southern Africa contributes to development by mobilising and providing finance and expertise to develop infrastructure, in order to improve the quality of life of the people of southern Africa.

The DBSA is a leading development finance institution that provides a range of products. It plays the triple role of lender, advisor and development partner by:

- mobilising funds, expertise and development partners
 - promoting development
- understanding and caring about the needs of its clients
- delivering a flexible, professional and prompt service



Finance/funding

A range of instruments, a flexible financial package and a premier credit rating

Products and service

Investments, specialised funds, funds management and agencies, venture capital, policy support

Partners, agencies and alliances

International and domestic financial markets, governments, donor agencies, communities, public and private sector

Research and information

Focused research on core areas, access to information from partners, market intelligence

Target markets

Private project sponsors, municipalities, public sector, utilities, rural communities

System, structures and processes

Flexible information technology system, development databases, customer-focused business systems, good corporate governance

Technologies

Technologies to support customers, projects, e-commerce, staff and management

People, skills and culture

Performance-based and customer-focused culture, entrepreneurial and innovative thinking

Marketing

Focused marketing strategy for each target market, regular communication with key stakeholders

Contents



The theme of this Annual Report is the role of the Development Bank of Southern Africa in supporting integrated development. In its funding of infrastructure projects, the Bank adheres to five guiding principles – being additional to other funding sources, maximising development impact, following sound banking principles, leveraging strategic partnerships and focusing on infrastructure development. It builds partnerships with government, the private sector and other development agents, ensuring that its projects contribute to sustainable and integrated development. To symbolise the importance that the Bank attaches to the promotion of integration and coordination in the development process, the pattern of a woven basket is used as background throughout this Report.

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Abbreviations

Exchange rate

The average R/US\$ exchange rate for the year under review was 7.33.

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 2000/01, 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 Public Finance Management Act, No. 1 of 1999.

DBSA	Development Bank of Southern Africa Limited (also referred to as the "Bank")
DFI	Development finance institution
DFID	Department for International Development (of the United Kingdom)
HIV/Aids	Human Immuno-deficiency Virus/ Acquired Immuno-deficiency Syndrome
IDP	Integrated Development Plan
Kwanolec	Kwanobuhle Electrical Supply Company
MAP	Millennium Partnership for the African Recovery Programme
MDC	Malawi Development Corporation
R	Rand
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SADC	Southern African Development Community
SATCC	Southern African Transport and Communications Committee
TRASA	Telecommunications Regulatory Authority for Southern Africa
Uitesco	Uitenhage Electricity Supply Company
US\$	United States dollar

Mission, vision 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's vision is to be the leading development finance institution that plays the triple role of lender, advisor and development partner. It aims to maximise its development impact, to be additional to other funding sources, to maintain sound banking principles, to leverage strategic alliances and to focus on infrastructure development.

Development activities

Investment support

Total number of borrowers: 635

Since inception, the DBSA has approved loans and equity of R23,0 billion (resulting in commitments of R20,5 billion) in the following sectors:

- Internal reticulation infrastructure: 36 per cent
- Bulk and connector infrastructure: 51 per cent
- Entrepreneurial support: 8 per cent
- Social and institutional infrastructure: 5 per cent

The Bank has also approved cumulative guarantees of R259 million.

Co-funding

The Bank achieved a co-funding ratio of R5,30 for each R1,00 of its own investment in 2000/01.

Technical assistance

Since inception, the Bank has approved grants of R66 million, for projects on:

- Institutional capacity building: 55 per cent
- Policy and planning: 36 per cent
- Other: 9 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

Resource mobilisation and financial management

Innovative funding instruments and strategies are used to finance the Bank's various projects. The outstanding borrowings were R8,75 billion. The Bank maintains:

- Sound financial and risk management policies and practices
- Conservative loan loss provisioning
- Prudent approach to liquidity management
- Asset/liability management
- Callable capital of R4,8 billion

Top credit ratings

The DBSA was assigned an investment credit-rating of Baa3 by the international credit-rating company, Moody's Investors Service. This rating is the same as that of the Republic of South Africa.

A further international rating was obtained from Standard and Poor's during the current financial year. This was A- for long-term and A-2 for short-term debt (local currency), and BBB- for long-term and A-3 for short-term debt (foreign currency).

The domestic rating by Fitch is AAA for long-term debt and A1+ for short-term debt.

Governance structures

Sole owner: South African government
Shareholder representative: Minister of Finance, Trevor Manuel
Chairman of the Board: Jayaseelan Naidoo (as from August 2000; previously Wiseman Nkuhlu)
Managing Director and Chief Executive Officer: Mandla Gantsho (as from 1 February 2001; previously Ian Goldin)
Board of 14; 13 non-executive

Board committees

Audit Committee
Remuneration Committee
Employment Equity Committee
Credit Committee
Finance Committee

Management committees

Executive Committee
Management Committee

Functional committees

Commitments Committee
Finance and Risk Management Committee
Operations Committee
Policy Management Committee
Tender Committee
Fraud Management Committee
Publications Committee
Study Aid Committee

Human resources

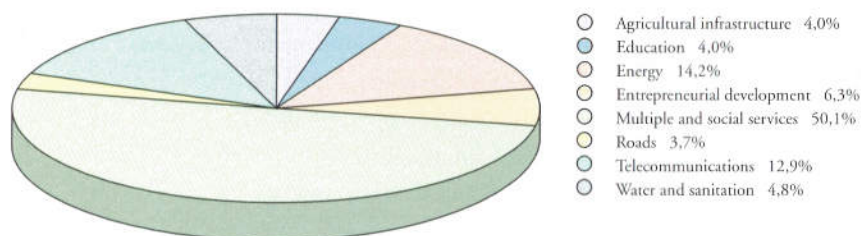
Staff complement	425
Managers	25
Managers as percentage of all staff	6 per cent
Women managers as percentage of all managers	24 per cent
Black managers as percentage of all managers	72 per cent
Professional staff	246
Professional staff as percentage of all staff	58 per cent
Women professionals as percentage of all professional staff	34 per cent
Black professionals as percentage of all professional staff	32 per cent
Support staff	154
Support staff as percentage of all staff	36 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 spent 3,9 per cent of total remuneration on training.	

Business development results

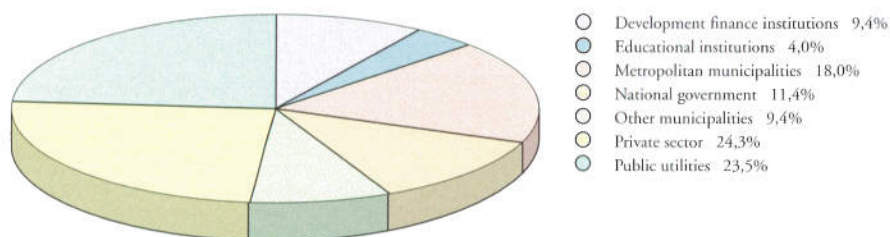
The year at a glance

- Investment loans approved – R2 217 million, including R539 million for the private sector and R2,6 million in equity investment
- Total capital value of approved projects – R13 897 million
- Number of new infrastructure projects approved for funding – 56
- Share of lending for internal reticulation of services to households – 50 per cent
- Cash disbursements to projects – R1 622 million
- Grant disbursements for policy development and capacity building – R5,5 million
- Estimated employment opportunities generated through projects co-funded by the DBSA during 2000/01 – 13 200
- Estimated stimulation of the South African economy through projects co-funded by the DBSA – R2,1 billion contribution to gross domestic product
- Estimated contribution to the income of low-income households through projects co-funded by the DBSA – R250 million
- Households expected to benefit from new infrastructure projects in South Africa funded or co-funded by the DBSA – 1 085 000
- About R1,22 billion borrowing from the domestic market and R0,55 billion from the international markets
- A R5 billion domestic medium-term note programme approved
- Net income of R579 million
- Establishment of the Development Fund and its capitalisation by an appropriation of R80 million to a “Grant Fund” from the current year’s income.

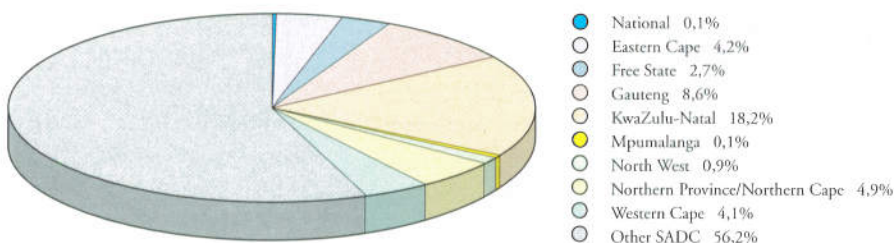
Loan approvals
per sector, 2000/01



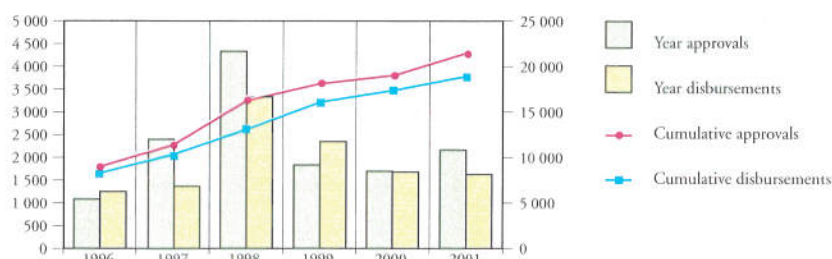
Loan approvals
by type of client,
2000/01



Loan approvals
per region, 2000/01



Approvals and
disbursements
profile (R million)



Business performance indicators

	1996	1997	1998	1999	2000	5-year average	2001 % increase (decrease) from average	
Total capital cost of projects approved (R million)	1 534	3 713	16 703	7 715	5 607	7 054	13 897	97
Total DBSA contribution to approved projects (R million)	1 073	2 452	4 338	1 903	2 040	2 361	2 217	(6)
Percentage of total capital cost funded by sources other than the DBSA	30,1	34,0	74,0	75,3	63,6	55,4	84,0	52
Disbursements (R million)	1 241	1 377	3 301	2 457	1 701	2 185	1 622	(26)
R million disbursed per staff member	2,2	3,9	7,0	5,4	3,9	4,4	3,9	(11)
R million approved per staff member	1,9	5,0	9,2	4,2	4,7	4,9	5,1	5
✓ Total operating costs (R million)	135	130	160	169	181	155	285	84
Total operating costs as percentage of disbursements	10,9	6,7	4,8	6,9	10,7	7,3	16,8	131
Total operating costs as percentage of approvals	12,6	5,3	3,7	8,9	8,9	6,6	12,9	96
✓ Total income (R million)	512	609	1 070	1 643	1 852	1 137	2 042	80
Total operating costs as percentage of total income	26,4	21,4	14,9	10,3	9,8	13,6	14,0	2
Average amount disbursed per working day (R million) (247 days)	5,0	7,8	13,4	10,0	6,9	8,6	6,9	(20)
Average amount approved per working day (R million) (247 days)	4,3	9,9	17,6	7,7	8,3	9,6	9,0	(6)
Number of clients at end of period	161	386	595	620	624	477	635	33
Average number of staff members during period	570	493	473	452	436	485	428	(12)
Number of units	57	24	24	24	24	31	24	(23)
Number of management positions (including executive management)	57	27	27	27	27	33	28	(15)
Percentage of managerial positions filled by employment equity appointments at end of period	36	64	77	79	76	66	72	8

Financial results

The year at a glance

	2001	2000	Percentage increase (decrease)
Financial results			
Interest on development activities (R million) ¹	1 465	1 333	9,9
Interest on investments (R million)	577	519	11,2
Cost of funding (R million)	1 151	950	21,2
Surplus for the year (R million)	579	414	39,8
Return on shareholders' funds (%)	7,3	5,9	23,7
Return on assets (%) ²	3,4	2,6	30,8
Operating costs to income (%)	29,4	22,7	29,5
Financial position			
Total assets (R million)	17 711	15 991	10,8
Investment in development activities (R million) ¹	12 304	10 798	13,9
Government stock (R million)	3 253	3 253	-
Cash and cash equivalents (R million)	1 024	1 268	(19,2)
Issued share capital (R million)	200	200	-
Total capital and reserves (R million)	8 276	7 479	10,7
Medium- and long-term financing (R million)	7 521	7 836	(4,0)
Assets under management (11 agencies) (R million)	606	466	30,0
Ratios			
Long-term debt to equity (%)	90,9	104,8	(13,3)
Cash and cash equivalents to total assets (%) ³	5,8	7,9	(26,6)
Issued capital to assets (%)	1,1	1,3	(15,4)
Total capital and reserves to assets (%)	46,7	46,8	(0,2)
Medium- and long-term financing to investment in development activities (%) ¹	61,1	72,6	(15,8)
Weighted average interest rate on development loans (%)	11,7	13,0	(10,0)
Provision for loan loss as percentage of development loans	7,3	7,3	-
Personnel			
Number of employees at year end	425	431	(1,4)
Net contribution per employee, based on average number of employees (R 000)	1 362	960	41,7

1. Development activities include development loans and investments.

2. Calculations are based on average total assets.

3. Cash and cash equivalents include deposits.

Seven-year financial summary

	2001	2000	1999	1998	1997	1996	1995
Financial results							
Income excluding provisions and exceptional items (R million)	969	797	864	458	277	293	305
Interest on development activities (R million) ¹	1 465	1 333	1 100	590	567	464	380
Interest on investments (R million)	577	519	543	480	42	48	83
Cost of funding (R million)	1 151	950	789	621	329	214	174
Surplus for the year (R million)	579	414	615	177	103	114	163
Return on shareholders' funds (%)	7,3	5,9	9,6	3,2	2,1	2,4	3,6
Return on assets (%) ²	3,4	2,6	4,5	1,8	1,4	1,8	2,9
Operating costs to income (%)	29,4	22,7	19,6	34,4	47,0	46,1	40,1
Financial position							
Total assets (R million)	17 711	15 991	15 567	12 002	7 949	6 679	5 758
Investment in development activities (R million) ¹	12 304	10 798	9 272	6 544	7 423	6 238	5 103
Government stock (R million)	3 253	3 253	3 160	3 160	-	-	-
Cash and cash equivalents (R million)	1 024	1 268	899	530	162	178	259
Issued share capital (R million)	200	200	200	200	200	200	200
Total capital and reserves (R million)	8 276	7 479	6 669	6 131	4 892	4 789	4 675
Medium- and long-term financing (R million)	7 521	7 836	6 129	5 432	2 668	1 818	1 055
Ratios							
Long-term debt to equity (%)	90,9	104,8	91,9	88,6	54,5	38,0	22,6
Cash and cash equivalents to total assets (%) ³	5,8	7,9	5,8	4,4	2,0	2,7	4,5
Issued capital to assets (%)	1,1	1,3	1,3	1,7	2,5	3,0	3,5
Total capital and reserves to assets (%)	46,7	46,8	42,8	51,1	61,5	71,7	81,2
Medium- and long-term financing to investment in development activities (%) ¹	61,1	72,6	66,1	83,0	35,9	29,1	20,7
Weighted average interest rate on development loans (%)	11,7	13,0	12,7	12,0	9,6	8,9	8,5
Provision for loan loss as percentage of development loans	7,3	7,3	6,3	6,5	3,8	4,3	4,4
Personnel							
Number of employees at year end	425	431	446	465	496	529	574
Net contribution per employee, based on average number of employees (R 000)	1 362	960	1 379	381	208	216	284

1. Development activities include development loans and investments.

2. Calculations are based on average total assets.

3. Cash and cash equivalents include deposits.

Chairman: Jayaseelan Naidoo



Economic growth

South Africa can look back on a year of significant achievements. In the past year, the South African economy continued to grow, despite the slowdown in the international economy. The growth in the gross domestic product reached a high of 4 per cent by the third quarter of last year, although it has slowed to about 2 per cent in the first quarter of this year owing to declining exports, the higher oil price and lower domestic demand. However, the pace of economic activity is expected to pick up again over the medium term, supported by improved competitiveness and continued prudent monetary and fiscal policies. Employment remains weak: formal employment is declining at over 2 per cent in most sectors, although preliminary indications are that the services and informal sectors may have shown growth in employment.

The government has sought to encourage economic growth in the region as a whole, as well as the delivery of social services to poorer communities. Its campaign against rural and urban poverty and underdevelopment focuses on investment in economic and social infrastructure, human resource development, enterprise development, the enhancement of the development capacity of local government and the strengthening of the criminal justice system.

Government initiatives in Africa

One of the government's principal initiatives in Africa is the Millennium Partnership for the African Recovery Programme (MAP). Through MAP, African leaders aim to eradicate poverty and to place their countries on a path of sustainable growth and development. While it was initially spearheaded by the Presidents of South Africa, Nigeria and Algeria, the Presidents of Senegal and Egypt have now joined the partnership. The MAP initiative has attracted keen interest from the leaders of industrialised countries. The DBSA was the secretariat for this phase of the MAP and managed the donor funding from the Nordic countries. The MAP was merged with the Omega plan into the New African Initiative, which was submitted first to the African Union and then to the meeting of the G8 in July 2001.

Delivery in South Africa

Within South Africa, the government and its development partners have made significant progress with the delivery of economic and social infrastructure services. Since 1994, some 6,5 million people have benefited from water provision, and about 400 000 electricity connections were made during 2000 alone. New telephone connections numbered 1,6 million, of which over a million were in underserved areas. Nearly 1,2 million houses have been constructed since 1994. The DBSA played a prominent role in supporting the delivery of infrastructure services. During the last year alone, its projects reached an estimated 1,1 million households with one or more services.

The Bank also supported the government in another national priority – the Integrated Sustainable Rural Development Strategy announced by the President in his 2001 State of the Nation Address. The Bank's newly approved Development Fund could be a critical instrument for making development happen in areas that do not have access to resources and capacity to effect development. The DBSA Board approved an amount of R80 million out of the current year's profits to be set aside as a "Grant Fund" for this purpose. The Bank will also seek to leverage its partnership with government, donors, the private sector and other role-players. The Fund will support Integrated Development Planning initiatives and the alignment of these with the Integrated Sustainable Rural Development Strategy. It will also provide facilitation and management support in strategic provincial and local government planning, and assist with project preparation and fund mobilisation.

Concerning the government's priority of urban development, the Bank is participating in several key urban renewal projects, including the Warwick Junction project in Durban



and elements of the Alexandra project. Its recent discussion document on urban renewal explored a more proactive and leading role in facilitating integrated urban development through a partnership approach. The Bank also participated in a review of the Urban Development Framework, led by the Department of Housing.

Local government restructuring

The key challenge for the Bank has been the restructuring of local government – its main clients. The December 2000 local elections marked the beginning of the last phase of the transformation of local government envisaged by the Constitution. The municipal demarcation process consolidated more than 800 local authorities into 284 municipalities, but the financial implications of this change are not yet clear. As a result of the uncertainty in the run-up to the demarcation, the Bank was cautious in lending to municipalities. However, it considerably expanded its technical assistance to these authorities, as detailed in the rest of this Annual Report. It aimed to assist municipalities in dealing with the financial, socio-economic and technical implications of the restructuring, and to build capacity for planning and implementing development projects.

Challenges for the future

Over the next five years, the biggest challenge facing the Bank will be to transform itself into a leading change agent that guides delivery, transformation and integrated development. Such development can only be achieved through concerted efforts to improve the quality of life of poorer communities, to promote sustainable development projects, to create employment opportunities, especially for people from disadvantaged communities, and to promote small, medium and microenterprises. The Bank aims to become the key vehicle for infrastructure development in southern Africa and to be an important source of development knowledge for the region.

To this end, it is exploring various ways of mobilising resources for integrated development while ensuring that it maintains financial sustainability. As most local municipalities are in severe financial distress, the Bank is looking at providing innovative services and funding instruments to this market. It is building strategic partnerships with national and provincial government departments, other development finance institutions and the private sector, including banks and pension funds, regarding new instruments. It is also holding discussions with its shareholder, the national government, on the use of grant funding to support delivery in the poorest areas.

Transformation of the Bank

With the appointment of the new Board and the new Managing Director and Chief Executive Officer, Mandla Gantsho, the DBSA is poised for a radical transformation. The institution is consolidating its strengths while reflecting critically on its weaknesses – what it has achieved and where it could perhaps have achieved more. The need to provide services to poor people is central to the activities of the Bank. The challenge is for the government, the Board, management and staff to take a fresh look at their role and at how they can enable the Bank to reach more people with better services.

I would like to thank the outgoing Board members for their unstinting commitment to development, and my predecessor, Prof. Wiseman Nkuhlu, for his able leadership of the institution. Dr Ian Goldin, Chief Executive Officer until February 2001, also deserves particular thanks for managing the Bank in a difficult period.

I would like to welcome the new members of the Board, and trust that each of them will make a substantial contribution to service delivery. I look forward to working with the new Chief Executive, the Executive Managers and all members of staff as we renew our efforts to ensure a better quality of life for the poorest members of our communities.



