DBSA

Development Bank
of Southern Africa

Development Fund

Annual Reports
2008/09

Development Bank
of Southern Africa

Financier
To contribute to the delivery of basic services and promote economic growth through infrastructure and development funding

Advisor
To build institutional, financial and knowledge capacity for development

Partner
To leverage private, public and community stakeholders in the development process

Implementer
To originate and facilitate key interventions for building capacity and providing development solutions

Integrator
To mobilise and link stakeholders, resources and initiatives for sustainable development outcomes

ISSN 1728-3213

Business performance overview

	5-year average	**2008/09**	2007/08	2006/07	2005/06	2004/05
Total capital cost of approvals (DBSA and co-funders) (R million)[1]	41 245	**88 982**[2]	34 212	52 176	22 939	7 917
South Africa	34 078	**73 334**	28 979	40 189	20 491	7 396
Other countries	7 168	**15 648**[2]	5 233	11 987	2 449	521
Total DBSA contribution to approvals (R million)	10 302	**20 480**[2]	10 767	8 265	8 052	3 947
% of total capital cost funded by others	68,9	**77,0**	68,5	84,2	64,9	50,1
Average value per approval (R million)	65,3	**87,1**	87,5	50,7	55,5	45,9
Number of investment approvals in period	150	**235**	123	163	145	86
Disbursements (R million)	5 049	**9 306**	6 160	3 703	3 077	2 999
Technical assistance grants (R million)	45,6	**82,5**	46,3	32,1	33,0	34,2
Number of employees (excluding contractors, etc.)	539	**608**	578	514	506	490
Net contribution per employee to disbursements (R million)	8,9	**15,3**	10,7	7,2	6,1	6,1
% of employment equity managers at year-end	73,2	**76,9**	74,0	77,1	68,4	70,0
Impact on employment (thousands of jobs)[3]	24,8	**37,7**	32,8	19,0	16,4	18,1
Impact on GDP (R million)[4]	4 051	**6 682**	4 810	2 866	2 938	2 958

1. *Excludes technical assistance grants.*
2. *Based on exchange rates as on 31 March 2009.*
3. *Based on the DBSA's disbursements within South Africa only.*
4. *Based on the DBSA's disbursements within South Africa only, at constant 2008/09 prices.*

Exchange rates

On 31 March 2009, the R/US$ exchange rate was 9,518 and the R/€ rate was 12,589.

Financial year

The financial year of the Development Bank of Southern Africa Limited is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2008/09, are to the financial year ended 31 March.

Financial performance overview

	5-year average	**2008/09**	2007/08	2006/07	2005/06	2004/05
Financial position (R million)						
Cash and cash equivalents	1 828	**2 475**	2 314	890	1 454	2 007
Financial market assets	5 661	**5 321**	5 078	5 217	6 556	6 132
Investment in development activities[1]	22 575	**31 997**	25 330	21 223	18 003	16 323
Other assets	465	**589**	525	548	406	258
Total assets	30 529	**40 382**	33 246	27 878	26 419	24 720
Financial market liabilities[2]	15 281	**22 405**	16 781	12 667	12 467	12 083
Other liabilities	701	**741**	686	673	733	674
Total liabilities	15 982	**23 146**	17 466	13 340	13 200	12 757
Total equity	14 547	**17 236**	15 780	14 538	13 219	11 962
Financial performance (R million)						
Interest on development activities[1]	2 111	**2 784**	2 312	1 982	1 763	1 714
Interest on investments	556	**589**	542	564	477	607
Interest expense	1 278	**1 696**	1 338	1 243	1 054	1 058
Net interest income	1 389	**1 677**	1 516	1 303	1 186	1 263
Operating income[3]	1 514	**1 779**	1 643	1 492	1 301	1 353
Operating expense[4]	515	**669**	556	504	458	388
Profit for the year	1 130	**1 426**	1 266	1 283	928	749
Financial ratios (%)						
Total capital and reserves to loan ratio	70,3	**58,5**	67,8	72,0	76,4	76,6
Long-term debt to equity	104,9	**131,3**	107,6	88,3	95,3	101,8
Cash and cash equivalents to total assets	6,0	**6,1**	7,0	3,2	5,5	8,1
Total capital and reserves to assets	48,1	**42,7**	47,5	52,1	50,0	48,4
Financial market liabilities to investment in development activities[2]	67,8	**70,0**	66,2	59,7	69,2	74,0
Non-performing book debt as a % of total book debt	5,4	**5,4**	5,2	4,9	5,4	6,2
Non-performing arrears as a % of total book debt	2,4	**2,2**	2,1	2,3	2,5	2,9
Return on equity	7,7	**8,3**	8,0	8,8	7,0	6,3
Return on assets	3,7	**3,5**	3,8	4,6	3,5	3,0
Operating costs to income	33,8	**37,6**	33,8*	33,8	35,2	28,7
Interest cover (times)	2,1	**2,0**	2,1	2,0	2,1	2,2

For a discussion of the financial results, see the financial overview on pages 64 to 69.

1. *Development activities include development loans and investments.*
2. *Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative assets held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain from financial assets and liabilities, and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses and depreciation, and is restated to exclude capacity development and deployment expenses.*

** Restated to exclude capacity development and deployment expenses.*

Contents

Abbreviations

AFD	Agence Française de Développement
BEE	black economic empowerment
BSC	Balanced Scorecard
CDM	Clean Development Mechanism
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
DBSA	Development Bank of Southern Africa Limited
DFI	development finance institution
DMTN	domestic medium-term note
DPLG	Department of Provincial and Local Government
DPSA	Department of Public Service and Administration
DRC	Democratic Republic of Congo
DWAF	Department of Water Affairs and Forestry
€	euro
EAC	East African Community
EGSF	Environmental Goods and Services Forum
FEDUSA	Federation of Unions of South Africa
GDP	gross domestic product
GIS	geographic information system
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
ICT	information and communication technology
IDC	Industrial Development Corporation
IDIP	Infrastructure Delivery Improvement Programme
IDP	Integrated Development Plan
IT	information technology
JICA	Japan International Cooperation Agency
JCT	Job Creation Trust
KfW	Kreditanstalt für Wiederaufbau
KMA	Knowledge Management Africa
LED	local economic development
LEDi	Local Economic Development Initiative
LGNet	Local Government Network
LGRC	Local Government Resource Centre
LGSETA	Local Government Sector Education and Training Authority
LOGOLA	Local Government Leadership Academy
MDG	Millennium Development Goals
MFMTAP	Municipal Finance Management Technical Assistance Project
MIG	Municipal Infrastructure Grant
NACTU	National Council of Trade Unions
NEPAD	New Partnership for Africa's Development
PAIP	Pan-African Investment Partners
PALAMA	Public Administration, Leadership and Management Academy
PCAP	Pan-Commonwealth African Partners
PFMA	Public Finance Management Act
PPFS	Project Preparation and Feasibility Study
R	South African rand
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SADC	Southern African Development Community
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SAPP	Southern African Power Pool
TIP	Targeted Infrastructure Programme
UNEP FI	United Nations Environment Programme Finance Initiative
US$	United States dollar
VCT	voluntary counselling and testing
WHO	World Health Organisation

Outgoing Governor's foreword

Mr Trevor Manuel

In the past year, we have seen the deepest global economic crisis in at least 80 years. No country has been spared. After 17 years of unprecedented economic expansion, South Africa has been pulled into recession. The pattern is similar in the rest of Africa, where economic growth rates have plummeted and per capita income growth is now expected to fall for the first time since 1994.

The crisis has hit the key drivers of growth, especially trade flows, capital inflows, natural resource sectors and agricultural exports. There is serious concern that the current growth crisis may deteriorate into a wider development crisis if the recession deepens. The crisis constitutes a major threat to South Africa's transformation and poverty reduction agenda.