Jayaseelan Naidoo

Board of Directors

as at 1 August 2001



Name and designation: **Mr Iraj Abedian**
Group Economist: Standard Bank Group

Academic qualifications: PhD (Economics), Simon Fraser University, Canada (1993); MA (Economics), University of Cape Town (1982); BA Hons, University of Cape Town (1980); BEcon, University of Tehran, Iran (1977)

Date of birth: 2 October 1955

DBSA Director as from: 1 August 2001



Name and designation: **Ms Lucienne Abrahams**
Independent Consultant, Associate: Vodacom Link Centre, School for Public and Development Management

Academic qualifications: Postgraduate 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: **Prof. Brian de Lacy Figaji**
Vice-Chancellor: Peninsula Technikon

Academic qualifications: MEd (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 from: 1 August 1997



Name and designation: **Mr Mandla Sizwe Vulindlela Gantsho**
Chief Executive Officer and Managing Director: DBSA

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

DBSA staff member as from: 1 October 1995

DBSA Director as from: 1 February 2001



Name and designation: **Dr Deenadayalen Konar**
Consultant

Academic qualifications: DCom, Unisa (1989); MAS, University of Illinois (1981); CA (SA) (1978); Postgraduate Diploma in Accounting, University of Durban-Westville (1978); BCom, University of Durban-Westville (1975)

Date of birth: 19 February 1954

DBSA Director as from: 1 August 2001

Co-opted to the Audit Committee as from: 1 June 1995



Name and designation: **Mr Johannes Bhekumuzi Magwaza**
Executive Director: Tongaat-Hulett Group Limited

Academic qualifications: MA (Industrial Relations), Warwick University (1985); BA (Psychology and Social Anthropology), University of Zululand (1966)

Date of birth: 5 May 1942

DBSA Director as from: 1 July 1995



Name and designation: **Prof. Wiseman Lumkile Nkuhlu**
Chief Economic Advisor: President's Office

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



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

Date of birth: 20 December 1954

DBSA Director as from: 1 May 2000

Chairman of the
DBSA Board as from: 24 August 2000



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

Academic qualifications: International Programme for Board Members, IMD, Lausanne, Switzerland (1997); BA 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: **Ms Maria da Conceicao das Neves Calha Ramos**
Director-General: National Treasury

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 Ignatius Schoole**
Executive President: The South African Institute of Chartered Accountants

Academic qualifications: Diploma in General Management, Ashridge College (UK) (1995); CA (SA) (1991); CTA, Unisa (1989); BCompt Hons, Unisa (1988); BCom, Vista University (1987)

Date of birth: 27 April 1960

DBSA Director as from: 1 August 2001



Name and designation: **Mr Nkululeko Sowazi**
Director of Companies

Academic qualifications: MA Urban & Regional Planning, University of California (1991); BA, US International University (1989)

Date of birth: 16 April 1963

DBSA Director as from: 1 August 2001

Board of Directors

as at 1 August 2001



Name and designation:	Mr Zamindlela Titus Director-General: Department of Provincial and Local Government
Academic qualifications:	LLB, University of Fort Hare (1980); BJuris, University of Fort Hare (1977)
Date of birth:	26 October 1956
DBSA Director as from:	1 August 1997



Name and designation:	Mr Madoda Vilakazi Deputy Chief Executive Officer: Mineworkers Development Agency
Academic qualifications:	MBA, University of the Witwatersrand (2000); Management Advancement Programme, University of the Witwatersrand (1997); Industrial Relations Diploma, Damelin Institute (1994); Certificate in Arbitration, Mediation and Conflict Resolution, IMMSA (1993)
Date of birth:	25 June 1964
DBSA Director as from:	1 August 2001

Board of Directors

during the financial year under review



Name and designation: **Ms Ann Bernstein**
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 between: 1 June 1995 and 31 July 2001



Name and designation: **Rev. Frank Chikane**
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 between: 1 August 1997 and 31 July 2001



Name and designation: **Dr Ian Andrew Goldin**
Former Chief Executive Officer and Managing Director: DBSA

Academic qualifications: PhD, Oxford University (1983); 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 Managing Director between: 1 January 1998 and 31 December 2000

DBSA Chief Executive Officer between: 2 April 1996 and 31 January 2001



Name and designation: **Mr Christo Ferro Liebenberg**
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 between: 1 August 1997 and 31 July 2001



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 between: 1 August 1997 and 31 July 2001



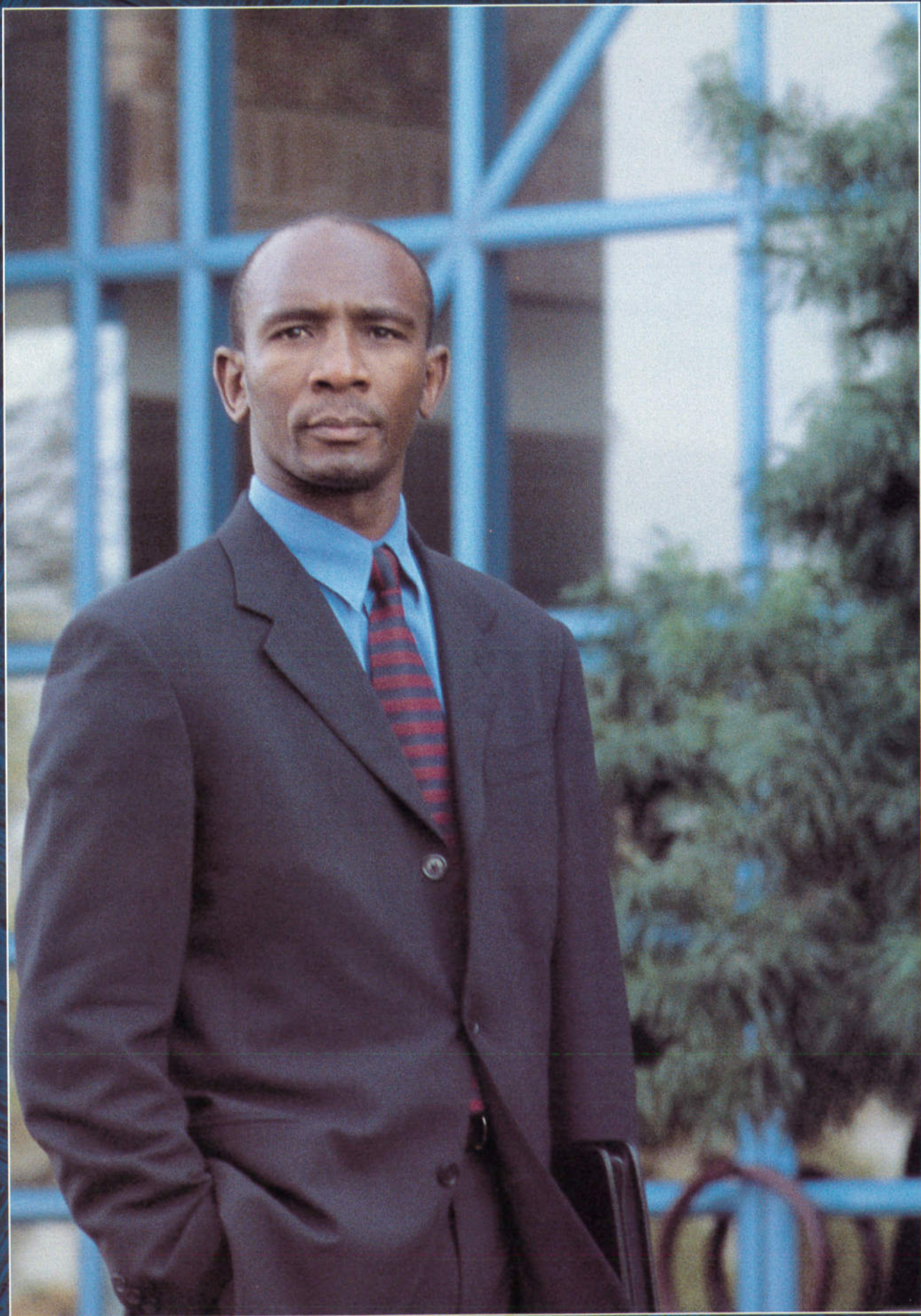
Name and designation: **Dr Robin Allan Plumbridge**
Director of Companies

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 between: 1 June 1983 and 31 July 2001

Managing Director and Chief Executive Officer: Mandla Gantsbo



Political and economic transformation

Over the past few years, the Bank has faced the challenge of operating in an environment undergoing far-reaching political and economic transformation. As noted in previous Annual Reports, the Bank itself has undergone transformation, aimed at gearing the organisation towards addressing the developmental challenges in South Africa and the rest of the SADC region. This Annual Report examines the Bank's performance over the last five years, and focuses on its role in supporting sustainable and integrated development.

For most of 2000/01, the local sphere of government in South Africa has been undergoing fundamental restructuring. The final phase was ushered in by the local government elections of December 2000. Two key features marked the restructuring process:

- The two-tier system of local government at metropolitan level was replaced by a one-tier model.
- The two-tier model was retained outside the metropolises, but 843 municipalities were rationalised into 284.

The restructuring of these municipalities entailed, among other things, the harmonisation of human resources and of information, financial and legal systems. This had an unavoidable impact on the capacity of the new structures to embark on capital investment programmes, and as a result the Bank's lending activities slowed down during 2000/01.

Challenges for South Africa and SADC

The future continues to hold significant challenges for us. In South Africa, despite the enormous progress that the government has made in clearing backlogs in the demand for basic services infrastructure, it is estimated that about 18 per cent of the population does not have access to clean water, and about 15 per cent of people over the age of 15 are illiterate. In other SADC countries, with a combined population of more than 150 million, it is estimated that only 41 per cent of the population has access to clean water. Illiteracy rates are estimated at more than 50 per cent of people over the age of 15. In 1996, the National Infrastructure Investment Framework quantified the investment requirements in South Africa's infrastructure at between R25 billion and R35 billion per year over a period of five to seven years.

Key focus areas for the DBSA

Others may see these "stormy winds" of change and the huge development challenges that lie ahead as threats. We see them as opportunities. Our strategy, as we go forward, emphasises innovation, responsible risk-taking, partnerships and accelerated delivery in South Africa and the rest of the SADC. Our key focus areas will include:

- *Building partnerships with national and international governments, the private sector, development finance institutions, as well as non-governmental and community-based organisations, in pursuing our development mission.* Armed with the knowledge that development is multidimensional and complex, we will regard all of these partnerships as strategic and synergistic.
- *Achieving greater focus in pursuing the Bank's infrastructure development mandate.* The DBSA's competitive advantages as an infrastructure institution will be used to leverage the efforts of others so as to integrate development initiatives.
- *Increasing the Bank's outreach to areas in greatest need of development assistance.* This effort will be spearheaded by the newly created Development ("Grant") Fund, whose initial aim is to mobilise and provide expertise and resources for capacity building.



- *Establishing the DBSA as a knowledge-based institution, and ensuring that its skills and knowledge are broadly accessible to clients and organised community bodies throughout the region.* As I assume the leadership of the Bank, I am conscious that its greatest asset is not reflected on the balance sheet, but lies in the skills and commitment of its human resource base. These skills will be nurtured and developed to the benefit of our clients and beneficiaries.
- *Broadening our product base to include new and innovative methods, instruments and services.*
- *Engendering a culture of innovation and responsible risk-taking within the Bank.* This will include the development of performance-based remuneration and reward structures.

Highlights of 2000/01

The current year's satisfactory operational, corporate and financial results solidify an already strong foundation from which to deepen our development impact in the future. A detailed discussion of the progress made is contained in separate reports by the executive team, but I am pleased to highlight the following achievements:

- An estimated 1,1 million households were connected to basic services infrastructure through projects financed or co-financed by the Bank (this was equal to the number of households reached in the previous year).
- For every R1,00 invested by the Bank, co-funding of R5,30 was obtained from other sources. This compares favourably with the previous year's ratio of R1,00 to R2,20.
- Moody's Investors Service reconfirmed the DBSA's international investment grade credit rating of Baa3 for long-term debt. A further international investment grade rating was obtained from Standard and Poor's during the current financial year. These ratings are evidence of the Bank's financial sustainability and responsible risk-taking.
- The Board of Directors approved the establishment of a Development Fund and capitalised it with an R80 million allocation from the current year's profits to a "Grant Fund". This Fund will extend the Bank's ability to reach the areas in greatest need of development support, and to act as a catalyst for other sources of capacity building and investment in basic services.
- The Bank's "Vision 2004" strategic framework was finalised and will now be implemented to enhance the efficiency, development impact and responsiveness of the organisation in addressing the development needs of our region.

I would like to thank my predecessor, Dr Ian Goldin, for his invaluable contribution towards creating a solid foundation for the DBSA's future. Furthermore, I am deeply encouraged by the confidence shown in me by the DBSA's Governor and shareholder representative, Minister Trevor Manuel, and the entire DBSA Board of Directors together with its Chairman, Mr Jayaseelan Naidoo, and I look forward to their ongoing support. Finally, I wish to thank my management and colleagues at the DBSA for the positive results recorded in this year's Annual Report and for their ongoing commitment to our common goal of achieving a better life for all.



Mandla Gantsho



Name and designation: **Mr Jacob Henry de Villiers Botha**
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: **Dr Makaziwe Phumla Mandela**
Executive Manager: Corporate Services
Academic qualifications: PhD (Anthropology), University of Massachusetts (1992); MA (Sociology), University of Massachusetts (1988); 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

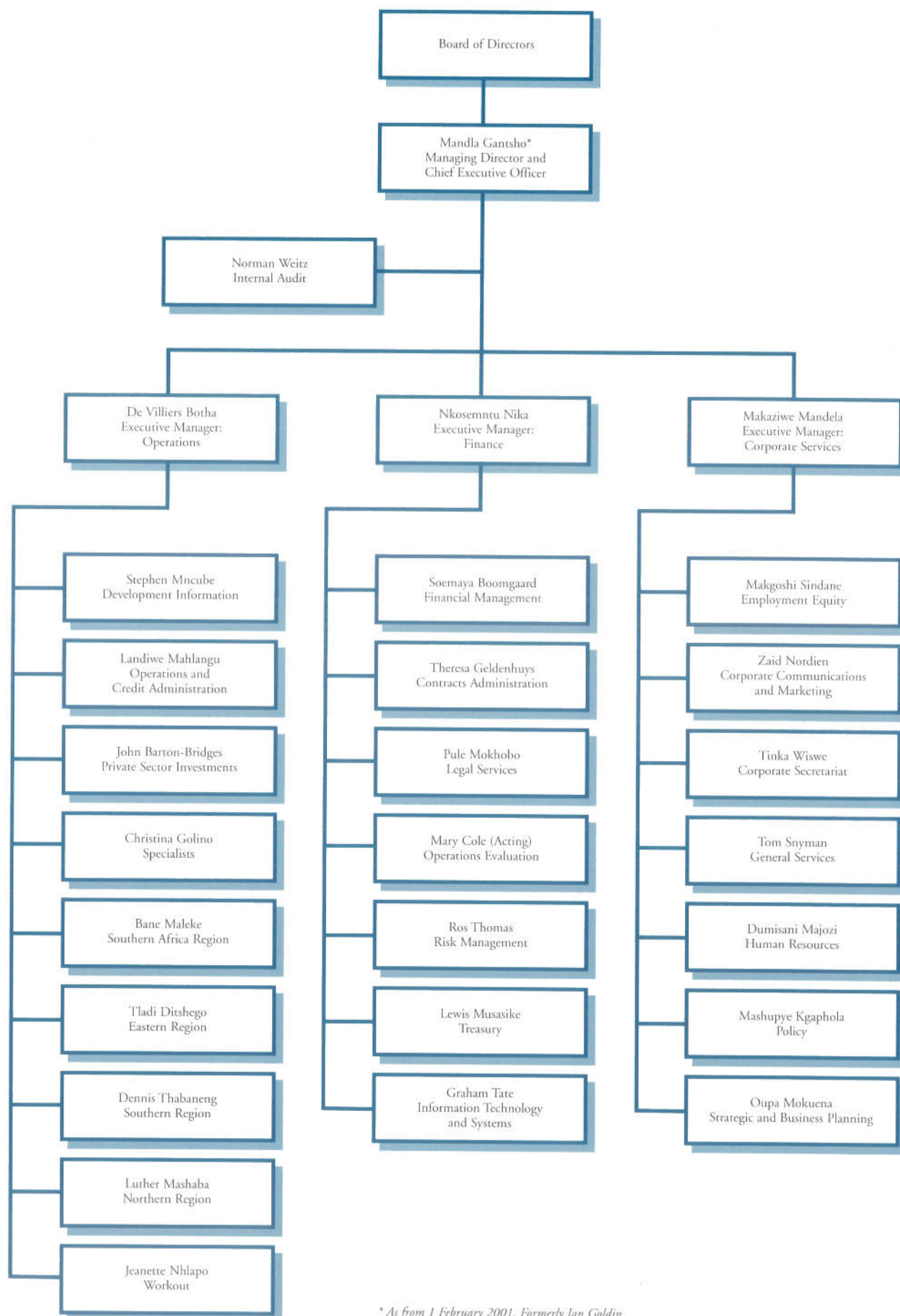


Name and designation: **Mr Nkosemntu Gladman Nika**
Executive Manager: Finance
Academic qualifications: CA (SA) (1987); BCompt Hons, University of South Africa (1984); BCom, University of Fort Hare (1980)
Date of birth: 15 October 1957
Executive Manager and
DBSA staff member as from: 1 July 2000

These Executive Managers will be appointed to the Board as Executive Directors with effect from the commencement of the DBSA Amendment Act, which is expected during the current financial year.

The organisational structure of the DBSA is being revised as part of a continuous process to enhance delivery in terms of its mandate. The Finance complex will be divided into a Corporate Finance and Administration cluster (with enhanced tax, budget and procurement functions) and a Treasury cluster, dealing with money and capital markets, financial instruments, assets and liability management, and multilateral and bilateral funding. The Southern African and Private Sector Investments Business Units of the Operations complex will be hived off into a separate cluster, to enhance the Bank's focus on private sector initiatives in the region. The remainder of the cluster will focus on public sector activities within South Africa; it will be strengthened through the addition of legal services. The new Knowledge management cluster will incorporate Policy, Specialists, Human Resources, a new training unit, Operations Evaluation, Development Information and Employment Equity. The Corporate Secretariat, Strategy and Communications will report directly to the Chief Executive Officer, as does the Internal Audit function. These changes should be finalised during August 2001.

Organisational structure



* As from 1 February 2001. Formerly Ian Goldin



Front:

De Villiers Botha - Executive Manager

Back row:

(left to right)

Christina Golino - Specialists

Dennis Thabaneng - Southern Region

Stephen Mncube - Development Information

Landiwe Mablangu - Operations and Credit Administration

Bane Maleke - Southern Africa Region

John Barton-Bridges - Private Sector Investments

Jeanette Nhlapo - Workout

Luther Mashaba - Northern Region

Tladi Ditsbego - Eastern Region

Providing investment lending for local infrastructure development

During 2000/01, the DBSA approved investment loans of R2 217 million for the financing of 56 infrastructure projects with a total value of R13 897 million. This is an increase of 10,4 per cent on the previous year's R2 008 million. Despite a decrease in the number of projects financed, the total value of the projects was significantly higher than the R6 365 million in 1999/2000.

In keeping with the Bank's focus on integrated development, the greatest share (50 per cent) of these loans was for the financing of multiple and social services, mainly the reticulation of water, sanitation, electricity and transport services to households. Another 36 per cent was for the bulk elements of energy, telecommunications, water, roads and sanitation networks; 4 per cent for the upgrading of educational facilities; and 10 per cent for entrepreneurial and agriculture-related services and infrastructure.

The share of investment lending for projects in South Africa decreased from 64 per cent of total loan approvals in 1999/2000 to 44 per cent in 2000/01. This shift reflects the lower demand for lending to local government during the demarcation and transformation process. Loans to local government of R609 million were approved in 2000/01, which represents 63 per cent of the total loan approvals of R972 million in South Africa. The remainder of the loans were for parastatal and utility institutions (22 per cent), national government (10 per cent) and private sector institutions (5 per cent). The DBSA's investment operations in South Africa remained focused on the provision of reticulated services to households, which constituted 74 per cent of the total loan approvals for the year.

Expanding operations in the SADC region

The combined population of the SADC countries grew from 137,6 million in 1986 to 193,3 million in 1999, at an average growth rate of 2,65 per cent a year. In contrast, real gross domestic product grew by only 1,3 per cent a year, from US\$160 billion in 1986 to US\$190 billion in 1999. The SADC's vision is to transform the 14 member states from individual, fragmented markets into an integrated, vibrant and globally competitive market characterised by the free movement of goods, services, labour and capital.

In support of this vision, the DBSA's investment lending operations in the SADC region continued to expand. Loans of R1 245 million were approved in six countries, an increase of 69 per cent on the R735 million in 1999/2000. Of these loans, 40 per cent were for private sector institutions, 37 per cent for public utility institutions, and 23 per cent for government institutions and development corporations. In addition, the Bank provided technical support to SADC regulatory structures, such as SATCC (Southern African Transport and Communications Committee), TRASA (Telecommunications Regulatory Authority for Southern Africa) and the SADC water sector.

The Bank's strategy in the region is guided by Vision 2004's basic principles – to be additional, to maximise development impact, to follow sound financial policies, to form strategic partnerships, and to address socio-economic inequality and stimulate employment-generating economic growth through the provision of infrastructure. The Bank supports efforts to attain fiscal and macroeconomic stability, remove financial distortions in markets, and ensure effective public sector management and corporate governance.

The Bank's southern African activities have focused on:

- *Strengthening relations with development finance institutions and multilateral organisations:* The DBSA was a co-signatory to the memorandum of understanding to

formalise a network of development finance institutions. The DBSA is also the formal secretariat for this subcommittee of the finance and investment sector. In addition, Executive Managers interacted with the World Bank, the European Investment Bank, the African Development Bank and the Asian Development Bank.

- *Supporting the SADC secretariat:* The current country and sector support structure of the SADC secretariat is being revised, with a target completion date of April 2004. The DBSA is helping to establish the directorate that will consist of the current trade, industry, finance and investment sectors. The Bank is likely to play a similar role in the amalgamation of the infrastructure sectors.
- *Establishing the DBSA as a regional institution in SADC member countries:* The marketing of the DBSA to the region proved successful especially in Namibia, Zambia, Mozambique, Tanzania and Mauritius and, to a lesser extent, in Lesotho, Malawi and Swaziland. The well-established programmes in these countries have encouraged many to approach the DBSA for assistance with policy and capacity building, and various technical assistance projects are under consideration. These programmes also contributed to the growth in investment lending discussed above.

Mobilising private sector investment

Through its Private Sector Investments Unit, the DBSA mobilises capital from other sources to provide affordable and efficient infrastructure services in the region. The Bank aims to foster economic growth by increasing private capital flows to the region and to build capacity by providing technical assistance to provincial and local government.

The Unit offers a range of financial products designed to meet the requirements of private sector infrastructure projects. These products can be denominated in South African rand or in currencies such as the United States dollar. The support offered by the Bank is tailored to meet the specific needs of the project and client.

The Unit's portfolio of approved investment projects has grown from a zero-base at its inception in 1996 to R2,1 billion in 2000/01. During the year, six new investments totalling R509 million were approved. This represents approximately 24 per cent of total approved investments for the year, as against 22 per cent in 1999/2000, and 15 per cent in 1998/99. This rising trend is indicative of the growing acceptance of the private provision of infrastructure and of public-private partnerships as models for service delivery throughout the SADC region.

Private sector projects approved during this period include: funding for the rehabilitation of the Kruger Park Gateway Airport, the rehabilitation of Maputo Port, the Mozal Phase II aluminium smelter in Mozambique, and the Chichiri Shopping Centre in Blantyre, Malawi. At the end of 2000/01, the DBSA's private sector projects in SADC countries outside of South Africa, together with its investments in regional private equity funds, represented approximately 78 per cent of the total portfolio of approved projects. This can be ascribed to investments in regional funds, and accelerated progress in the implementation of public-private partnerships and privatisation in countries such as Mozambique and Zambia.

The DBSA has dealt in various ways with capacity constraints in partnerships. It continues to provide support to the Municipal Infrastructure Investment Unit, which is housed at the DBSA, in terms of a management contract concluded with the Department of Provincial and Local Government. It has assisted the Department of Water Affairs and Forestry regarding amendments to the Water Services Act, and provided inputs to the

Providing technical assistance

Municipal Systems Bill. In the health care sector, a technical assistance grant was provided to the Free State Department of Health for a pilot partnership project at a provincial hospital. In the energy sector, a technical assistance grant was provided to municipalities in the Cape Metropolitan for funding an economic impact assessment of natural gas in the Western Cape.

During the year, the Bank disbursed R5,5 million on technical assistance grants for various capacity building and policy initiatives. The Operations complex provided an additional R11,4 million worth of staff time to promote client development. All the newly demarcated metropolitan municipalities, 75 per cent of local municipalities and 69 per cent of district municipalities are already clients of the Bank. It is important that the Bank intensify its technical assistance to these authorities, so enabling them to face the institutional, financial and operational challenges arising from the demarcation process and the transformation of local government structures.

In December 2000, the Board approved a strategy that reinforces the capacity building initiatives of the Department of Provincial and Local Government. It has the following elements:

- Establishing a Local Government Development Centre to pool Bank expertise in support of local government
- Assisting local governments to gather and interpret data
- Supporting the development of Integrated Development Plans, especially by rural local governments who lack the necessary capacity
- Building capacity in provincial governments for their role in relation to local government
- Establishing and operating a District Finance Facility to encourage integrated development, especially in rural areas
- Providing district and local municipalities with modelling tools to enhance decision-making and planning
- Building capacity in municipalities for environmental management
- Enhancing good governance at district and local level, through technical assistance, promotion of best practice and utilisation of the *DBSA Development Report 2000*
- Restructuring the balance sheets of new local governments

Rendering agency services

The DBSA provides agency services for various development programmes that are in line with its own strategic intent.

The Bank provided programme management support to the *job creation initiative*. This is to be funded by the Job Creation Trust, which was established by the three major trade union federations – the Congress of South African Trade Unions, the National Council of Trade Unions and the Federation of Unions of South Africa – following the 1998 Presidential Job Summit. Approximately 3 200 applications to a value of R3,5 billion were received, and have been recorded in a database. To date, about R80 million has been collected for financing these projects, which will be appraised individually.

The DBSA undertook financial administration on an agency basis for the United Kingdom's Department for International Development (DFID), which has been engaged in a project with the South African Parliament. This project aims to strengthen the *Portfolio Committee for Public Service and Administration*, thus enabling it to meet its mandate of creating a transformed, representative public service that renders services effectively and efficiently, especially to poor and disadvantaged communities. Dedicated

support is offered in three ways: a technical support team has been formed, with direct links to the Committee; a research facility has been established; and needs-based capacity building is provided to individual Committee members. Parliament and DFID have agreed to expand this project to include the Finance and Public Accounts Committees, and to extend it for another three years. The DBSA has been awarded the agency for the financial administration of this extended initiative as well.

South Africa has a well-established programme of *spatial development initiatives*, which aim to unlock inherent economic potential by attracting new investment, and to create wealth and strengthen regional economic integration. There are 11 spatial development initiatives at varying stages within the country, and a further six in the planning phase in sub-Saharan Africa. From the inception of the programme, it was anticipated that the implementation of projects would be the responsibility of the government, once the research, planning, investment “packaging” and promotion phase (led by the Department of Trade and Industry, and facilitated by the DBSA) was complete. Most of the South African spatial development initiatives have reached this point, with 11 of the 17 local and transnational initiatives now in the hands of implementing agencies, who are responsible for their ongoing viability.

The Spatial Development Initiatives programme, housed in the DBSA, provides technical support to the following initiatives in the sub-Saharan region:

- Walvis Bay Development Corridor with Namibia
- Beira Development Corridor with Mozambique
- Nacala Development Corridor with Malawi and Mozambique
- Limpopo Valley Spatial Development Initiative with Mozambique
- Maputo Province Spatial Development Initiative with Mozambique
- Zambezi Valley Spatial Development Initiative with Mozambique

The national *Community Private Partnership Programme* was launched in November 1999 by Deputy President Zuma to facilitate commercial linkages between resource-rich rural communities and private sector investors. The Programme seeks to unlock the economic value of state- or community-owned land and, in so doing, to revitalise rural economies, reduce poverty, increase community empowerment and promote the sustainable use of resources in some of the country's poorest regions. It is co-funded by the Department of Trade and Industry and the DBSA, with financial and human resources support from the Department of Agriculture and Land Affairs. The Programme is housed at the DBSA and is overseen by an interdepartmental steering committee representing the Departments of Trade and Industry, Environmental Affairs and Tourism, Agriculture, Water Affairs and Forestry, and the World Conservation Union. While it focuses on sourcing viable commercial partnerships, it is also promoting an enabling environment for joint ventures through the formulation of guidelines and frameworks.

The *Investment Project Preparation Fund* was established as a funding tool of the Community Private Partnership Programme. Its mandate is to provide financial and technical resources to communities, to undertake technical work where required, and to solicit commercial investment on their land. The Fund is managed by the DBSA, and is accountable to an Executive Committee consisting of senior representatives from the Department of Trade and Industry, the DBSA and the Programme. To date, the Fund has been capitalised with seed funding of R5 million. In 2000/01, five projects were approved, with a total value of R883 310. Three of these were in the tourism sector and two in the agricultural sector.

Assisting clients in regaining viability

The World Bank (and other parties) approached the DBSA to administer the funds for the *African Connection Programme*. The DBSA contributed R903 000 in kind, the World Bank's Institutional Development Fund provided a grant of US\$495 000 for remuneration, travelling and relocation, and InfoDev provided a project-specific grant of US\$250 000. The purpose of the Programme is to address connectivity (in the broadest sense) between countries on the African continent, initially up to September 2002. The Chief Executive Officer (from Ghana) and Policy and Regulatory Coordinator (from Tanzania) assumed their duties in October 2000 and January 2001 respectively. A Trust has been established with the DBSA as administrator. It comprises the Ministers of Communications from Cameroon, Uganda and South Africa, the Minister of Communications from Zambia (in his capacity as Chair of the African Telecommunications Union) and the Secretary-General of the Union.

The DBSA's mandate emphasises the need to balance sound banking practice and development impact. The Bank has therefore established a specialised Workout Business Unit to assist defaulting clients in regaining viability and settling their debt as quickly as possible. The challenge for the Unit is to develop client-specific debt-recovery packages to turn around the biggest defaulters. The Unit will provide prompt workout services to rehabilitate and protect impaired assets, and timely and consistent monitoring of problem assets. It will implement comprehensive rescue workout packages by using a technical assistance facility, but will also develop exit strategies from problem loans. This year, the newly established Unit has been analysing priority defaulter lists, assessing defaulters and preparing institutional and financial guidelines.

The Unit's objectives are:

- To bring about a marked improvement in repayments from defaulters, to the extent that they can generate new business with the Bank
- To set up timely and consistent management of problem assets through an effective early warning system
- To reduce impaired assets significantly through institutional capacity building, as well as through financial interventions such as calling up guarantees or seeking legal recourse to realise assets to the loan agreements
- To formulate innovative workout strategies for rescuing impaired assets
- To promote research and feedback, so that skills are transferred and the project cycle implementation improved according to international benchmarks

Facilitating access to development information

The Bank's Development Information Business Unit facilitates access to development information by all stakeholders. The Unit focuses on providing analysed socio-economic development information, especially that related to infrastructure. Its dedicated Development Information Resource and Public Information Centre services:

- Maintain integrated resource bases on demographic and economic information, and on labour markets and municipal services, as well as electronic links to related sources
- Seek to establish institutional and human resource capacity to generate and interpret development information, and to provide resource management services to clients
- Provide expertise to strategic partners through an outreach programme to communities

During the year, the Unit focused on developing an integrated Internet-based database on infrastructure; on producing publications containing regional socio-economic analysis and population projections (factoring in the impact of HIV/Aids); and on providing specialist expertise to international organisations, national and provincial government departments, non-governmental organisations and other clients of the DBSA.



Front: Nkosemntu Nika - Executive Manager

Back row:
(left to right) Pule Mokhobo - Legal Services
Ros Thomas - Risk Management
Soemaya Boomgaard - Financial Management
Norman Weitz - Internal Audit
Theresa Geldenhuys - Contracts Administration
Mary Cole - Operations Evaluation

Not in picture: Lewis Musasike - Treasury
Graham Tate - Information Technology and Systems

Ensuring financial sustainability

The year under review was characterised by volatility in the financial markets as a result of high oil prices, sensitivity in the emerging markets, and interest rate cuts in the United States and Europe. In the domestic markets, the main drivers of bond yields were negative inflationary concerns and the political situation in neighbouring Zimbabwe. Against a somewhat difficult domestic and international background, the rand traded within a range of 6,54–8,04 to the United States dollar, while headline inflation rose to about 7,4 per cent at the end of March 2001, from 3,4 per cent (year-on-year) at the end of March 2000. Under these circumstances, the DBSA's Treasury focused on:

- Raising funds from the domestic public markets and international development partners
- Implementing asset and liability management strategies to lower the cost of funding and ensure that the development loans were appropriately structured
- Obtaining international credit ratings equivalent to the investment grade ratings of the Republic of South Africa

These will continue to be focus areas for the Bank in the coming year. In addition, the Bank plans to play a more active role in facilitating the access of clients to capital markets, using its experience and expertise.

The Bank's Financial Management Unit aimed to provide relevant and reliable financial information to all users, including management, customers and stakeholders, to facilitate informed decisions that will enable the Bank to achieve its development mandate. The Unit focused on providing, maintaining and implementing sound financial controls and systems, and on ensuring full compliance with all accounting, statutory and legal requirements.

Sources of funding

The Bank has successfully established itself as a frequent issuer in the domestic capital markets, as demonstrated by the 60:40 ratio of domestic to international outstanding borrowings achieved by March 2001. However, the challenge lies in balancing the funding objectives of diversifying both the sources of funding and funding instruments, while improving the terms and conditions (including costs, flexibility and access to funds).

During 2000/01, total borrowings amounted to approximately R1 530 million. In line with its strategy of maintaining a healthy presence in the domestic markets, the Bank launched a 16-year 15 per cent R1 billion bond (DV21) issue at the end of May 2000, at an all-in cost of 15,2 per cent. The issue was more than twice oversubscribed, and management decided to increase the size from the original R500 million to R1 billion. With this bond issue, not only did the Bank fund competitively, but it also attracted new investors and repositioned its borrowing capacity and creditworthiness in the domestic markets.

In addition to local bond markets, the Bank made drawdowns on loan facilities from the Agence Française de Développement, the African Development Bank and Kreditanstalt für Wiederaufbau, amounting to about R530 million. In line with prudent risk management practices, all foreign currency borrowings were swapped into rand, except where utilised to fund disbursements in similar currencies. The bilateral and multilateral institutions remain important sources of funding for the Bank, with credit lines equivalent to R1 179,9 million available for drawdown. The long-term debt to equity ratio declined to 90,9 per cent in March 2001 from 104,8 per cent in March 2000 (based on restated figures). This ratio is well below the policy limit of 250 per cent.

The Bank solicited a second international credit rating from Standard and Poor's, after having obtained a long-term foreign currency rating of Baa3 from Moody's Investors

Service. Standard and Poor's awarded the Bank BBB- and A-3 long-term and short-term foreign currency ratings and A- and A-2 long-term and short-term local currency ratings. Moody's Investors Service's and Standard and Poor's ratings are equivalent to those of the Republic of South Africa. At the same time, the Bank maintained its local currency rating of AAA from Fitch IBCA. These investment-grade ratings enable the Bank to fund competitively in the domestic and international capital markets.

In a further move to strengthen the Bank's fund-raising activities, the Board of Directors approved the establishment of a R5 billion domestic medium-term note programme. This programme is a funding vehicle that will facilitate the implementation of the Bank's annual borrowing programmes. It will enhance funding flexibility and allow the issuing of different types of instruments.

Financial performance

From the point of view of profitability, the Bank aims to build adequate reserves and strengthen the equity base; to increase its capacity to absorb possible loan losses on its lending portfolio; and to provide assurance to the financial markets that its financial management practices are sound.

The net surplus for the year rose to R579 million from R414 million in March 2000 (restated), which represents an increase of 40 per cent. Unrealised profits and losses resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans have had a significant impact on the financial results.

An unrealised profit of R267 million was earned in respect of the revaluation of derivatives for the current financial year compared to a profit of R12 million earned in the previous year. In addition, an unrealised foreign exchange loss of R201 million was recognised during the current financial year, as against a loss of R127 million in the previous year. Although the net result of the differences on the revaluations should approximate the cost of cover of hedging strategies undertaken over the life of the underlying loan, significant fluctuations from year to year are expected. The extent of these fluctuations cannot be quantified with reasonable certainty, as they are dependent on local and foreign market movements, as well as exchange rate movements.

Another factor which contributed to the year-on-year increase in profit was a reduction in the income statement charge to the loan loss provision. The charge for the current year was R114 million, as against R209 million in the previous year.

Operating expenses increased from R181 million to R285 million, as post-retirement medical benefits have now been fully provided for (resulting in an extra charge for the year of R75 million). As a result, the ratio of operating cost to income increased from 22,7 to 29,4 per cent. However, this ratio would have decreased to 21,7 per cent had the R75 million been excluded, and this reflects the stringent budgetary controls maintained over the period.

Total assets increased from R16,0 billion to R17,7 billion, and the percentage return on assets improved from 2,6 to 3,4. The land on which the Bank's offices are situated was valued at R18,8 million and the revaluation surplus was credited to a non-distributable reserve. Buildings were also revalued at a fair value of R95 million. This has created a revaluation reserve of R77,4 million.

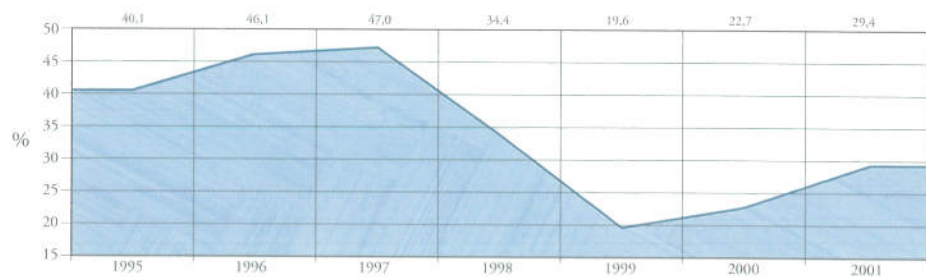
Development loans and investments increased by R1,5 billion. The weighted average interest rate per year on development loans decreased from 13 to 11,7 per cent. The total book debt of non-performing loans increased from R737 million at 31 March 2000 (6,4 per cent of the total development loan portfolio) to R903 million at 31 March 2001

(6,9 per cent). The total instalments in arrears of non-performing loans increased from R287 million to R430 million for the same period. Of the 20 largest non-performing borrowers, 16 had also been in default at 31 March 2000. The book debt and arrears for these borrowers increased because their outstanding debt accumulated as new instalments fell due.

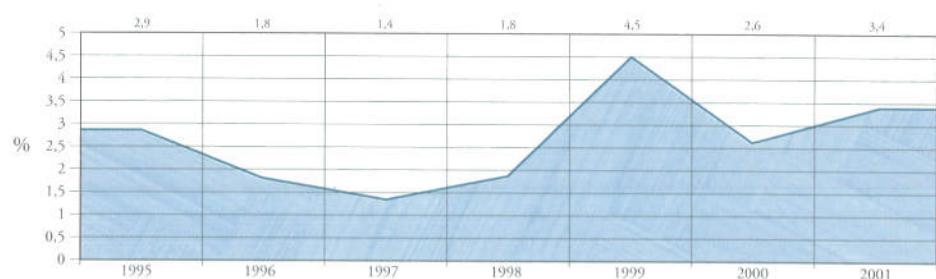
The loan loss provision at 31 March 2001 remained at 7,3 per cent of book debt, as reported in March 2000. The specific provision increased from R420 million to R479 million, mainly owing to an additional borrower being categorised as a non-performer in comparison to the previous year. The general provision increased from R426 million to R480 million owing to the book debt increasing from R11,6 billion to R13,1 billion.

Liabilities increased by R924 million. Medium- and long-term financing decreased by R315 million, which is net of derivative financial instruments of R523 million. The DV06 registered bond of R1,226 million will be redeemed on 31 October 2001, and this has been classified as short-term financing. There was only a negligible change in the other liabilities.

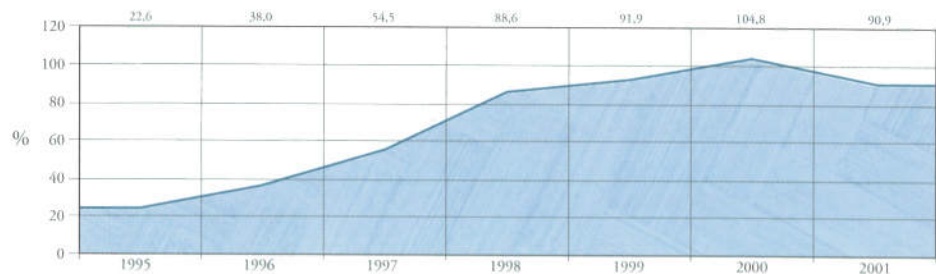
Operating costs
to income



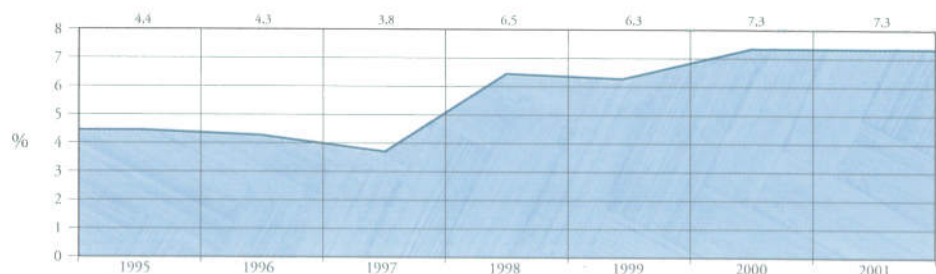
Return on assets



Debt to equity



Provision for loan loss as
% of development loans



Accounting policies have remained consistent with the previous year, except for the following:

- Land was fair valued.
- Buildings were valued at market value and will be depreciated over their useful life with effect from the 2002 financial year.
- Interest that was previously deferred is now recognised as it accrues. Previously, interest was capitalised during the interest moratorium period of the loan. This was recorded as deferred interest and credited to income as and when it became due and payable, or when it was received.

At present, South Africa is undergoing a rapid change in its accounting standards, as evidenced by several new or amended accounting standards, interpretations and exposure drafts. These pronouncements are aimed at harmonising South African accounting standards with those issued by the International Accounting Standards Committee. A number of these statements have affected the results of the Bank in the current financial year, as reflected in the changes in accounting policies above. During the current and previous financial years, the Bank partially applied AC133, with full compliance only required from 1 April 2003.

The Bank is generally satisfied with the levels of profitability and with its financial flexibility to absorb loan risks and the fluctuations in investment income. The Board consequently approved the transfer of an amount of R80 million from the current year's profits to the "Grant Fund".

The projected financial results for the next five years indicate that the Bank will continue to be profitable, despite the fact that its tax-free status will probably be removed in 2002/03. It is also likely that the Bank will begin to pay dividends at that time.

Mitigating legal risk

SADC legal framework: As part of its strategy to mitigate legal risks for the Bank, the Legal Services Business Unit has been closely involved, together with the Risk Management Unit, in completing due diligence reports for the ten countries in which the Bank is active.

Defaulters: The Bank continues, where possible, to put preventative measures in place through contractual and other arrangements. It is also analysing the potential for defaults and other legal risks relating to the transformation of local authorities. Where defaults occur, Legal Services continues to provide the legal support and solutions including, if required, legal proceedings to ensure maximum recovery.

Compliance with legislation that affects the Bank's operations continues to receive full priority. For instance, the Bank has been part of the ongoing effort to clarify the Public Finance Management Act, so as to ensure a common understanding of the Bank's obligations under this Act.

Integrating information systems

The Bank has continued its efforts to consolidate and integrate information systems. The resultant applications architecture that is emerging will provide the Bank with a solid foundation of information systems from which to launch its knowledge management and knowledge product initiatives. Existing and future systems will be aligned with business processes to enhance productivity and make maximum use of the Bank's information assets.

Evaluating projects and programmes

The mission of the Bank's Operations Evaluation Unit is to provide feedback to the Board and Management, operations teams, funders and stakeholders about the impact of development, and the efficiency and effectiveness of the Bank's investments in development programmes or projects. To this end, it focuses on:

- Institutionalising monitoring and evaluation in the Bank

- Reviewing the monitoring of project implementation
- Measuring project development outcomes and impacts
- Implementing social accountability reporting

The Unit received donor funding for the design of an electronic monitoring and evaluation system, supported by pilot skills training of Bank staff and the development of a training handbook. Its activities include:

- Supporting the World Bank and the United Nations Development Programme in establishing the International Development Evaluation Association
- Assisting the Public Services Commission in its efforts to establish monitoring and evaluation across the public sector
- Managing evaluation programmes, for instance, on the National Electrification Programme (with the Department of Mineral and Energy Affairs)

In the next year, the Unit will focus on ensuring that monitoring and evaluation are built into project appraisals at the start of the project cycle. This will contribute to improved monitoring against predetermined milestones and development indicators; and will provide a basis for better project performance data and lessons of success or failure.

Ensuring compliance

The Bank's Internal Audit Unit aims to be an agent of independent, objective assurance and consulting, which adds value and improves the Bank's operations. It assists the organisation by bringing a systematic, disciplined approach to the evaluation of risk management, control and corporate governance processes.

To this end, Internal Audit reports directly to the Managing Director, and has unlimited access to the Chairpersons of both the Audit Committee and the Board.

During the year, the Unit considered the strategic impact of changes both within the Bank and in its operating environment, while continuing to provide assurance through audits and to add value through organisational support. The Unit aims to enhance its skills and resources through strong alliances that secure its support base, resulting in high-level assurance and cost effectiveness. One such alliance was formalised into a service level agreement during the year. Other significant initiatives during the year include:

- Reassessing the audit policy and the Unit's risk-based approach to auditing the systems of internal control
- Contributing to compliance, corporate governance and business planning processes
- Interacting with the external auditors to optimise the joint contributions of the external and internal audit functions
- Implementing a post-audit evaluation to gauge the efficiency and effectiveness of the internal audit
- Promoting financial and risk management capacity by coordinating training throughout the Bank on generally accepted accounting practice; participating in the training of external clients with regard to risk management; making a presentation on general audit expectations regarding reporting on performance

Looking ahead, the Unit will continue to shift its focus towards internal audits and services that add value to the organisation and enable it to meet its objectives. It will focus audit attention on the functioning of the system of internal control; promote good corporate governance and a clean administration through a systematic risk-based audit approach; and concentrate on the processes that produce accurate financial statements.



Front: Makaziwe Mandela - Executive Manager

Back row:
(left to right) Zaid Nordien - Corporate Communications and Marketing
Mashupye Kgaphola - Policy
Makgoshi Sindane - Employment Equity
Tom Snyman - General Services
Dumisani Majozi - Human Resources
Tinka Wiswe - Corporate Secretariat

Not in picture: Oupa Mokuena - Strategic and Business Planning

Optimising human resources management

In line with best practice in human resources, the Bank has over the past year identified and reviewed those human resource policies, practices and procedures that imposed an unlimited liability on its operations. The South African Commercial, Catering and Allied Workers' Union (SACCAWU) raised some concerns about the review, and particularly about the cancellation of the Study Aid scheme for the dependants of employees and the introduction of the "total package" approach to remuneration. A joint relationship-building exercise was conducted for DBSA management, SACCAWU and employee forums during July 2000. In February 2001, the negotiation teams representing the union and management also went through "mutual gains" training in negotiation skills. These exercises contributed to an improved relationship between the parties, culminating in the signing of an Organisational Rights and Relationship agreement in November 2000. Collective agreements were also concluded on the Study Aid and Medical Aid schemes.

Performance management

The salary negotiations with the union were based on guaranteed pay and variable pay, with individual performance forming part of the guaranteed pay increase and all of the variable pay increase. The "Balanced Scorecard" methodology has been introduced, whereby organisational performance measures are identified that require managers and staff to align their performance contracts with the organisation's goals. The DBSA is still implementing the Accelerated Competency System to enable the internal management and development of organisational competencies. It has been used to identify competency profiles, competency gaps and learning requirements at the level of the organisation, the job group and the individual.

Training and development

In view of the objectives of Vision 2004, the Bank has conducted several in-house training courses for staff on financial modelling, risk management and project management. Staff also attended job-related seminars and conferences within and outside the country.

The Bank has been involved in a number of compliance activities related to the Skills Development Act. These include submitting the Workplace Skills Plan to the Banking Sector Education and Training Authority, and spearheading the initiative to develop standards for the development finance institutions.

Ensuring employment equity

The Employment Equity Unit guides the strategy to address employment equity and gender issues in the workplace. This year the Unit focused on the following activities:

- The first *employment equity plan and reports* were prepared through an extensive consultative process. The Bank was accordingly listed in the Employment Equity Registry of the Department of Labour.
- A *gender equity week* was held to raise awareness on gender issues, and the gender equity policy and its operational guidelines were reviewed in February 2001. The Bank celebrated international and national Women's Days.
- *HIV/Aids*: The Unit raised awareness and provided training on HIV/Aids and conducted a survey to identify client needs.
- *Disability*: Several training workshops on disability were conducted, as was an audit of physical facilities.
- The Bank held a conference on *racism, racial discrimination and xenophobia* in response to calls by President Mbeki and the Human Rights Commission for South Africans to address issues of racism.
- The Unit established an *Employment Equity Resource Centre* to disseminate information on employment equity.

Promoting strategic and business planning

The Strategic and Business Planning Unit successfully developed a procedure for monitoring the “Balanced Scorecard”. It is the custodian of Vision 2004 and related projects; it developed a methodology for conducting the Environmental Scanning Process; and it organised a monthly Development Dialogue Series. The Unit aims to provide strategic advice and information; to build capacity in strategic planning; and to develop, implement, monitor and evaluate strategy.

Providing policy support

The Bank’s Policy Unit operates in a dynamic environment where policy priorities change regularly. It serves the organisation and the development community in four areas:

- Public development policy, as set by the government
- Operational policy for the DBSA, for instance, on the interaction between the Bank and its clients
- Policies that affect the internal functioning of the organisation and fall within the areas of expertise available in the Unit
- Capacity building and programme or project management for policy research, mostly in the external environment

The main products and services delivered during the past year include the following:

- The Unit undertook policy research and coordination on projects such as the tourism, telecommunications and energy programmes; the generation of qualitative and quantitative indicators of development; and the formulation of a policy framework for social development.
- The Unit disseminated policy through training, networking, serving on government task teams, and producing policy publications and reports, including the *Development Southern Africa* journal and the DBSA’s *Development Report* (the most recent of which focused on Developmental Local Government).
- A “research management service” was provided for agency, advisory and joint-venture services, particularly from government departments and donor organisations. Projects included the multi-donor SADC health programme; a donor-funded project for the National Treasury on a proposed grant fund for large municipalities in financial distress; a project on sustainable development commissioned by the World Wildlife Fund; and an energy assignment for the European Union.
- Other services included an extensive programme of interaction with national and provincial government departments and stakeholders; support to the Presidency’s rural development strategy and MAP initiative; and a leading role in the newly approved Development (“Grant”) Fund for capacity building at local government level.

Effectively marketing the organisation

The Corporate Communications and Marketing Unit aims to improve the profile of the DBSA by creating greater awareness of its mandate, infrastructure and development impact. The objective of the Marketing and Communications Strategy adopted in August 2000 is to position the Bank as a leading development finance institution in southern Africa. This five-year rollout programme aims to develop the capacity for a sustained marketing and communications campaign that continuously refocuses the organisation on fulfilling the needs of its customers. The implementation of the strategy will proceed in two phases.

The first phase, currently under way, focuses on establishing a marketing philosophy and promoting marketing awareness internally, and on developing a strong external profile through focused branding and positioning. Components of the first phase include:

- An internal marketing programme, involving the repositioning of the Unit, marketing training and feedback workshops throughout the Bank, and the development of an internal marketing support centre
- Corporate branding, focusing on an umbrella corporate identity that shows the character and values of the organisation
- Market research projects, including research on beneficiaries, SADC customers and stakeholders, a survey of international customers and the continuous gathering of marketing intelligence
- A communications campaign that includes roadshows to targeted groups, a corporate survey and the development of promotional material

The second phase, a more intense campaign, will increase the DBSA's visibility while improving its capacity to deliver. This phase is to be completed by the end of 2001/02.

Development impact of DBSA projects in South Africa

The DBSA seeks to maximise the development impact of its activities by focusing on the developmental dynamics in society, to improve the quality of life by harnessing social, economic, environmental and institutional forces.

The DBSA participates in the economy indirectly by financing various projects, and its development impact can be measured through economic and statistical models. A general economic equilibrium analysis (social accounting matrix and input-output model) was used to quantify the direct and indirect effects of the Bank through the backward or forward linkages of the projects financed and co-financed in South Africa. The modelling process analysed the macroeconomic impact through the financing of projects and the transfer of technology and management skills. It estimated the impact on the economy through linkages created with other role-players, through the buying of materials, and through the chain reaction triggered by salaries and profits (less retained earnings) ploughed back into the economy in the form of private consumer spending.

The Bank's macroeconomic impact was measured, according to its mandate, in terms of its contribution to gross domestic product (value added to the national economy), employment creation, and the income flowing specifically to low-income households. These effects were calculated for both the construction and the operational phases of projects. The construction phase involves economic activity occurring during the creation of the project. This lasts for only a limited period (generally not more than three to four years), after which it either stops completely or is scaled down substantially. The operational or production phase, on the other hand, is ongoing and has an annual impact on the economy.

The modelling was done on a detailed level, which necessitated the DBSA's funding being divided into various economic sectors to enable measurement on economic modelling principals. The analysis differentiated between loan approvals (DBSA loans approved in 2000/01) and loan disbursements (DBSA loan disbursements for 2000/01), total amount of investment (DBSA and its co-funders for 2000/01), as well as total commitments (DBSA and its co-funders for 2000/01). The projects financed by the DBSA were weighted as follows: water, 80 per cent; electricity, 7 per cent; sanitation, 4 per cent; entrepreneurial development, 4 per cent; human resource development, 4 per cent; and roads, 1 per cent.

The results of the analysis were as follows:

- *Contribution to gross domestic product:* The total impact in GDP of the projects funded by the DBSA and its co-funders is R2 144 million. The DBSA's share of this impact is approximately 50 per cent.
- *Employment creation:* The importance of the creation of job opportunities by the DBSA should be seen against the declining employment in an economy that is progressively less labour-intensive. By implication, the decrease in employment opportunities currently taking place in the economy would have been even worse had it not been for the projects funded by the DBSA and its co-funders.
- *Low-income households:* The contribution to low-income households will benefit poverty alleviation significantly.



	Employment creation (jobs)	Low-income households (R million)	Gross domestic product (R million)
Total approvals: DBSA and co-funders	13 200	250	2 100
Actual DBSA loan approvals	4 600	90	750
Actual DBSA disbursements	6 300	120	1 000
Total commitments: DBSA and co-funders	6 200	120	990
DBSA commitments	3 700	70	590

As can be seen from the macroeconomic impact, the DBSA, through its financing of projects, made a definite contribution towards the economy of South Africa. It also provided managerial and technical assistance, which will continue to make a significant impact on economic growth and development. However, it is not possible to place an economic return on this managerial and technical contribution.

Project case studies

The DBSA financed 56 projects in 2000/01. Six of these projects are described here to illustrate the Bank's contribution to integrated development, whether spatial or sectoral or in conjunction with other development role-players. The full list of projects can be found in the Supplement to this Report, *Projects of 2000/01*, which is published separately. This information is also available on the Bank's web site, www.dbsa.org.

The Kwanobuhle electrification programme

Background

Uitenhage in the Eastern Cape is the second largest industrial and commercial centre in the greater Algoa Bay metropolitan area. The town is a service centre for the surrounding farms and provides facilities for tourism. The Uitenhage Electricity Supply Company (Uitesco), previously known as Kwanobuhle Electrical Supply Company (Kwanolec), is presently the only electricity supplier in the greater Uitenhage area. Most of the employees of the Volkswagen car-making factory in Uitenhage live in the township of Kwanobuhle. As few of the households in this disadvantaged community had electricity in the late 1980s, VW South Africa was instructed by its parent company to facilitate an electrification programme in Kwanobuhle. Such a programme was subsequently launched by VW South Africa, Eskom and other companies in the Midland Chamber of Industry at Uitenhage, who established Kwanolec. Kwanolec was later transformed to increase its area of responsibility to the greater Uitenhage area. Uitesco was established, with the Uitenhage Transitional Local Council also becoming a shareholder.

In the early 1990s, the DBSA was approached to provide financial assistance to Uitesco for the electrification of Kwanobuhle. The Bank funded the two phases of the programme to a total amount of R29,4 million.

Programme objective

The programme was designed to provide affordable and sustainable electricity to the people of Kwanobuhle and the adjacent communities, thereby improving their socio-economic conditions.

Evaluation of programme implementation

- *Programme scope:* The programme involved upgrading the bulk electricity supply and





providing internal reticulation service connections, ready-boards and prepayment meters to about 17 500 potential users in Kwanobuhle, Lapland, Blikkiesdorp, Tambovella and McNaughton (all in Uitenhage).

- *Implementation schedule:* Implementation started in the early 1990s and was completed within schedule. The first phase was completed in 1997, and the second in 2000.
- *Programme cost:* The DBSA's total loan of R29,4 million was made up of R21,966 million for the first phase and R7,45 million for the second phase. Both phases were completed without any cost overruns. The second phase, which cost an estimated R27,843 million in total, was also financed by Uitesco itself (R4,83 million), the Uitenhage Transitional Local Council (R1,2 million) and the National Electricity Regulator (a grant of R14,4 million).
- *Financial viability:* The use of split prepayment meters ensured that costs were recovered efficiently, and the default rate was almost zero. Uitesco, in conjunction with the Uitenhage Council, also instituted an innovative loss-control programme to deal with bypassing and faulty meters. This initiative added costs that had to be borne by Council. Nevertheless, these ring-fencing methods minimised the operational costs associated with electricity supply. The total number of consumers who have been connected now stands at 20 574 households, 6 clinics, 15 schools, and a number of businesses. More connections are taking place.

Social and economic benefits

- *Capital cost savings:* The ring-fenced methods and controls introduced by Uitesco have greatly assisted in reducing technical and non-technical losses, and have brought down the costs of collecting revenue, the costs of construction and connection, and outages.
- *Surrounding industries:* Industrialists, who were formerly reluctant to locate in Kwanobuhle and greater Uitenhage because of the inadequate supply of electricity, have now started opening businesses in the area, especially medium and micro-industries. Some local industries have supplied construction companies with materials for the programme, and have been able to expand production.
- *Future economic development:* Electricity is one of the main stimulators of social and economic development in any economy, because of its ability to attract investors and developers. This programme has created entrepreneurial opportunities for the local people, and unleashed many forward and backward linkages into the economy. It has also improved environmental conditions by reducing pollution.
- *Labour and training benefits:* So far, 250 local labourers and 14 emerging small contractors have been engaged on the programme. Seven emerging firms are still contracted permanently to carry out maintenance. Skills training was provided for 14 local small contractors on electricity reticulation, and for 21 on service connections. These small contractors were paid in excess of R17 million, creating significant multiplier effects in the local economy, enhancing the purchasing power of local people, and improving their living conditions.

Conclusion

The programme to electrify Kwanobuhle was implemented effectively and efficiently without major problems, and was completed within schedule and without cost overruns. Emerging local contractors and labourers have benefited greatly, as they were fully involved in the implementation of the programme, and some are still involved in its operation and maintenance. The successful completion of the programme owes much to the commitment of and cooperation among all the institutions and stakeholders.

Upgrading of sewerage treatment plant, Orkney





The upgrading of the sewerage treatment plant and pump station at Orkney

Background

The sewerage treatment plant and pump station at Orkney had insufficient capacity, not only for the existing inflow but also for expected future inflow from the residential areas of Kanana and Orkney. The need was to increase the plant's capacity from 7 to 14 megalitres per day. The Southern District Council approached the DBSA for financial assistance to upgrade and extend the sewerage treatment plant and pump station. The Bank approved a loan of R7,477 million towards the project.

Project objective

The project aimed to provide an upgraded bulk sewerage treatment plant with the capacity to service an area with an estimated population of 250 000 people. It is intended to improve the socio-economic and environmental conditions of the people of Kanana and Orkney.

Evaluation of project implementation

- *Project scope:* The project entailed the design and construction of extensions to the existing Orkney sewerage treatment plant, a new pump station and rising main, gravity pipelines and night-soil discharge facility. These changes increased the plant's capacity to the required 14 megalitres per day.
- *Implementation schedule:* Implementation commenced in 1998 and was completed in June 2000.
- *Project cost:* The estimated cost was R18,66 million. The Southern District Council obtained a grant of R11,1 million from the Extended Municipal Infrastructure Programme and the Bulk and Connector Infrastructure Grant. The DBSA provided a R7,5 million loan. The construction work was completed within the budget.
- *Financial viability:* Formerly, bulk infrastructure did not benefit people in areas like Kanana. The operation costs will now be borne by the communities of both Kanana and Orkney through the equalisation of the tariff, which is being phased in by the provincial government of North West. The Southern District Council was in a strong financial position, and is servicing the DBSA loan without default. Now that Orkney, Klerksdorp, Hartbeesfontein and Stilfontein have been amalgamated into one municipality, the City of Klerksdorp, the financial base of the area will be widened and the viability of this project should be assured.
- *Project implementation scheme:* The various components of the project were constructed by the DGD Construction Company, supervised by Messrs BKS Incorporated, who also acted as the borrower's consultants. Certain components were subcontracted to small local contractors. The Southern District Council and the Orkney Transitional Local Council were responsible for overseeing the work, with the support of a broadly based Project Steering Committee. The facilities are now being managed by the new City of Klerksdorp municipality, and are serving more than 250 000 people.

Social and economic benefits

- *Capital cost savings:* Previously, the Southern District Council was spending large amounts of money in managing, maintaining and operating inadequate sewerage facilities. Important cost savings are likely to result from economies of scale in the new





facilities. The Council will own the infrastructure, but the local municipality will operate and maintain the works.

- *Surrounding industries:* The improved environmental conditions have contributed to the health of employees and therefore to the productivity of the industries in the area, and have also helped to attract new development.
- *Future economic development:* The development of new industries in the area, and the increase in the productivity of existing industries as a result of this project, will lead directly to economic development, employment opportunities for local people, and an improvement in their living standards.
- *Labour and training benefits:* Local labourers were employed in clearing bush, excavating trenches, laying pipes, and backfilling. Some 66 unskilled and 50 skilled jobs were created, and approximately R2 million was paid to these employees in wages and salaries. In addition, some local people have been employed permanently. The suppliers of the pump-station equipment trained local people to operate the facilities, enabling them to gain technical skills and empowering them in new fields. The income generated during the construction and operation of the new facilities has had a positive effect on the local economy.

Conclusion

The upgrading of the sewerage treatment plant at Orkney has had positive social and economic developmental impacts, locally and provincially. The introduction of modern technology and increased capacity have allowed for the extension of water-borne sanitation in the area, thereby contributing positively to sound environmental management. The replacement of the unpopular bucket system or ventilated pit latrines with in-house sanitary connections has greatly improved the living conditions of people in the area. The Project Steering Committee contributed positively to the smooth implementation and successful completion of the project.

The Bloem Water Board water supply programme

Background

Water supply is one of the major problems facing the Free State, and the provincial government has made improvement in this area one of its development priorities. The southern Free State water supply programme (also known as the Bloem Water bulk water supply programme) included the construction and upgrading of purification works and bulk pipelines, and the supply of bulk water to the southern Free State towns. The main beneficiaries are the disadvantaged communities of the area. The DBSA funded the entire programme to an amount of over R232 million, with a R48 million contribution from the private sector.

Programme objective

The objective of this integrated programme was to increase the water supply in the southern Free State and give people access to clean, potable water, thereby improving their quality of life. It was hoped that the programme would promote small contractors and emerging entrepreneurs by involving them in construction, and that people from local communities would be trained in the provision and management of water.

Evaluation of programme implementation

- *Programme scope:* The programme involved the construction of the Rustfontein water





purification works and bulk pipelines, the upgrading of the Welbedacht purification works, and the supply of bulk water to the southern Free State towns. The Rustfontein purification works can supply 100 megalitres of purified water per day. The Novo Water Transfer Scheme would ensure a sufficient and regular supply of raw water to the Rustfontein Dam and adjoining purification works.

- *Implementation scheme:* The project started in 1999 and was completed in 2000.
- *Programme cost:* The estimated cost was R280,583 million, and there were no overruns, an indication that the implementation was efficient and effective. The construction of the new 100-megalitre treatment works at Rustfontein Dam, along with pump stations, bulk pipelines and a reservoir, cost R140,35 million. The pipelines for transferring water from Knellpoort Dam into the Modder River over a distance of 40 kilometres cost R80 million, and the DBSA financed part of this project to an amount of R31,715 million. The upgrading of the 145-megalitre treatment works at Welbedacht Dam cost R19,32 million. The construction of bulk mains to the towns of Wepener, Bethulie, Springfontein, Trompsburg, Reddersburg and Edenburg cost R40,906 million. The DBSA's contribution to the whole programme was R232,298 million (about 83 per cent of the total).
- *Financial viability:* The Bloem Water Board is phasing in a uniform water tariff for the entire spatial area under its control. This process will be completed by the end of 2003, and thereafter the Board should be in a position to recover the full costs of consumption. The Board has sufficient financial reserves to service the DBSA loan.
- *Programme implementation scheme:* The whole programme was implemented under the supervision of the Bloem Water Board, which is a statutory body. The Board has incorporated the staff from both the Department of Water Affairs and Forestry and the erstwhile Bophuthatswana Water Supply Authority into its organisation, and has a strong institutional capacity. The various municipalities are responsible for water reticulation in their areas and for levying and collecting charges from consumers. The Water Act empowers the Board to determine cost-effective water structures.

Social and economic benefits

- *Capital cost savings:* The programme will lead to savings for the Water Board and the various municipalities, both in the capital budget and in operational costs.
- *Surrounding industries:* The industries located in the areas served by the Bloem Water Board will benefit directly from this programme, as they will have access to a continuous water supply for their operations. Some industries also supplied materials for the construction work.
- *Future economic development:* The availability of a reliable water supply will attract economic activities into the area, and this should stimulate the provincial economy and create employment opportunities.
- *Labour and training benefits:* Although the bulk of the construction could not be carried out through labour-intensive methods, the programme was designed to create significant employment opportunities for the local labour force and for emerging small contractors and entrepreneurs. About 720 local labourers were employed during the construction, and a total of 1,4 million person-hours were worked. Many small local contractors were engaged on specific components of the programme. The total amount paid out to local labourers and subcontractors was approximately R14,5 million. This contributed to the alleviation of poverty and the creation of backward and forward linkages in the economy.





An amount of R2,3 million was spent on training emerging contractors and labourers, household consumers, and personnel from the Bloem Water Board. Literacy courses and community awareness programmes were held in six southern Free State towns, and a total of 18 774 people attended 695 workshops. These workshops and training programmes had a positive impact on the level of payments by consumers, and helped to transfer skills to local people.

Conclusion

The water supply programme has made a major contribution to social and economic development in the southern Free State. It has stimulated the economic utilisation of natural resources that were hitherto untapped, and has created jobs for local labourers and entrepreneurs. The necessity of recovering costs on services provided has been driven home to local communities. This programme has demonstrated that an integrated approach to water provision and sound financial management make it possible to sustain the supply of water to large communities.

ML Sultan Technikon capital development project

Background

The ML Sultan Technikon is located in Durban. It is regarded as an important centre of education, and student numbers have grown rapidly in recent years, reaching 12 000 in 2000. To cater for this soaring demand, the management of the institution initiated a programme to expand its physical infrastructure. This three-phased development programme had an estimated cost in excess of R80 million. The DBSA was approached to finance part of the project, and in 1998 the Bank provided a loan of R38,41 million for the first phase.

Project objective

The primary objective of the project was to extend the present academic/tutorial and laboratory facilities of the ML Sultan Technikon to meet the growing enrolment. The secondary objective was to promote social and economic development: students graduating from Technikon are equipped with knowledge and skills in the areas of commerce and technology, which enable them to participate in and contribute meaningfully to the South African economy.

Evaluation of project implementation

- *Project scope:* Phase 1 of the project entailed the design and construction of academic/tutorial and laboratory facilities to accommodate approximately 1 800 students.
- *Implementation schedule:* Phase 1 was completed successfully within the agreed terms of reference and costs. There was a slight delay in the completion of physical construction when the main contractor was liquidated, after having failed to pay the subcontractor. The Technikon called upon the surety, and used these funds to engage a medium-sized contractor, who completed the remaining work. Students are now using the new facilities.
- *Project cost:* Originally, the project aimed to cater for 1 400 students, and estimated cost was R32 million. Then an additional loan of R6,41 million was sought to increase the capacity to 1 800 students. The total cost of Phase 1 was thus R38,41 million. The DBSA has indicated that it will also finance the envisaged library complex, estimated at R20 million, and help the Technikon to leverage private sector funding for the other phases of the project.





- *Financial viability:* Like other tertiary education institutions, the ML Sultan Technikon is dependent upon government subsidies based on a specific funding formula. Nevertheless, the institution has the capacity to take up and service loans of up to R72 million. Student fees range between R5 000 and R7 000 (depending upon the courses taken) for tuition and boarding, and the payment rate is currently at 97 per cent. This is higher than the rate at similar tertiary institutions, owing to effective credit control. The fees charged compare favourably with those of other technikons in the province.
- *Project implementation scheme:* The ML Sultan Technikon has an effective, functionally based organisational structure, and this has enabled it to carry out the project efficiently. In the construction work, the Technikon was supported by skilled external consulting engineers. The new buildings were constructed in compliance with the technical designs and specifications and within the allocated funds.

Social and economic benefits

- *Capital cost savings:* The project was completed within budget. The new facilities provide a comfortable and lively environment for students and lecturers, and this should make for a more efficient and productive institution. The Technikon will own the facilities when the DBSA loans have been repaid.
- *Surrounding industries:* The Technikon produces graduates in commerce, technology and the natural sciences, who are readily recruited into industries in the Durban area.
- *Future economic development:* Graduates from the Technikon with high levels of skill will contribute directly to the productivity and economic development of the province and the country.
- *Labour and training benefits:* Local labourers were employed during the construction phase. The Technikon has also employed some additional local people as permanent staff, since the facilities were expanded.

Conclusion

The project has contributed positively to the development of human resources in the South African economy. There is an immediate developmental impact through the employment of graduates from the Technikon in various sectors. The quick repayment of the DBSA loan and the firm credit control exercised by the ML Sultan Technikon demonstrate that well-run educational institutions can operate efficiently and achieve financial viability.

The Windhoek urban development programme

Background

Windhoek, with an estimated population of 280 000 people, is the largest urban area in Namibia. It is also the capital city, and the central government offices and most industrial and commercial activities are concentrated here. Since independence in 1990, Windhoek has experienced a high rate of urbanisation of people in search of employment and better living conditions. This demanded a suitable urbanisation policy from both the national government and the City Council. The City Council also had to provide the required infrastructure to meet the basic needs of the new residents, as the bulk services could hardly cope with the new demand levels and extended services networks had to be provided.





In order to ease this pressure on the infrastructure services, the Windhoek City Council identified a number of infrastructure projects for immediate implementation. The Government of Namibia entered into a loan agreement with the DBSA for funding the proposed urban development programme and on-lent the amount to the City Council.

Programme objective

The programme aimed to provide urban infrastructure services to the residents of Windhoek and to overcome the backlogs brought about by migration into the city. Both the government and the Council wished to create an environment conducive to economic development, and so contribute to local and national economic growth, and ultimately improve the socio-economic conditions of the poorest residents in a sustainable manner.

Evaluation of programme implementation

- *Programme scope:* The programme has several components: the provision of basic services to new low-cost residential towns; the establishment of light industrial and market areas; the upgrading and extension of bulk and connector water and sanitation networks; and the provision of infrastructure for transportation, electricity and solid waste disposal. The programme therefore covers the entire spectrum of urban infrastructure and was designed to benefit all sectors and stakeholders in civil society, by promoting economic growth and addressing the needs of the poor.
- *Implementation schedule:* Implementation began in 1999. Several major water and sanitation projects have been completed, the hazardous waste site has been established and the improvement of roads has been completed. Several more bulk services are in progress and the programme should be completed within two years. The City Council has been careful to apply international best practice in environmental management and community involvement in both the planning and implementation phases.
- *Programme cost:* The total cost of the programme was R217,4 million. The provision of basic services to new low-cost residential towns and to light-industrial and market areas cost R67,5 million; the upgrading and extension of bulk and connector water and sanitation networks R46 million; the transport infrastructure R82,5 million; electricity infrastructure R9,8 million; and solid-waste infrastructure R11,6 million.
- *Financial viability:* There have been no cost overruns and effective cost-recovery mechanisms have been set up for the completed services.
- *Programme implementation scheme:* The implementation is being supervised and coordinated by the Windhoek City Council's technical personnel, supported by various consultants. In the process of design and implementation, much effort is expended to encourage the communities to become fully involved and take ownership of the projects. Thorough environmental impact studies have been done on projects with bio-physical impacts, and mitigation measures have been included in the building operations. The projects are being implemented with the support of the stakeholders, and the development impact of the projects is being maximised.

Social and economic benefits

- *Capital cost savings:* The finished programme will mean important cost savings in the capital and operational budgets of the Windhoek City Council. The Council will become the owner of all the new infrastructure when the DBSA loan has been repaid.
- *Surrounding industries:* Industries located in Windhoek are benefiting directly from this programme. Some of them supply materials needed for the construction, and have

Kang'ombe office block, Malawi





expanded their production and increased their revenues. New industries are currently locating in the areas where the programme is being implemented, and small and medium-sized enterprises have also sprung up. These activities should create employment and have other economic spin-offs.

- *Labour and training benefits:* The programme was designed to include unskilled and skilled workers, and there has been an extensive use of small local contractors. Over 50 small, medium and microenterprises and more than 200 labourers have been employed in the first 18 months. Around 30 emerging contractors have received training in road construction and basic contract management skills. Approximately R10 million has been paid to labourers and small contractors, and several emerging entrepreneurs are now fully-fledged contractors. Earnings from labour and contracting have gone a long way towards improving the living conditions of local people.

Conclusion

The Windhoek urban development programme is being well implemented and soundly managed by the Windhoek City Council. The Council's effective credit-control policy is ensuring the programme's financial viability. The construction has involved many local labourers and emerging contractors, while the support of the central government has been instrumental in the ongoing success of the programme. As a result of the policies adopted by both the government and the City Council, the conventional way of building urban infrastructure has been left behind. The Council adopted the developmental approach formally as a way in which future infrastructure is to be provided. The DBSA is proud to be associated with this programme, as its successful implementation so far has been in line with the Bank's vision.

A finance facility for the Malawi Development Corporation

Background

The Malawi Development Corporation (MDC) is a parastatal organisation that facilitates or catalyses economic development in Malawi on behalf of the government. Its mission is to develop the country's agricultural, commercial, industrial, mining and tourism sectors, by investing in or making loans to ventures that are financially viable and have high economic developmental potential. In line with the government's privatisation programme, the MDC has moved away from being a holding company towards being a fully-fledged development finance institution, and it is now divesting itself of some of its holdings. Its debt to equity ratio is 70:30.

The MDC approached the DBSA for a financial facility that would enable it to co-finance various projects. The Bank provided a loan of R45 million, initiating a new relationship and creating opportunities for the Bank's future involvement in the socio-economic development of Malawi, alongside other financial institutions and donor countries.

Programme objective

The aim is to assist the MDC in transforming itself from a holding company into a lending institution. In its new role, it will undertake direct investment, in partnership with domestic and foreign investors, and increase access to finance for local entrepreneurs, thereby facilitating their full participation in economic development.

Evaluation of programme implementation

- *Programme scope:* The programme is a multimillion-rand investment in various projects to be undertaken over a five-year period. It involves agriculture, commerce, industry, mining and tourism.



- *Implementation schedule:* The first phase of the programme started in 1999 and will stretch over three years. Projects co-financed by the MDC during this phase include the Kang'ombe Office Block, which was completed at the end of 2000, and Celtel Malawi Ltd, which became operational in 1999.
- *Programme cost:* The total cost of the MDC's development programme is estimated at R1,6 billion. The Corporation is expected to contribute R400 million of this, and the rest will be funded by the private sector. Phase 1 of the programme was estimated to cost R300 million, of which the MDC would contribute R90 million (30 per cent) and the private sector R210 million (70 per cent). The bulk of the DBSA's loan of R45 million was invested in the Kang'ombe Office Block and Celtel Malawi, while about R15 million was used to support local entrepreneurs in business ventures.
- *Financial viability:* The MDC operates on a strictly commercial basis, seeking to recover costs and make profits. The Kang'ombe Office Block, for instance, is being let on a commercial basis, and cell phone users serviced by Celtel pay commercial rates. Thus far, all loans made by the MDC are being repaid promptly, according to the agreed terms and conditions.
- *Programme implementation scheme:* Projects in which the MDC has invested are managed by the owners. However, the Corporation's technical personnel monitor implementation to ensure that work proceeds according to agreed specifications, quality and cost estimates. The construction of the Kang'ombe Office Block was overseen by the Malawi Property Investment Company, a subsidiary of the MDC.

Social and economic benefits

- *Capital cost savings:* Once the MDC programme is completed, there should be major cost savings on the capital budget of the Corporation and the operational budgets of the facilities that have been provided. New facilities established on the basis of loans are the responsibility of their owners, and the MDC will not be responsible for their operational costs or future replacement costs. As for projects in which the MDC has invested, the Corporation partly owns the facilities and will share future capital and operational costs. Since the businesses created through on-lending are going concerns, operating commercially, there will be major cost savings on the part of the MDC.
- *Surrounding industries:* The demand for locally made materials used in construction projects has increased the production of surrounding industries, contributing positively to economic development and growth. It is important to note that most of these local industries were established with MDC loans. It is therefore clear that there is an explicit forward integration in the activities of most of the projects in which the MDC has invested. This linkage has had numerous multiplier effects in the economy. The continued investment of the MDC in various sectors will contribute greatly to the country's future economic development.
- *Labour and training benefits:* The various MDC projects have created many employment opportunities for skilled and unskilled labour. Some people have been employed permanently in the newly established facilities.

Conclusion

The repositioning of the MDC as an on-lending institution is a very positive move. The comprehensive development programme initiated by the Corporation has given many local entrepreneurs the opportunity to establish businesses, create employment, and participate meaningfully in the economy.

The DBSA's risk management policies and services are designed to overcome the funding problems faced by many of its clients, to ensure that the Bank remains financially self-sustainable and to transfer risk management knowledge.

Risk spectrum

Like all development finance institutions, the DBSA is exposed to the following risks:

- *Portfolio concentration* occurs when lending to a particular client segment, industrial sector, product or country is excessive.
- *Credit risk* relates to the potential of counterparties to experience repayment difficulties or cease to service their obligations.
- *Market risk*: The Bank's earnings and capital are affected by changes in interest rates, foreign exchange rates, commodity prices and equity prices.
- *Liquidity risk* relates to the Bank potentially having insufficient funds on hand to meet its obligations.
- *Project and development risk* results from the failure of projects, whether financial, technical or environmental, all of which could affect the Bank's financial position and limit its development impact.
- *Operational risk* stems from direct or indirect loss as a result of inadequate or failed internal processes, skills or systems.
- *Regulatory risk*: A significant portion of the DBSA's market is regulated. Changes in regulations may affect the financial status of clients and, therefore, their ability to meet their obligations to the Bank.

The DBSA has developed an integrated framework to manage these risks across the organisation. Different business units within the Bank are responsible for identifying, measuring, monitoring and reporting on the various elements of these risks.

Policies

Risk management is central to the business of the DBSA, and several policies to guide and monitor its activities were approved by the Audit Committee and the Board.

These include:

- Single obligor investments
- Country exposure
- Risk pricing
- Credit rating of client segments

The Bank reviews these policies continually as business and market conditions change, and benchmarks them against those of other development institutions.

Strategic approach to risk management

In addition to the financial risks of transactions, the DBSA faces other risks related to the economy and regulation. For example, the municipal demarcation process has altered the financial position of many of its clients. In certain instances, the DBSA faces risks that even the most advanced financial instruments and mitigation measures cannot address. Typically, these exposures cannot easily be measured or stem from the regulatory climate. In such cases, reliance on risk policies and financial instruments alone becomes inadequate. The DBSA is challenged to venture beyond such methods to deal with the fundamental sources of risk in its business environment. This strategic approach to risk management, while ensuring increased lending by the DBSA, simultaneously protects its financial position and reduces the level of risk in its business environment.

Risk management also includes:

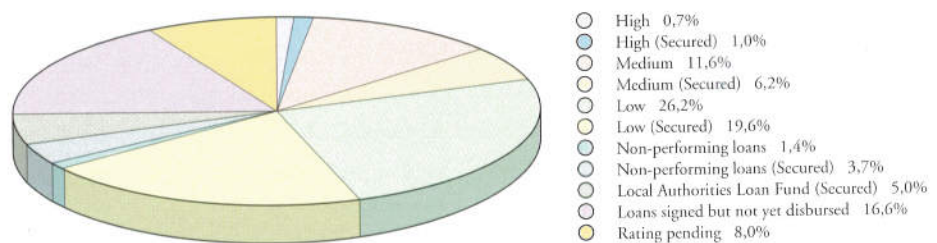
- Providing advice and mitigation strategies and instruments
- Mobilising the participation of other institutions on a risk-sharing basis
- Promoting awareness of risk by organising conferences and courses
- Transferring knowledge of risk management

Risk management aims to be innovative and to ensure that the Bank's lending in underfunded areas is increased while its strong financial position is maintained. Risk management is an increasingly important part of corporate planning to manage the Bank's economic exposure. Incorporating exposure management into the investment decision process is a primary example. The Bank's investment programmes will diversify its economic exposure by directing investment into products or industrial sectors that are affected differently by economic and regulatory developments.

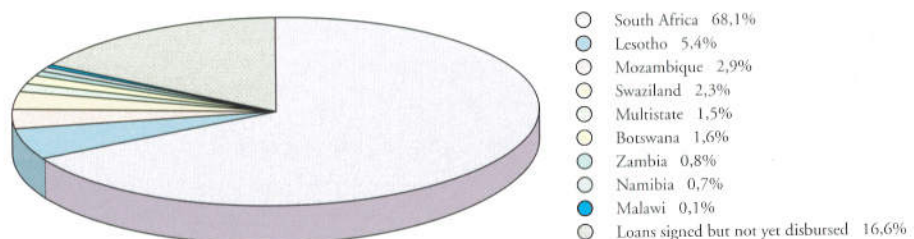
Current exposure

The Bank's risk exposure depicted in the charts includes the total loan book of R13,1 billion as at 31 March 2001, and loans signed but not disbursed of R2,6 billion, as reflected in the annual financial statements.

Exposure per client risk



Exposure per country



The DBSA continually reviews and updates its governance processes and practices to ensure that the Bank is managed ethically and responsibly. It accepts that effective corporate governance involves a combination of self-regulation and compliance with the regulatory environment.

Principles of corporate governance

The Board and management are committed to the following principles of corporate governance:

- Ensuring ethical leadership, integrity and judgement in directing the business of the Bank
- Adhering to business strategies that promote efficiency, ethical business practices and commercial viability
- Monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans to ensure that management and staff are appropriately recruited, trained, developed and rewarded
- Providing guidance in the recruitment, remuneration and career development of senior management, as well as monitoring the succession planning of management
- Ensuring self-evaluation by the Board and its committees
- Maintaining reliable and transparent communication between stakeholders
- Complying with the requirements of the regulatory environment
- Furthering the legitimate interests of the shareholder, the government of South Africa
- Reviewing internal procedures and policies, and ensuring that the required control systems are in place
- Monitoring key risk areas to develop risk management policies
- Procuring transparent financial and management reporting
- Ensuring that technology is adequate to support effective and efficient operations
- Supporting a culture of innovation throughout the institution, the country and the region
- Nurturing the moral and ethical culture of the Bank by formulating guidelines and policies that encourage the participation of management, staff and stakeholders in decision-making
- Ensuring that the DBSA will continue as a going concern in the next financial year and maintain its long-term sustainability

Ethical leadership

During the year, the Board adopted the “Balanced Scorecard” as a strategic management tool to measure the Bank’s progress in realising its “Vision 2004” strategy (approved by the Board in February 2000).

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 the Bank’s business objectives. Corporate budgeting and control systems further promote the efficient and effective attainment of these objectives.

The Remuneration Committee of the Board evaluates the performance of the Managing Director and reviews the performance of the Executive Managers. Frameworks for evaluating the effectiveness of Board committees and members are being discussed as part of a self-evaluation system.

Code of business conduct

Since 1988, the Bank has set standards of conduct for staff as part of the conditions of service. These include the protection and promotion of the dignity and interests of the

Regulatory environment and statutory compliance

Bank. In 1999, the Bank adopted a Code of Business Conduct, following a thorough consultation process in which every staff member could contribute to the principles.

Subsequently, special arrangements were made to ensure that, at operational level, any employee who may derive direct or indirect benefit from a project is excluded from preparing and approving project funding. Similarly, members of the Board who may have an interest in projects are recused from Board discussions of such projects.

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 (DBSA) Act, No. 13 of 1997, on 23 April 1997.

The regulations framed in terms of the DBSA Act stipulate the following:

- The principles of company law apply to the Bank as though it has been incorporated in terms of the Companies Act of 1973 (regulation 121).
- The Bank shall adhere to generally accepted accounting practice and shall endeavour to be in line with international corporate practices (regulation 122).

In terms of the requirements of the Public Finance Management Act, regular reporting to the National Treasury takes place, especially on risk and financial issues.

The Board adopted a Compliance Framework, which supports compliance monitoring through self-regulation by functionaries and independent review by the Audit Committee of the Board.

Compliance with the King Code

The DBSA has a unitary board, with a non-executive chairperson. The Managing Director was the sole executive director. In December 2000, the Board of Directors recommended an amendment to the DBSA Act to increase the size of the Board. This enabled the appointment of additional executives to the Board, thereby improving its balance. As far as the King Code is applicable to a statutory body, the Bank materially complies with its pertinent recommendations.

Structural governance

Shareholder linkages: The DBSA, through its Board, is accountable to its sole shareholder, the South African government, and to Parliament in terms of the DBSA Act.

Minister of Finance: The Minister of Finance, as the shareholder representative, 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.

Directorate: The Board is charged with the direction and control of the business of the Bank. It monitors the operational functioning of the Bank through detailed reporting, and annually approves the business objectives, budget and funding programme. The Board comprises representatives from the private sector, the shareholder (four members) and a Managing Director. It meets at least six times a year. The Board, with the consent of the shareholder, appoints the chairperson annually. The chairpersons of the Board and of the committees are all non-executive directors. (Committee chairpersons are also confirmed annually.) With effect from 24 August 2000, Mr Jayaseelan Naidoo replaced Prof. Wiseman Nkuhlu, who had been the chairperson of the Board since 1993. The Directors are appointed for a three-year period and the term of the current Board expired at the end of July 2001. The reconstitution of the Board has been formalised and the new members are: Mr I. Abedian, Dr D. Konar, Mr I. Schoole, Mr N. Sowazi and Mr M. Vilakazi.

Ms A. Bernstein, Rev. F. Chikane, Mr C.F. Liebenberg, Dr R. Mokate and Dr R.A. Plumbridge will be retiring as members at the end of their current term.

Board Committees: The following Board committees have been constituted to ensure that the Board operates effectively and efficiently:

- The *Audit Committee* has existed since the establishment of the Bank in 1983 and met

four times during the year. It facilitates systematic interaction between the Board and the Bank's external and internal auditors. In terms of a revision of the Board committees during the latter part of the year under review, the Board approved the establishment of a Finance Committee. The current members of the Audit Committee are Dr R.A. Plumbridge (Chair), Mr J. Naidoo and Ms H. Nyasulu. Specialised expertise has been maintained by co-opting Mr T. Sewel and Dr D. Konar onto the Committee. Their advice and support have been highly valued.

- In December 1997, an Investment Committee of six standing Directors was constituted to expedite credit approvals between Board meetings. The Committee approved six projects in the year under review. Prof. W.L. Nkuhlu (Chair), Mr C.F. Liebenberg, Dr R.A. Plumbridge and Mr Z. Titus served on the Committee during the year. With the revision of the Board committees, a *Credit Committee* was established to replace the Investment Committee and to supervise and control credit-related business matters.
- The *Employment Equity Committee* was established in 1995 to oversee the transformation of the internal structure and of human capital. The Committee met twice in the year and consisted of Mr J.B. Magwaza (Chair), Ms L. Abrahams, Rev. F. Chikane, Prof. B. de L. Figaji and Dr R. Mokate.
- The Board constituted a *Remuneration Committee* in February 1998 to deal with the remuneration of the Board and Executive Management. The Committee further assists the Managing Director in appointing Executive Managers and monitoring their performance. The members of the Committee are the chairpersons of the Board, the Audit Committee and the Employment Equity Committee. The Committee meets as required and has met twice in the year.
- The *Finance Committee* provides strategic direction on asset and liability management activities within a defined risk appetite, to strengthen the Bank's financial position. The Committee will consist of at least three non-executive directors. The Committee has not met during the year under review. It will become operational once the reconstituted Board has taken office.

Chief Executive Officer and Managing Director: In terms of the provisions of the DBSA Act, the Managing Director is charged with the day-to-day management of the Bank's operations. Mr Mandla Gantsho replaced Dr Ian Goldin as Chief Executive Officer and Managing Director on 1 February 2001. The Chief Executive Officer(s) assisted the Board in providing strategic and policy direction to the Bank, and consulted regularly with the shareholder representative.

Internal control: The Board recognises the need to oversee internal operational and financial controls. Executive Managers attend Board and Committee meetings as required. A structured relationship has been formalised between the Internal Audit function, the Managing Director and the Audit Committee. The Internal Audit function, external auditors, the Managing Director and the chairperson of the Audit Committee meet regularly.

Secretary: In line with regulation 119 issued in terms of the DBSA Act, the Board formally appointed the secretary in 1998.

Directors' responsibility for financial reporting

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:

- The Development Bank of Southern Africa Act, No. 13 of 1997, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- South African Statements of Generally Accepted Accounting Practice have been adopted

To enable the Directors to meet their 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 safeguard, verify and maintain the 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 systems, 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 72 to 96 were approved by the Board of Directors on 14 June 2001 and signed on its behalf by:



Jayaseelan Naidoo
Chairman of the Board



Mandla Gantsho
Managing Director and Chief Executive Officer



Robin Plumbridge
Chairman of the Audit Committee

Report of the independent auditors to the Minister of Finance

We audited the annual financial statements of the Development Bank of Southern Africa Limited, set out on pages 64 to 96, for the year ended 31 March 2001. These annual financial statements are the responsibility of the Bank's Directors; our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was planned and performed to obtain reasonable assurance that, in all material aspects, the relevant requirements of the Public Finance Management Act of 1999, 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
- Evaluating the overall presentation of the financial statements

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

Opinion

In our opinion:

- The annual financial statements fairly present, in all material respects, the financial position of the Bank as at 31 March 2001, and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by Schedule 4 of the Companies Act of 1973.
- The information furnished in terms of subsections 55(1)(b) and 55(2)(a) of the Public Finance Management Act of 1999 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
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
14 June 2001



Gobodo Inc.
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
14 June 2001

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 2001. The report deals with the performance of the DBSA and meets the relevant statutory information requirements, and should be read in conjunction with additional comments on the Bank's performance in other parts of the Annual Report.

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 2001 and the results of its operations and cash flow information for the year then ended. The financial statements were approved on 14 June 2001. The Directors have no reason to believe that the business will not be a going concern in the year ahead.

Corporate governance in the Bank is described in the corporate governance statement on pages 59 to 61.

Function of the Bank

Nature of the business

The DBSA is a development finance institution wholly owned by the South African government. Its primary function is to support infrastructure development in the SADC region, by promoting socio-economic development, growth, human development and institutional capacity building. The Bank is one of five national development finance institutions tasked with promoting development, the others being Khula Enterprises, the Land and Agricultural Bank, the Industrial Development Corporation and the National Housing Finance Corporation. The DBSA supplements the flow of development funds by forming partnerships with both the public and private sector for projects that contribute to socio-economic infrastructure development.

Acts and legislation

The Directors' report reflects on the Bank's performance against predetermined objectives, as required by the Public Finance Management Act, No. 1 of 1999, as amended, and the Development Bank of Southern Africa Act, No. 13 of 1997. The regulations to the DBSA Act require that the annual financial statements comply with sections 284–99 of the Companies Act, No. 61 of 1973, as amended.

Objectives

The DBSA's corporate strategy and business planning activities occur within a five-year business cycle, the current one being "Vision 2004". An approved business plan (based on the "Balanced Scorecard" approach) sets the objectives for the organisation on an annual basis. In the year to March 2001, the strategic objectives identified in Vision 2004 were refined within the context of global and regional socio-economic, political and technological transformation. The Board of Directors approved the business objectives for 2000/01 and the corporate Balanced Scorecard on 22 June 2000.

The Board provided the vision for the Bank and approved the key corporate strategic objectives for the year. These objectives were set from the following four perspectives of the Balanced Scorecard:

- The customer, beneficiary and stakeholder
- Financial practices
- Internal business processes
- Learning and growth

The strategic objectives aim to maximise the development impact of the Bank's investment, to ensure its financial sustainability through mobilising funds and leveraging strategic partners, and to achieve the optimal development of human resources and the delivery of customer-oriented products and services. The strategic objectives are also

concerned with institutional capacity, economic development, transformation and environmental impact. The Managing Director and his executive team oversee the design, formulation and implementation of the Bank's programmes, projects, policies and strategies.

The DBSA's performance contract system requires the execution of key initiatives and the achievement of operating targets in line with the approved performance criteria and allocated resources. Business and Support Unit Managers contract with the relevant Executive Manager, who in turn contracts with the Managing Director to implement the corporate strategy and Balanced Scorecard. They report on their performance against these objectives at regular intervals. Budgets are prepared annually, based on the strategic direction set by the Board.

In 2000/01, Business Unit Managers and Executive Managers monitored and evaluated actual progress on a monthly basis, while Executive Management and the Board discussed biannual review reports. The Managing Director reported on progress against the annual budget and corporate Balanced Scorecard objectives at each Board meeting.

The Bank's overall performance in relation to the 2000/01 strategic objectives is detailed in this report. It is, however, important to note that 2000/01 was not a normal reporting year – while the strategic objectives and the corporate Balanced Scorecard for the year were approved by the Board in June 2000, implementation only began in September 2000. The Bank therefore cannot report on all the identified key performance indicators; however, all the critical indicators are dealt with here.

Customer, beneficiary and stakeholder perspective

The DBSA aims to refocus and strengthen its role in development in southern Africa. It set four key objectives from this perspective for 2000/01, as discussed below.

Growing the DBSA's market share in development finance

The lower business volumes reported in 1999/2000, combined with difficulties in the operating environment, posed a challenge to the DBSA. The transformation of local authorities involved various new Acts, the municipal demarcation process and local government elections. In response, the DBSA focused on developing its marketing strategy, increasing its support for capacity building at local level, and developing new financial instruments, as part of a planning and consolidation phase to position the organisation for the future.

Work on the marketing strategy progressed well, and processes to integrate this strategy into operational plans have commenced (these will only be finalised in 2001/02). Simultaneously, international funding support was used to review the Bank's mix of products and services, and to investigate specific alternatives. The outcome of this review and investigation informed the DBSA's new business model, which was approved by the Board during February 2001.

The Bank also allocated more time to marketing its services, and aimed to spend 0,75 per cent (R0,6 million) of its operating budget on marketing. Despite the challenging market situation and the fact that the marketing strategy had not yet been finalised, operational business units spent 2,36 per cent (R1,9 million) of their operating budget on marketing. This contributed to the DBSA exceeding the target for new project approvals.

To strengthen delivery capacity and facilitate transformation, the DBSA allocated substantial staff time and technical assistance to the local and regulating authorities. Similarly, it supported non-profit institutions especially, in order to increase delivery

capacity for development. In total, the operational business units utilised R11,4 million worth of staff time (as against R7,4 million last year) to promote client development. In addition, against a target of R8,0 million, the Bank approved grant funding of R8,5 million (R6,3 million in 1999/2000). Municipalities received 41,2 per cent of this amount, provincial governments 11,1 per cent and non-profit organisations 23,1 per cent.

The DBSA Board approved the establishment of a Development ("Grant") Fund to increase technical support to municipalities, especially in rural areas. This Fund will be operationalised during 2001/02 and will enable the Bank to more than double its support to municipalities. Before the December 2000 municipal elections, the DBSA and the National Business Initiative jointly launched a manual on integrated development planning to assist councillors and senior officials in preparing for their new roles. The Bank also launched its biennial *Development Report*, which focused on ways to promote developmental local government.

The target for new project approvals was set at R1,8 billion. This target was 10 per cent lower than the actual approvals in 1999/2000, to make provision for the challenging operating environment. The DBSA approved new loans of R2,2 billion, exceeding the target by 22 per cent and actual approvals in the previous year by 10 per cent.

The main investment areas were the metropolitan areas of KwaZulu-Natal (18,2 per cent), the Western and Eastern Cape (8,3 per cent) and Gauteng (8,6 per cent). New investments in the rest of the SADC region (both public and private sector projects) represented 56,2 per cent of approvals for the year. The committed lending portfolio to the region rose to 24,6 per cent from 21 per cent at the end of the previous year. Total approvals to the SADC region reached R5,7 billion (an average annual growth of 25 per cent), a further confirmation of the Bank's role in facilitating balanced economic development in the region.

Maintaining effective relationships with stakeholders

The DBSA continued to operate within its mandate and kept its stakeholders informed. Its business objectives were approved and reported upon continually by the Board. Regular Board meetings were held throughout the year. In addition, the Chairman and Managing Director frequently consulted with and reported on the Bank's business imperatives to the Minister of Finance, the shareholder representative.

The DBSA sought to align its support activities with those of the relevant regulating authorities, governments and development agencies. All Units implemented programmes of regular interaction with stakeholders and clients. The Bank consulted other development finance institutions, most of the SADC governments, several municipalities, and the main development agencies and players. The latter included national line departments, parastatals, private sector banks, labour unions, universities, international and SADC development agencies, various provincial premiers and national Cabinet ministers. The Bank maintained 16 memoranda of understanding with key governments and role-players. A substantial amount of networking with international governments and development agencies took place.

All South Africans, especially poor communities and groups with an interest in development, are considered stakeholders of the Bank. The DBSA assisted the provinces hardest hit by floods through loan finance of R100 million to the national government.

It provided R445 600 of sponsorship funding to various organisations and communities. Its support for the development of small contractors and women in construction included the drafting of papers and participation at conferences.

Maximising development impact

The DBSA continued to promote development by targeting funding at projects that furthered empowerment, employment creation, sustainability and growth. It also identified the need to increase its focus on integrated social development in its project activities; this was approved in terms of the new business model. The Bank supported projects providing 1 085 000 households with improved access to one or more services, meeting its target of 1,1 million households.

In the challenging operating environment, the Bank's disbursements on development loans amounted to R1,6 billion, as against a target of R1,9 billion and a decrease of R79 million from the 1999/2000 figure.

One of the principal measures of the Bank's development impact is the direct effect of its investments on employment creation during the construction and operation of projects. It is estimated that 13 200 employment opportunities were created by loan approvals for projects funded or co-funded by the Bank in South Africa during 2000/01 (details are provided on page 38). Although this is well below the target of 35 000, the DBSA adopted a structured focus for investments during the year, with more investment in sectors that are less labour-intensive, such as electricity infrastructure. In addition, the total investment by the Bank and its co-funders in South Africa declined by 62 per cent in real terms from 1998/99. Still, these loan approvals will contribute an estimated R2,1 billion to the gross domestic product, while R250 million worth of income will accrue to low-income households.

To enhance the flow of development funding in the region, the DBSA's target for leveraging additional funding from the public and private sectors was R3 for every R1 approved (a ratio of 1:3). It achieved a co-funding ratio of 1:5,3, up from 1:2,2 for 1999/2000. This resulted from increased private sector participation in projects in the rest of the SADC region, where the ratio was 1:18,2 (up from 1:5,3 in 1999/2000). In public sector co-funding projects, the ratio was 1:1,5, as against the 1999/2000 figure of 1:1,2. In total, infrastructure projects worth R13,9 billion were made available to the SADC region during the year, compared with R6,4 billion during 1999/2000.

The DBSA also contributed to national debates on policy and development. It participated in and co-managed (with Eskom) a project for the Department of Mineral and Energy Affairs to develop an electrification planning model in support of the post-2000 National Electrification Programme. A tourism programme was developed to assist provinces in setting tourism policy. The DBSA further applied the Combined Services Model at local level to facilitate decision-making on development. It continued to provide capacity for the national government's spatial development initiatives, the promotion of development on communal land and the Community Private Partnership Programme. The Bank interacted with the Human Sciences Research Council on a Population Projections Model. It also provided support to Statistics South Africa and to the government for its information technology policy and Integrated Sustainable Rural Development Strategy.

Promoting preferential procurement

Through its own procurement practices and those of its projects, the Bank seeks to empower previously disadvantaged communities and groups. During the approval of projects, the DBSA emphasises small, medium and microenterprises in project implementation. It is estimated that 14 per cent of approved project value was executed by small contractors during 2000/01. Although the percentage is still relatively low, it exceeds that of private sector projects and projects in the rest of the SADC.

During the year, capital procurement on information technology items comprised 77,0 per cent of total capital expenditure. Of these items, 73,9 per cent was purchased from the designated grouping. The DBSA reviewed its procurement policy for goods, works and services, and produced a comprehensive policy for the organisation's procurement needs. This will be implemented during 2001/02.

Financial perspective

The Bank set three strategic objectives for sound financial and risk management practices during the year. (Its financial performance is reflected in the financial statements in this Annual Report.)

The Public Finance Management Act requires accounting authorities to report any material losses resulting from criminal conduct, as well as any irregular, fruitless and wasteful expenditure. This information is not available for this year, as the Bank's policy, systems and procedures are not fully geared to identifying and measuring these expenses and losses. The Bank is applying additional resources to ensure compliance with the Act. It will develop a policy and procedure document on preventing and reporting such losses and expenditure, and implement monitoring and reporting systems and processes. The DBSA has established a fraud hotline and conducted a comprehensive forensic audit. The audit did not reveal any fraud, but noted weaknesses in internal policies and procedures, which are being rectified.

Optimising the mobilisation of funds

The DBSA's borrowing and liability management strategies are closely aligned with the overall strategic objectives of the Bank, mainly with regard to development impact and financial sustainability. The Bank strives to minimise the cost of borrowing, raise funds on the most favourable terms and maintain a healthy presence in the capital markets.

In the year to March 2001, the Bank issued a 16-year 15 per cent R1 billion bond (DV21) in response to new funding opportunities during the second quarter of 2000 and to improving investor sentiment towards emerging markets. The all-in cost was 15,2 per cent. The issue was twice oversubscribed, and succeeded in attracting new investors. It also reaffirmed the Bank's ability to raise competitive financing across a spectrum of investors in the domestic markets.

In line with its liability management strategy, a major portion of the borrowings was swapped from fixed to floating rates in order to match the assets and liabilities, and to lower the overall cost of borrowing. Consequently, the weighted cost of borrowing for the past financial year was 14,6 per cent, which is below the previous year's 15,7 per cent.

The Board approved the establishment of a R5 billion domestic medium-term note programme to facilitate the implementation of the Bank's annual borrowing programme. The programme provides funding flexibility and allows the issuing of different types of instruments with a range of maturities to diverse investors. It also creates opportunities for the effective management of the Bank's assets and liabilities.

During the year, the Bank maintained its domestic AAA long-term and A1+ short-term credit rating from the independent international rating agency, Fitch. It also obtained international investment credit ratings from Moody's Investors Service, and Standard and Poor's. These ratings are the same as the sovereign ratings of South Africa, and should further enhance the Bank's resource mobilisation activities.

Improving risk management

During the year, the Bank took several significant steps to improve its risk management practices. The Board approved a risk management framework, which prescribes an

enterprise-wide, integrated basis for risk management. This framework will be implemented during 2001/02.

The Bank implemented the critical recommendations of the 1999/2000 international benchmarking exercise, by creating a specialised Workout Unit to maximise recoveries on problematic loans. It centralised and improved the credit-risk administration function, and provided capacity for independent treasury risk analysis.

Non-performing loans as a percentage of total book debt was reported at 6,9 per cent, slightly above the target of 6,6 per cent. The ratio of non-secured loans as a percentage of total debt was 62,2 per cent against a target of 50 per cent. The funding liquidity level was reported as 24 per cent, which is within the target range of 15 to 30 per cent.

Improving shareholder value

Shareholder value has increased considerably, as measured by the return on assets of 3,4 per cent against the target of 1,8 per cent and the previous year's 2,6 per cent. The sharp increase is due to a 39,8 per cent increase in the surplus for the period, compared to an increase in total assets of 10,8 per cent.

The return on equity was 7,3 per cent, as against the target of 4,3 per cent and the previous year's 5,9 per cent; this further substantiates the increased value.

The Balanced Scorecard enables the Bank to link strategy with budgeting. In this year's budget process, Unit managers considered the activities and initiatives in their Balanced Scorecards when formulating budgets. The next phase will focus on the supply and alignment of resources for strategic investments and operational initiatives.

Internal business process perspective

The Bank set four objectives from an internal business process perspective; the corporate governance objective is discussed in the corporate governance statement on pages 59 to 61.

Improving products and service delivery

The Bank aims at constantly improving its internal capacity to respond effectively to the needs of its customers and to maintain operating expenditures at a sustainable level. It therefore systematically reviews, benchmarks and improves its business processes, and strengthens the enabling structures and systems. The Bank's initiatives in this regard were grounded largely in the 1999 investigations funded by a grant from the Japanese government. Based on the proposals arising from these investigations, several policy and structural changes were made to bring key areas of risk and project management in line with international best practice. The Bank conducted a study as part of this initiative to define its core business processes and to identify potential areas of improvement.

The Bank also aims to maintain operating expenses at an optimal level. At year-end, operating costs amounted to 32 per cent of net interest income, compared with 19,9 and 20,2 per cent for 1998/99 and 1999/2000 respectively. The increase is due largely to an additional charge on the income statement of R75 million for post-retirement medical benefits. Excluding this charge, the ratio is 23,1 per cent for 2000/01, which is in line with the trend in previous years.

The Bank's continued expansion into the broader SADC region and the private sector market resulted in a substantial increase in the relative size of projects. The average total capital cost per approved project was R248 million in 2000/01, up from R65 million in 1999/2000. This resulted in relatively longer turnaround times for loan approvals. Whereas a benchmark of 130 calendar days was set as the average cycle time for the approval of loans from the date of application, the actual average was 230 days. This trend is expected to continue, as is the increase in the scope and complexity of projects. This will necessitate a review of the benchmark.

Optimising the monitoring and evaluation of projects

Monitoring and evaluation are important tools for assessing the Bank's performance and highlighting lessons from its experience. The Bank undertook various initiatives to implement a revised monitoring and evaluation policy in line with international best practice. The Logical Framework is a key element in assessing the success of project implementation and evaluating the development impact of investments.

The Bank did not achieve the target of making performance assessments on 80 per cent of projects fully disbursed during the year: only 41 per cent were assessed. The Operations Evaluation Unit periodically reviewed these assessments to provide feedback on trends and recommend corrective measures. Evaluation studies were conducted on eight projects, exceeding the target of five evaluations.

Improving market understanding

The DBSA pursued various initiatives to gain a better understanding of the market. At corporate level, a coherent business model was developed, which segmented the provision of financial and technical assistance into three markets on the basis of the availability of capacity and resources. Each market is characterised by different risk and investment profiles. The business model will guide the three planned marketing surveys on customer requirements and the Bank's potential contribution in meeting these requirements in each of the markets.

At a functional level, the Bank investigated the environment and possible expansion of its lending operations in key infrastructure sectors. It achieved its target for the year by presenting position papers on the water, telecommunications, human resource development, transport and energy sectors in South Africa and the broader SADC region.

At a regional level, it prepared strategic perspectives for the other SADC countries, as planned. It also produced perspectives for seven of the nine provinces in South Africa (as against the planned nine). The other two provinces agreed with the Bank that such perspectives were not required.

The DBSA regards its employees as an important asset, and endeavours to optimise its capacity to recruit, develop, train and deploy human resources in the organisation.

Attracting and retaining appropriate employees

The staff complement decreased from 431 to 425 (excluding contractors and expatriates) through a natural process of attrition, with 29 resignations and 23 new appointments. The rate of staff turnover was 6,8 per cent, as against a target of 6,0 per cent, and the average job retention rate was 8,7 years (equal to the previous figure). To improve the recruitment and retention of employees, 5,6 per cent of the total remuneration cost was spent on incentives (variable pay), which is slightly lower than the 5,7 per cent of the previous year. Given the required focus on other strategic human resources processes, the Bank did not realise some key initiatives, including a policy on attracting and retaining employees, and a human resources plan to monitor appropriate placing.

Improving competency levels

The DBSA continued to strengthen its staff competency levels, spending 3,9 per cent of remuneration on training (3,5 per cent in 1999/2000), as against a target of 3,4 per cent for the year. Significant expenditure was allocated to training in four key areas: leadership and managerial competency (32 per cent); financial management, banking and risk management (21 per cent); operational-level infrastructure development (14 per cent); and information technology (10 per cent). In total, 2 131 days (2 040 in 1999/2000) were used for training and 316 employees were trained.

Learning and growth perspective

The Accelerated Competency System is being implemented to manage competencies, and approximately 81 per cent of staff were trained to use the system.

Achieving employment equity

In June 2000, the Bank submitted its first employment equity report to the Department of Labour, in terms of section 21 of the Employment Equity Act of 1998. The Bank was accordingly registered and listed as No. 533 in the Employment Equity Registry launched by the Minister of Labour in October 2000. The Employment Equity Plan was approved and signed by the Chief Executive Officer in November 2000, and plans to implement, monitor and evaluate equity are being compiled. The DBSA also drafted an HIV/Aids policy, currently awaiting final approval.

The Bank aims to achieve employment equity by implementing the Employment Equity Plan, supported by the affirmative action policy. The Vision 2004 target is 66 per cent representation of designated groups in the demographic profile of the Bank's staff. In 2000/01, the proportion was 69 per cent. The staff consists of 53 per cent men and 47 per cent women, and the demographic profile is reflected in the following table:

Category	Total	Designated groups			
		White women (%)	Black men (%)	Black women (%)	White men (%)
Staff	425	21	22	26	31
Promotions	5	40	40	20	0
Recruitment	23	4	40	52	4

The number of new staff recruited decreased from 35 in 1999/2000 to 23 in 2000/01, with new staff members from designated groups comprising 96 per cent, as against a target of 60 per cent. The number of resignations decreased from 39 in 1999/2000 to 29 in 2000/01.

Information required under Schedule 4 of the Companies Act

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

Capital expenditure: R2 745 619

Investments: Details of the Bank's significant investments are set out in notes 4 and 6 of the annual financial statements on pages 79 and 80.

Post-balance sheet events: An allocation of R80 million was made from this year's profits to a "Grant Fund" reserve for the Development Fund, as set out in note 12 of the annual financial statements. The domestic medium-term note programme was launched in May 2001.

Audit Committee information: The names of the Audit Committee members are reflected in the corporate governance statement on pages 59 to 61. During 2000/01, five meetings were held.

Directorate and secretariat: The names of the members of the Board of Directors appear on pages 12 to 15. The address of the Bank's Secretariat is on the back cover. Board committee memberships are reflected in the corporate governance statement on page 61.

Balance sheet

at 31 March

	Notes	2001 R 000	2000 R 000
Assets			
Cash and cash equivalents	2	1 024 390	1 268 354
Trade and other receivables	3	1 000 716	627 539
Other investments	4	3 253 000	3 253 000
Home ownership scheme loans	5	11 724	4 048
Development investments	6	152 405	93 056
Development loans	7	12 151 385	10 705 159
Property, plant and equipment	9	117 623	40 025
Total assets		17 711 243	15 991 181
Equity and liabilities			
Total equity		8 275 590	7 479 343
Share capital	10	200 000	200 000
Government funding	11	3 792 344	3 792 344
Grant Fund	12	80 000	-
Revaluation reserve		77 442	-
Accumulated surplus		4 125 804	3 486 999
Total liabilities		9 435 653	8 511 838
Trade and other payables	14	674 712	675 372
Short-term financing	15	1 225 771	-
Long-term liabilities	16	14 111	-
Medium- and long-term financing	17	7 520 952	7 835 964
Donor contribution fund	18	107	502
Total shareholders' equity and liabilities		17 711 243	15 991 181

Income statement

for the year ended 31 March

	Notes	2001 R 000	2000 R 000
Operating income		864 064	595 429
Interest income	19	2 041 801	1 851 936
Cost of funding	20	(1 151 332)	(949 638)
Net interest income		890 469	902 298
Foreign exchange gain/(loss)	20.1	(200 703)	(126 857)
Revaluation of derivatives	20	266 634	11 952
Movement in specific and general provisions	21	(105 190)	(201 513)
		851 210	585 880
Other income	22	12 854	9 549
Operating expenses		(285 204)	(181 288)
Technical assistance grants		(5 534)	(4 743)
Staff costs	23.1	(225 933)	(127 696)
General and administration	23.2	(51 147)	(45 864)
Depreciation	9.1	(2 590)	(2 985)
Surplus from operations		578 860	414 141
Retained surplus for the year		578 860	414 141

Cash flow statement

for the year ended 31 March

	Notes	2001 R 000	2000 R 000
Net cash inflow from operating activities		163 702	332 954
Interest received from development loans	27.1	1 282 634	1 320 333
Interest received from development investments	27.1	8 819	7 324
Interest received on investments	27.2	594 500	506 343
Interest paid	27.3	(1 111 662)	(984 413)
Cash absorbed by other operations	27.4	(610 589)	(516 633)
Net cash outflow from development activities		(1 332 956)	(1 279 790)
Development loan disbursements	7	(1 622 177)	(1 700 681)
Development loan principal repayments	27.1	331 835	431 006
Development investments		(36 612)	(3 037)
Donor contribution funds disbursed	18	(468)	(2 335)
Technical assistance grants paid		(5 534)	(4 743)
Net cash outflow from investment activities		(10 422)	(3 072)
Replacement of property, plant and equipment		(2 746)	(3 165)
Home ownership scheme advances to employees		(7 676)	-
Investments to expand operations		-	93
Net cash inflow from financing activities		935 712	1 319 184
Donor contribution funds received	18	73	1 023
Increase in investments raised		-	(93 000)
Short-term financing raised		1 225 771	(290 960)
Increase in long-term liabilities		14 111	-
Medium- and long-term financing repaid		(850 354)	(3 038)
Medium- and long-term financing raised		546 111	1 705 159
Movement in cash and cash equivalents		(243 964)	369 276
Cash and cash equivalents at the beginning of the year		1 268 354	899 078
Cash and cash equivalents at the end of the year	2	1 024 390	1 268 354

Statement of changes in equity

for the year ended 31 March

	Notes	Share capital R 000	Government funding R 000	Grant Fund R 000	Revaluation reserve R 000	Accumulated surplus R 000	Total R 000
Balance at 1 April 1999		200 000	3 792 344	-	-	3 104 365	7 096 709
- reported previously						2 676 460	
- changes in accounting policy	32.3					427 905	
Surplus for the year restated						414 141	414 141
- reported previously						417 669	
- changes in accounting policy	32.3					(3 528)	
Financial instruments fair value movements recognised in equity						(31 507)	(31 507)
Balance at 31 March 2000		200 000	3 792 344	-	-	3 486 999	7 479 343
Balance at 1 April 2000		200 000	3 792 344	-	-	3 486 999	7 479 343
- reported previously						3 062 622	
- changes in accounting policy	32.3					424 377	
Financial instruments fair value movements recognised in equity						139 945	139 945
Surplus for the year						578 860	578 860
Transfer to Grant Fund	12			80 000		(80 000)	-
Transfer to revaluation reserve					77 442		77 442
Balance at 31 March 2001		200 000	3 792 344	80 000	77 442	4 125 804	8 275 590

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for certain investments, property, plant and equipment, and financial instruments, as described in the relevant notes. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice. 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.

1.2 Financial instruments

1.2.1 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 date of the balance sheet.

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 basis, over the life of the bond. Amortised discounts, premiums and other bond or financing costs are recorded as an element of interest expenditure.

1.2.2 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 volatility in foreign currency markets or interest rates; 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 that fails to meet the criteria of a hedge is classified as a trading instrument. All derivatives are fairly valued.

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.

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 retained surplus for the year. A corresponding asset (unrealised gains) or liability (unrealised losses) is raised on the balance sheet.

1.2.3 Cash and cash equivalents

The Bank's liquid assets comprise cash and money market instruments. Due to the Bank's policy of holding money market instruments to maturity, these instruments are valued at amortised cost.

1.2.4 Trade and other receivables

Trade and other receivables, other than resale agreements and tradeable securities, are stated at cost less provision for doubtful debts. Tradeable securities are carried at market value. Refer to note 1.2.6 for resale agreements.

1.2.5 Financial liabilities

Financial liabilities are recognised at amortised cost, namely, original debt less principal payments and amortisations, except for derivatives, which are stated at fair value.

1.2.6 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 trade and other payables.

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.

1.3 Development investments

Investments are stated at the lower of cost or fair value. Fair value represents market value in respect of listed assets or, in the case of unlisted assets, the amount for which the asset could be exchanged or settled between knowledgeable, willing parties in an arm's-length transaction. 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.

1.4 Development loans

Development loans are stated at carrying value, which comprises the principal amount outstanding and unpaid interest. The treatment of revenue recognition is described in note 1.10.

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 have been identified as irrecoverable, they are provided for. 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. Factors that mitigate risk, such as the presence and quality of securities, are taken into consideration.

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

The provisions, both specific and general, made during the year are charged to the income statement.

1.6 Property, plant and equipment

1.6.1 Land

Land is stated at fair value. No depreciation is provided. This represents a change in accounting policy. Refer to note 32.2 for details.

1.6.2 Building

The head-office building was constructed on land donated by the South African government. The building, including improvements, is stated at fair value.

The buildings are depreciated over their estimated useful life. This represents a change in accounting policy. Refer to note 32.1 for details.

1.6.3 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.

When the recoverable amount of an asset has declined, the carrying value is reduced to reflect the decline and is charged to the income statement.

1.7 Donor contribution fund

Grants received from donors are recorded 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 this income. The treatment of revenue recognition is described in note 1.10.

1.8 Other provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability of annual leave and long-service leave as a result of services rendered by employees up to the date of the balance sheet.

1.9 Foreign currencies

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

1.10 Revenue recognition

Interest on development loans is recorded as income on the accrual basis. In previous years, interest was capitalised during the interest moratorium period of the loan. This represents a change in accounting policy. Refer to note 32.3 for details.

The Bank does not recognise income on development loans that have been classified as non-performing. Refer to note 1.4.

Guarantee fees and commitment fees charged on development loans are recorded as income on the accrual basis. Fees received in advance 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 this income. Refer to note 1.7.

Income received for non-banking services rendered to third parties is recognised as income when the services are rendered.

1.11 Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Discounts and premiums relating to borrowings are deferred and amortised over the term of the relevant borrowing.

1.12 Retirement benefits

1.12.1 Post-retirement medical benefits

The Bank makes provision for post-retirement benefits in the form of health care plans to eligible employees and pensioners. The cost of continuing the present practice of providing post-retirement health care benefits is assessed in accordance with the advice of qualified actuaries and is recognised on a systematic basis over the employees' remaining service life.

1.12.2 Provident fund

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

Employees and the Bank contribute to the provident fund on the basis of a fixed contribution. This fund does not require an actuarial valuation.

1.13 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.

	2001 R 000	2000 R 000
2. Cash and cash equivalents		
Fixed deposits	200 000	150 000
Call deposits	847 700	1 005 288
Cash at bank	(23 310)	113 066
	<u>1 024 390</u>	<u>1 268 354</u>
The average annual interest rate on cash and cash equivalents detailed above, amounts to 10,52% (2000: 12,64%).		
3. Trade and other receivables		
Resale agreements	410 060	504 516
Accrued income on deposits and securities	67 756	85 287
Accrued income on Lepelle Northern Water	2 324	3 069
Tradable securities (government and parastatal traded stock)	514 190	27 712
Other receivables	8 643	9 076
Provision for doubtful debts	(2 257)	(2 121)
	<u>1 000 716</u>	<u>627 539</u>
4. Other investments		
Government stock (R150)	<u>3 253 000</u>	<u>3 253 000</u>
Market value	<u>3 326 168</u>	<u>3 126 846</u>
The maturity date of the R150 stock is 28 February 2005 and the coupon rate is 12%.		
5. Home ownership scheme loans	<u>11 724</u>	<u>4 048</u>

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to Bank employees at reduced interest rates. The Bank and Nedcor Bank Limited have entered into an agreement whereby Nedcor Bank Limited administers the loan scheme on behalf of the Bank.

All loans are secured by fixed property. Loans are provided to a maximum of 108% of the market value of the fixed property, to allow for transfer fees to be capitalised.

The effective interest rate for the period 1 April 2000 to 31 March 2001 was 12,5% per year.

This balance was previously recorded with cash and cash equivalents.

	2001 R 000	2000 R 000
6. Development investments		
Unlisted investments:		
Lepelle Northern Water	53 653	62 149
Franchise Fund	3 800	5 000
Commonwealth Africa Investments Limited	72 225	45 836
AIG African Infrastructure Fund	28 098	-
Proparco Investments	4 891	-
Unlisted investments at cost	162 667	112 985
Less: Provision for write-down of development investments	(10 262)	(19 929)
	<u>152 405</u>	<u>93 056</u>
Directors' valuation of unlisted investments	<u>152 405</u>	<u>93 056</u>

Unlisted investments comprise the following:

6.1 Lepelle Northern Water

Capital project bills of R53,7 million (nominal value R197,0 million) with maturities varying from 30 April 2000 to 31 October 2005

Less: Provision for write-down of development investments

43 391	42 220
<u>53 653</u>	<u>62 149</u>
<u>(10 262)</u>	<u>(19 929)</u>

6.2 Franchise Fund

50 000 (2000: 50 000) ordinary shares at cost
 1 700 000 (2000: 1 700 000) 8% redeemable cumulative preference shares at cost
 2 050 000 (2000: 3 250 000) 15% redeemable debentures at cost

3 800	5 000
<u>50</u>	<u>50</u>
<u>1 700</u>	<u>1 700</u>
<u>2 050</u>	<u>3 250</u>

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

6.3 Commonwealth Africa Investments Limited

900 (2000: 700) ordinary shares at cost
 900 (2000: 700) redeemable preference shares at cost

72 225	45 836
<u>5</u>	<u>4</u>
<u>72 220</u>	<u>45 832</u>

The development investment in Commonwealth Africa Investments Limited is denominated in US\$.

	2001 R 000	2000 R 000
6.4 AIG African Infrastructure Fund	28 098	-
The Bank has contributed US\$4 002 426 to the AIG African Infrastructure Fund, which represents 6,1482% of the total shareholding.		
6.5 Proparco Investments	4 891	-
The investment consists of 49 500 shares and is denominated in French francs.		
	<u>152 405</u>	<u>93 056</u>
7. Development loans		
7.1 Analysis of development loans		
Balance at the beginning of the year	11 550 741	10 257 453
Movements during the year:	1 559 555	1 293 288
Loans disbursed	1 622 177	1 700 681
Interest accrued	1 456 837	1 328 219
Development loans written off	(1 066)	(777)
Revaluation of foreign loans	96 076	16 504
Gross repayments	(1 614 469)	(1 751 339)
Gross development loans	<u>13 110 296</u>	<u>11 550 741</u>
Provision against development loans (per note 8)	(958 911)	(845 582)
Net development loans	<u>12 151 385</u>	<u>10 705 159</u>
7.2 Loan maturity analysis		
Detailed breakdown of the maturity analysis for the total loan book as at year end:		
2001	-	832 676
2002	1 183 256	438 538
2003	486 937	461 831
2004	555 632	532 538
2005	580 413	500 670
2006-2010	3 023 699	2 846 261
2011-2015	4 079 233	2 919 892
2016 and thereafter	3 201 126	3 018 335
	<u>13 110 296</u>	<u>11 550 741</u>
7.3 Sectoral analysis		
Energy, posts and telecommunications	2 949 817	2 656 670
Water	2 517 177	2 252 395
Sanitation	1 730 559	1 640 205
Multiple services	2 464 736	1 975 177
Entrepreneurial development	1 179 927	1 131 972
Roads and drainage	1 691 228	1 386 089
Education	406 419	323 421
Social infrastructure	170 433	184 812
	<u>13 110 296</u>	<u>11 550 741</u>

	2001 R 000	2000 R 000
7.4 Geographical analysis		
Western Cape	1 179 927	1 028 016
Northern Cape	157 324	161 710
Eastern Cape	1 166 816	1 131 973
Free State	760 397	693 044
KwaZulu-Natal	1 927 213	1 663 307
Mpumalanga	1 271 699	1 224 378
Northern Province	576 853	473 580
Gauteng	2 477 846	2 206 192
North West	891 500	843 204
National	262 206	242 566
SADC (excluding South Africa)	2 438 515	1 882 771
	<u>13 110 296</u>	<u>11 550 741</u>
7.5 Client classification		
Local government	6 201 170	5 521 254
Development finance institutions	2 726 942	2 610 468
Public utilities	2 346 743	2 090 684
Private and non-governmental sector	1 258 588	831 653
Educational institutions	419 529	381 174
National and provincial government sector	157 324	115 508
	<u>13 110 296</u>	<u>11 550 741</u>
7.6 Fixed and variable interest rates		
Fixed interest rate loans	11 178 544	10 535 844
Variable interest rate loans	1 931 752	1 014 897
	<u>13 110 296</u>	<u>11 550 741</u>
7.7 Client concentration		
One client as percentage of total loan book	10,3%	11,2%
Seven clients as percentage of total loan book	40,3%	41,0%
8. Provision against development loans		
Balance at the beginning of the year	845 582	637 809
Amounts recovered during the year	-	28
Amounts written off during the year	(1 066)	(777)
Income statement charge	114 395	208 522
Specific provision	60 401	188 705
General provision	53 994	19 817
Balance at the end of the year	<u>958 911</u>	<u>845 582</u>
Comprising:		
Specific provision	479 052	419 717
General provision	479 859	425 865
	<u>958 911</u>	<u>845 582</u>

A general provision is maintained against development loans not specifically identified as doubtful.

9. Property, plant and equipment

9.1 Reconciliation of property, plant and equipment

Cost or revaluation	R 000 Revalued land	R 000 Revalued buildings	R 000 Computer equipment	R 000 Furniture and fittings	R 000 Motor vehicles	R 000 Office equipment	R 000 Total
At the beginning							
of the year	-	36 070	16 807	514	524	1 871	55 786
Additions	-	288	2 113	204	-	141	2 746
Revaluation	18 800	58 642	-	-	-	-	77 442
At the end of the year	18 800	95 000	18 920	718	524	2 012	135 974

Accumulated depreciation

At the beginning							
of the year	-	-	14 248	261	142	1 110	15 761
Depreciation for the							
current year	-	-	2 194	53	105	238	2 590
At the end of the year	-	-	16 442	314	247	1 348	18 351

Net book value

(March 2001)	18 800	95 000	2 478	404	277	664	117 623
Net book value							
(March 2000)	-	36 070	2 559	253	382	761	40 025

Historical book value

(March 2001)	-	36 358	2 559	253	382	761	40 313
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The annual rates used to depreciate fixed assets are as follows:

Buildings	4%
Furniture and fittings	10%
Motor vehicles	20%
Computer equipment	33,33%
Office equipment	20%

9.2 Revaluation

9.2.1 Land

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent valuator, on 31 March 2001.

The land on which the buildings are constructed is Erf 3, Headway Hill and measures 26,066 ha. Refer to note 32.2.

	2001 R 000	2000 R 000
9.2.2 Buildings		
The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,05 million were effected during the 2001 financial year (2000: R0,6 million).		
The buildings were revalued at R95 million on 31 March 2001 by Davis Langdon Farrow Laing, an independent valuator. Refer to note 32.1.		
10. Share capital		
Authorised		
500 000 (2000: 500 000) ordinary shares at a par value of R10 000 each	<u>5 000 000</u>	<u>5 000 000</u>
Issued capital		
20 000 ordinary shares at a par value of R10 000 each	<u>200 000</u>	<u>200 000</u>
Callable capital		
480 000 (2000: 480 000) ordinary shares at a par value of R10 000 each	<u>4 800 000</u>	<u>4 800 000</u>
The Development Bank of Southern Africa Act, No. 13 of 1997, section 18, allows directors to issue shares from time to time and to call upon the shareholder 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.		
11. Government funding		
This represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994.		
Received to date	<u>3 792 344</u>	<u>3 792 344</u>
12. Grant Fund		
The Board of Directors approved the transfer of an amount of R80 million from the current year's surplus to the Grant Fund. This Fund has been earmarked to assist very poor communities, who do not have access to resources and capacity for development, in the form of grants.	<u>80 000</u>	<u>-</u>
13. General and specific provision		
Provision against development loans (note 8)	958 911	845 582
Provision for development investments (note 6)	10 262	19 929
Provision for doubtful debts (note 3)	2 257	2 121
	<u>971 430</u>	<u>867 632</u>

	2001 R 000	2000 R 000
14. Trade and other payables		
Repurchase agreements	315 165	499 499
Trade creditors and accruals	31 574	20 533
Other provisions (see below)	89 545	15 448
Accrued interest	238 428	139 892
	<u>674 712</u>	<u>675 372</u>
Other provisions		
Provision for post-retirement medical benefits (refer to note 26)	75 012	9 200
Payroll provision	14 533	6 248
	<u>89 545</u>	<u>15 448</u>
Reconciliation of movement in payroll provision		
Balance at the beginning of the year	6 248	6 236
Increase in provision	9 911	1 451
Written off against provisions	(1 626)	(1 439)
Balance at the end of the year	<u>14 533</u>	<u>6 248</u>
15. Short-term financing		
The DV06 registered bond will be redeemed on 31 October 2001.	1 225 771	-
16. Long-term liabilities		
The loan with Natexis Banque is repayable in 16 equal, semi-annual instalments, with the first instalment falling due on 31 March 2011. Preliminary interest payments fall due three-monthly and commenced on 31 March 2001. The applicable interest rate is 0,1% per year.	7 111	-
The loan with Société Générale is repayable in 20 equal, semi-annual instalments, with the first instalment falling due on 11 September 2002. Preliminary interest payments fall due six-monthly and commenced on 11 September 2000. The applicable interest rate is 4,67% per year.	7 000	-
	<u>14 111</u>	<u>-</u>
The above loans consist of Euro 1,012 million and Euro 0,996 million, and relate to on-lending agreements with Natexis Banque and Société Générale respectively.		

	2001 R 000	2000 R 000
17. Medium- and long-term financing		
17.1 Summary		
Registered bonds (refer to schedule A.1)	4 750 116	4 895 671
Balance in issue	12 058 637	12 316 385
Unamortised issue discounts on registered bonds	(7 308 521)	(7 420 714)
Unregistered bonds (refer to schedule A.2)	473 897	216 074
Balance in issue	715 000	500 000
Unamortised issue discounts on registered bonds	(241 103)	(283 926)
Other loans (refer to schedule C)	2 820 289	2 759 684
Balance in issue	2 842 623	2 784 117
Unamortised issue discounts	(22 334)	(24 433)
Hedges - Derivative instruments (refer to note 17.3)	(523 350)	(35 465)
Assets	(532 173)	(169 224)
Liabilities	8 823	133 759
	<u>7 520 952</u>	<u>7 835 964</u>
17.2 Sources and denominations		
Foreign funding	3 761 556	3 941 895
Rand denomination	2 229 717	2 257 706
Foreign denomination	1 531 839	1 684 189
Domestic funding		
Rand denomination	3 759 396	3 894 069
	<u>7 520 952</u>	<u>7 835 964</u>
17.3 Derivative instruments		
The range of derivative instruments used consists of forward exchange contracts, cross-currency swaps and local interest rate swaps.		
Fair value hedges	(229 607)	(143 910)
0 - 1 year	(11 811)	17 945
1 - 5 years	(61 572)	(5 921)
Thereafter	(156 224)	(155 934)
Cash flow hedges relating to cross-currency hedging	8 823	132 109
0 - 1 year	34 707	22 052
1 - 5 years	62 706	93 458
Thereafter	(88 590)	16 599
Cash flow hedges relating to interest rate swaps	-	1 650
0 - 1 year	-	1 650
1 - 5 years	-	-
Thereafter	-	-
Derivatives*	(302 566)	(25 314)
0 - 1 year	(43 611)	5 217
1 - 5 years	(38 511)	60 143
Thereafter	(220 444)	(90 674)
	<u>(523 350)</u>	<u>(35 465)</u>

	2001 R 000	2000 R 000
Maturity		
0 - 1 year	(20 715)	46 864
1 - 5 years	(37 377)	147 680
Thereafter	(465 258)	(230 009)
	<u>(523 350)</u>	<u>(35 465)</u>

*Represents interest rate derivatives relating to fixed interest rate loans that are rand denominated.

Hedge accounting was not applied as the underlying loan is not adjusted with movements in the market interest rate.

Refer to the risk management section of the Annual Report on page 57 for the Bank's risk management policies.

18. Donor contribution fund

Balance at the beginning of the year	502	1 814
Grants received	73	1 023
Grants repaid	-	(319)
Interest received on surplus funds	3	38
Grants disbursed: Transferred to the income statement (note 22)	(471)	(2 054)
Balance at the end of the year	<u>107</u>	<u>502</u>

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.

Included in the above is an amount of R43 000, which is a government grant received from the Department of Constitutional Affairs.

19. Interest income

Development loans	1 456 758	1 327 006
Development investments	8 074	5 776
Listed and unlisted investments:		
Government stock	390 360	390 312
Money market	138 592	120 083
Capital market	44 334	8 212
Housing scheme	1 092	-
Other interest received	2 591	547
	<u>2 041 801</u>	<u>1 851 936</u>

20. Cost of funding

Interest paid	1 210 199	1 093 268
Foreign exchange gains/(losses)	(325 501)	(155 582)
Exchange loss on loans	(208 581)	(153 395)
Revaluation of currency derivatives	(33 657)	(2 187)
Foreign exchange gain	2 305	-
Foreign exchange loss	(85 568)	-
Revaluation of derivatives not hedge-accounted	266 634	11 952
	<u>1 151 332</u>	<u>949 638</u>

	2001 R 000	2000 R 000
20.1 Foreign exchange gain/(loss)		
Foreign exchange gain/(loss) relating to cost of funding	(325 501)	(155 582)
Foreign exchange gain	127 276	28 725
Foreign exchange loss	(2 478)	-
	<u>(200 703)</u>	<u>(126 857)</u>
21. Movement in specific and general provisions		
Other receivables (refer to note 3)	136	(371)
Development investments (refer to note 6)	(9 667)	(6 638)
Development loans (refer to note 8)	114 395	208 522
Write-offs during the year	326	-
	<u>105 190</u>	<u>201 513</u>
22. Other income		
Non-interest income:		
Fees and sales	14 257	11 646
Grants transferred from the balance sheet (per note 18)	471	2 054
Less recovered expenses:	(3 630)	(5 190)
Consultants	(3 605)	(5 174)
Travel and subsistence	(25)	(16)
	<u>11 098</u>	<u>8 510</u>
Sundry income	1 756	1 039
	<u>12 854</u>	<u>9 549</u>
23. Operating expenses		
23.1 Staff costs		
Post-retirement medical costs	79 512	4 600
Payment	4 500	4 600
Provision	75 012	-
Other staff costs	146 421	123 096
	<u>225 933</u>	<u>127 696</u>
23.2 General and administration		
are arrived at after taking into account:		
Auditors' remuneration	3 405	1 831
audit fee - current year	2 758	1 144
audit fee - previous year	481	124
other services - current year	166	563
Directors' emoluments	2 599	2 215
for services as director	2 100	1 800
for other services	499	415
Consultants' fees	6 566	6 124
Communication costs	2 181	2 562
Information technology	7 313	7 692
Regional Service Council levies	2 860	3 137
Subsistence and travel	9 513	8 496
Other	16 710	13 807
	<u>51 147</u>	<u>45 864</u>

2001	2000
R 000	R 000

24. Taxation

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

25. Retirement benefits

25.1 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, Act No. 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: 443 (2000: 436)

Total amount expensed during the year	18 412	15 684
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25.2 Medical aid

Number of employees: 400 (2000: 410)

The Bank's contribution to the medical aid fund	8 188	8 157
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26. Post-retirement medical benefits

The Bank recognises and prefunds the post-retirement medical benefits liability. Included in staff costs is a charge for the year

	79 512	4 600
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The cost of funding for the medical scheme contributions after retirement or death/disability of the employee was actuarially valued at 1 January 2000 by an independent valuator. An updated estimate was done by the valuator at 1 January 2001. The calculation was based on 400 employees and 63 pensioners, and a real rate of 2% was used.

Total unfunded liability estimated at 1 January 2001

Past service liability	118 403	96 579
Future service liability	73 024	54 929
Less market value of assets at 1 January	45 379	41 650
Less payment made after 1 January	(38 891)	(26 846)
Less provision raised at year end	(4 500)	-
Unfunded liability at year end	(75 012)	(9 200)
	-	60 533

The unfunded liability as estimated by the independent valuator at 1 January 2001 has been fully provided for. The next actuarial valuation will be performed on 1 January 2003.

	2001 R 000	2000 R 000
27. Cash flow statement		
27.1 Interest received from development activities		
Gross development loan repayments (refer to note 7)	1 614 469	1 751 339
Principal repayments	(331 835)	(431 006)
Interest received on development loans	1 282 634	1 320 333
Interest received from development investments	8 819	7 324
	<u>1 291 453</u>	<u>1 327 657</u>
27.2 Interest received from investments		
Accrued interest at the beginning of the year	85 287	72 476
Accrued interest	102 280	90 393
Accrued interest on development investments	(16 993)	(17 917)
Charged to income for the year	576 969	519 154
Accrued interest at the end of the year	(67 756)	(85 287)
Accrued interest	(84 004)	(102 280)
Accrued interest on development investments	16 248	16 993
	<u>594 500</u>	<u>506 343</u>
27.3 Interest paid		
Accrued interest at the beginning of the year	139 892	110 723
Trade and other payables (refer to note 14)	139 892	117 618
Medium- and long-term financing	-	(6 895)
Charged to income for the year	1 210 198	1 013 582
Interest expense per income statement	1 210 198	1 093 268
Amortisation of issue discount	-	(79 686)
Accrued interest at the end of the year	(238 428)	(139 892)
Trade and other payables (refer to note 14)	<u>1 111 662</u>	<u>984 413</u>
27.4 Cash generated by other operations		
Surplus for the year	578 860	417 667
Adjustments for:		
Provision against development loans and development investments	123 591	171 356
Technical assistance grants paid	5 534	4 743
Interest expense	1 210 198	1 093 268
Interest received on investments	(576 968)	(519 154)
Interest received on development loans	(1 464 832)	(1 326 732)
Depreciation	2 590	2 985
Foreign exchange revaluation	1 225	(113 028)
Loss on fixed assets	-	591
Housing scheme	-	(4 048)
Increase in receivables	(391 591)	1 579 188
Decrease in payables	(99 196)	(1 823 469)
	<u>(610 589)</u>	<u>(516 633)</u>

2001	2000
R 000	R 000

28. Commitments

At the date of the balance sheet, the Bank had the following commitments:

28.1 Loan commitments

Loans approved by the Board of Directors but not signed

2 136 378	1 617 232
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Loans signed but not disbursed

2 609 372	3 124 961
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<u>4 745 750</u>	<u>4 742 193</u>
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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 2002, 50% in 2003 and 10% thereafter.

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

28.2 Technical assistance grants

Grants approved by the Board of Directors but not signed

2 997	1 447
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Grants signed but not disbursed

5 390	3 360
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<u>8 387</u>	<u>4 807</u>
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29. Contingent liabilities

29.1 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

<u>1 177</u>	<u>1 341</u>
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29.2 Guarantees

The Bank has approved and issued a guarantee on behalf of a borrower amounting to

<u>275 000</u>	<u>275 758</u>
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It is the opinion of management that the possibility of default by the borrower is not likely, and therefore this guarantee was not recognised in the balance sheet as a liability.

The guarantee relates to one borrower, and is detailed as follows:

Total value of credit line (principal amount)

R250 000

Current exposure

R250 000

The Bank 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.

30. 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.

Balance at the beginning of the year

466 007	329 160
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Funds received

565 614	391 674
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Funds disbursed

(425 582)	(254 827)
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Funds at the end of the year

<u>606 039</u>	<u>466 007</u>
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2001	2000
R 000	R 000

31. Subsequent events

The Bank launched a R5 billion domestic medium-term note programme on 7 May 2001. This programme will be used as a funding vehicle to facilitate the implementation of the Bank's borrowing programmes.

The Board of Directors approved the transfer of an amount of R80 million from the current year's surplus to the Grant Fund. Refer to note 12.

No other material events have occurred between the date of the balance sheet and the date that the annual financial statements were approved.

32. Change in accounting policies

32.1 Revaluation of buildings

Buildings have been revalued at R95 million in order to reflect their fair value.

Buildings were previously carried at historical cost (March 2000: R36 million).

Buildings were depreciated at nil. From 1 April 2001, buildings will be depreciated over their estimated useful life.

32.2 Revaluation of land

The land on which the Bank buildings are constructed was donated by the South African government.

Land was previously carried at nil in the balance sheet. In order to comply with the requirements of AC135, the land is now carried at fair value. It has not been possible to obtain a valuation for the land at 31 March 2000. Therefore no prior year adjustment has been reported.

32.3 Deferred interest

In previous years, interest was capitalised during the interest moratorium period of the loan. This was recorded as deferred interest and credited to income as and when it became due and payable, or when it was received. Interest is now recognised on an accrual basis.

Development loans were stated at the net carrying value, excluding the provision for deferred interest accrued during the interest moratorium period.

The change in accounting policy has had the effect of increasing the carrying value of the loan book.

Prior year adjustment

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

Adjustment to accumulated surplus

Adjustment to:

- opening balance of accumulated surplus	424 377	427 905
- reported income for the year	(34 839)	(3 528)
	<u>389 538</u>	<u>424 377</u>

As the Bank is currently exempt from income tax (see note 24), the above adjustment has no tax implications for the current and previous reporting periods.

Schedule A.1

Registered bonds at 31 March 2001

	Authorised value			Market yield		Repayment date	Nominal balance	Unamortised	Balance in	Unamortised
	2001	2000	Coupon	during the year			in issue	discount	issue	discount
	R million	R million	rate %	%	%		R million	R million	R million	R million
(i) Local				High	Low					
DV06	3 000	3 000	10,0	12,86	10,30	2001	1 257,8	32,0	1 257,8	81,4
DV07	5 000	5 000	14,5	16,11	11,97	2010	1 895,6	57,9	1 895,6	60,3
DV20	500	500	Jibar + 50bp	11,08	10,57	2004	500,0	1,9	500,0	2,3
DV21	1 000	-	15,0	15,20	11,95	2016	1 000,0	6,0	-	-
LL06	Note 1		14,0	Note 2		2005	163,0	5,8	163,0	6,6
Subtotal	9 500	8 500					4 816,4	103,6	3 816,4	150,6
Less DV06 transferred to short-term financing	(3 000)	-					(1 257,8)	(32,0)	-	-
	6 500	8 500					3 558,6	71,6	3 816,4	150,6
(ii) Foreign										
Euro-rand bond	7 500	7 500	0,0			2027	7 500,0	7 188,4	7 500,0	7 221,3
Euro-rand bond	1 000	1 000	13,5			2028	1 000,0	48,6	1 000,0	48,8
Subtotal	8 500	8 500					8 500,0	7 237,0	8 500,0	7 270,1
Total	15 000	17 000					12 058,6	7 308,6	12 316,4	7 420,7

Notes

1. Local LL06 registered bonds were taken over from the Local Authorities Loan Fund and were not originally issued by the Bank.
2. No trading in the financial markets during the financial year.

Schedule A.2

Unregistered bonds at 31 March 2001

Authorised value		Coupon rate %	Repayment date	Nominal balance in issue 2001	Unamortised discount 2001	Balance in issue 2000	Unamortised discount 2000	
2001 R million	2000 R million			R million	R million	R million	R million	
(i) Local								
0% Private placement	500	500	0,0	16 Nov 2006	500	241,1	500	283,9
13,5% Coupon note private placement	215	-	13,5	03 Apr 2015	215	-	-	-
	715	500			715	241,1	500	283,9

Schedule B

Hedging instruments

	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 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 T1	Currency	FRF 67,8 million capital and interest due thereon swapped for rand payments at a floating interest rate
Agence Française de Développement III T2	Currency	FRF 49,9 million capital and interest due thereon swapped for rand payments at a fixed interest rate
Agence Française de Développement III T3	Currency	EURO 4,9 million capital and interest due thereon swapped for rand payments at a floating 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 a floating rate based on a notional amount of R200 million and cash inflow of R300 million on maturity
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 Für Wiederaufbau I T1	Currency	DEM 23,1 million capital and interest due thereon swapped for rand payments at a fixed interest rate
Kreditanstalt Für Wiederaufbau I T2	Currency	DEM 15,5 million capital and interest due thereon swapped for rand payments at a floating rate
Kreditanstalt Für Wiederaufbau I T3	Currency	EURO 6,6 million capital and interest due thereon swapped for rand payments at a fixed interest rate
Kreditanstalt Für Wiederaufbau I T4	Currency	DEM 12,8 million capital and interest due thereon swapped for rand payments at a floating rate
Kreditanstalt Für Wiederaufbau I T5 & II T2	Currency	DEM 19,8 million capital and interest due thereon swapped for rand payments at a fixed rate
Kreditanstalt Für Wiederaufbau II T1	Currency	DEM 4,4 million capital and interest due thereon swapped for rand payments at a floating rate
DV 20	Interest	Floating interest swapped for a fixed rate based on a notional amount of R200 million
DV 21	Interest	Fixed interest swapped for a floating rate based on a notional amount of R500 million
DV 21	Interest	Fixed interest swapped for a floating rate based on a notional amount of R500 million
DV 21	Interest	Lookback floating interest swapped for floating interest based on a notional amount of R500 million
DV 21	Interest	Lookback floating interest swapped for floating interest based on a notional amount of R500 million

Schedule C



Other loans at 31 March 2001

	2001		2000		Interest rate (%)	First capital repayment	Remaining instalments (million)
	ZAR (m)	Foreign (m)	ZAR (m)	Foreign (m)			
African Development Bank USD	561,7	USD 70,0	299,9	USD 45,8	Note 1	February 2003	20 equal semi-annual payments of USD 2,29
African Development Bank ZAR I.1	200,0		200,0		16,24	February 2002	14 equal semi-annual payments of R14,3
African Development Bank ZAR I.2	140,0		140,0		14,90	February 2003	14 equal semi-annual payments of R10
African Development Bank ZAR 2.1	200,0		-		Note 2	August 2004	20 equal semi-annual payments of R10
Agence Française de Développement I	107,2	FRF 100,0	95,4	FRF 100,0	3,50	April 2004	26 equal semi-annual payments of FRF 3,8
Agence Française de Développement II	147,4	FRF 137,5	143,1	FRF 150,0	3,40	October 2000	11 equal semi-annual payments of FRF 12,5
Agence Française de Développement III	160,7	FRF 150,0	112,3	FRF 117,7	3,50	April 2001	16 equal semi-annual payments of FRF 7,4
Chiao Tung Bank Co Ltd.	64,4	USD 8,0	56,6	USD 8,6		3,00	March 2000 13 equal annual payments of USD 0,6
European Investment Bank I.1	100,0		100,0		14,13	April 2002	Single payment of R100
Unamortised discount	(0,1)		(0,2)				
European Investment Bank I.2	50,0		50,0		13,71	August 2007	Single payment of R50
Unamortised discount	(0,6)		(0,7)				
European Investment Bank II.1	200,0		200,0		15,25	January 2004	Single payment of R200
Unamortised discount	(3,6)		(4,6)				
European Investment Bank II.2	100,0		100,0		13,75	May 2009	Single payment of R100
Unamortised discount	(4,7)		(5,0)				
European Investment Bank II.3	100,0		100,0		15,0	February 2009	Single payment of R100
Unamortised discount	(2,6)		(2,7)				
European Investment Bank III.1	100,0		100,0		13,25	August 2010	Single payment of R100
Unamortised discount	(7,1)		(7,5)				

Schedule C

Other loans at 31 March 2001

	2001		2000		Interest rate (%)	First capital repayment	Remaining instalments (million)
	ZAR (m)	Foreign (m)	ZAR (m)	Foreign (m)			
European Investment Bank III.2	100,0			100,0		13,25	August 2010 Single payment of R100
Unamortised discount	(3,5)			(3,7)			
Japan Bank for International Cooperation I	-			637,7			
Japan Bank for International Cooperation II	159,4	JPY 2 510,5	160,1	JPY 2 510,5	2,50	May 2003	37 equal semi-annual payments of JPY 67,85
Kreditanstalt Für Wiederaufbau I	190,3	DEM 53,0	123,4	DEM 38,6	2,00	June 2008	40 equal semi-annual payments of DEM 0,96
Kreditanstalt Für Wiederaufbau II	81,1	DEM 22,6	-		-	2,00	June 2009 40 equal semi-annual payments of DEM 0,5
Nordic Investment Bank	80,3	USD 10,0	65,5	USD 10,0	Libor + 40bp	August 2003	20 equal semi-annual payments of USD 0,5
Total		2 820,3		2 759,6			

Notes

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.
2. 6-month Jibar, plus 50 basis points, plus the African Development Bank's lendings spread determined twice a year.

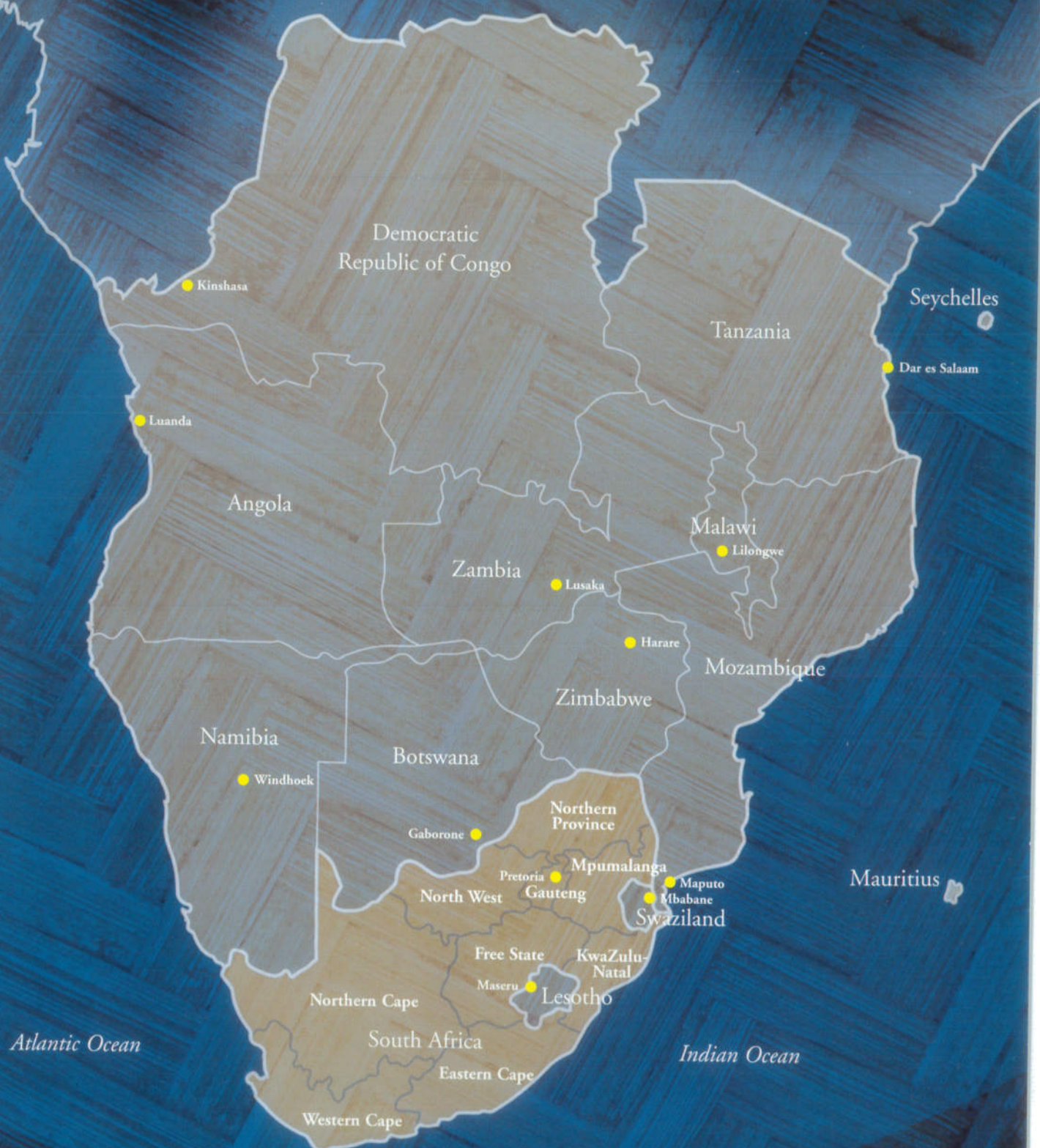
None of the loans are secured over assets of the Bank.

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.

Countries of operation

The DBSA operates in the 14 countries of the Southern African Development Community

Operational region	Provinces/Countries
Northern region	Gauteng, Northern Province, North West
Eastern region	KwaZulu-Natal, Mpumalanga, Free State
Southern region	Eastern Cape, Western Cape, Northern Cape
Southern African region	Other SADC countries: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, Zimbabwe





Development Bank
of Southern Africa

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16/0015800

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