The challenges have become more complex for all role players, in particular for the public sector and the development finance community, which are expected to take counter-cyclical measures to help avoid a protracted recession and a long, painful recovery. Fortunately, the government has demonstrated foresight in this regard, and is in a strong fiscal position to sustain its sponsoring of much-needed public investment and to expand social safety nets. Nevertheless, we need to strike a careful balance between short-term measures that respond to the crisis and seek to alleviate poverty, and more systematic initiatives that address the structural constraints to long-term sustainable growth and development.

In a crisis situation, the temptation is to shift resources towards managing the immediate problem, at the expense of long-term development, which is the proper domain of development finance institutions. It is therefore reassuring that the largest development finance investors and lenders in South Africa and the region, including the Development Bank, have pledged an additional R120 billion in support for infrastructure, agribusiness and small and medium enterprises affected by the global economic slowdown.

This increased support is part of a coordinated response aimed at preventing the global crisis from reversing decades of progress, growth and investment.

Although this Annual Report is presented in a difficult context, it is very encouraging that the year-end results of the DBSA group show an acceleration in its development financing, as well as its support for institutional capacity building and implementation.

The Bank has been expanding aggressively, not only to meet the growing need for finance in a period of massive infrastructure development, but also to build equally important institutional and execution capacity in the public and development sectors. Over the past three years, the organisation has become even more engaged, almost tripling its development financing.

The operations of the DBSA Development Fund have been scaled up immensely, and this young institution is now overtaking the Bank in terms of the number of projects it supports directly at the coalface of implementation. Notable in this regard is the deployment of over 600 technical and financial personnel in municipalities with low implementation capacity and high levels of poverty.

The Development Bank is marking 25 years of existence and celebrating its achievements over this period. It has been my pleasure and privilege to serve as Governor of the Bank for 13 of those years, from 1996 to 2009. I have always challenged the Bank to be more innovative and responsive, and it has been gratifying to watch it transform and expand, adopting a more hands-on approach and assuming the larger, more complex and demanding roles of catalyst, implementer and integrator. The institution can now face the development challenges of the present and the future with greater confidence and capacity.

The DBSA has become a relevant, successful development institution by evolving continuously and always asking more of itself. I am pleased to note that

"The challenges have become more complex for all role players, in particular for the public sector and the development finance community."

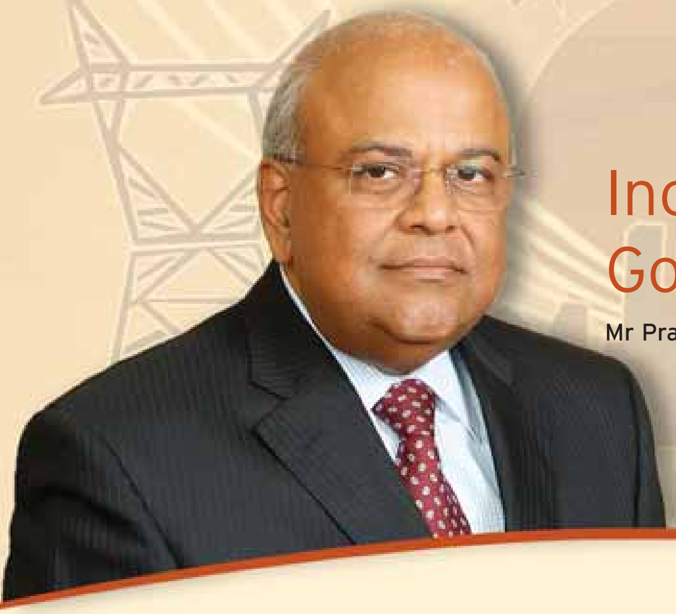
the Bank has once again shown strong year-end results. There has been a continued commitment to building capacity in the poorest and least capacitated municipalities, and the high levels of investment in the priority areas of energy, social infrastructure and regional integration projects are commendable. It is also a pleasure to acknowledge the sound financial results and strong corporate performance.

The increase in financing and development interventions has been achieved with operational effectiveness. This attests to the Bank's robust risk management, which enables it to be catalytic and expansionary in its outreach to projects that carry greater risk but also have a higher impact.

My warm congratulations to the Board, management and staff on the unprecedented year-end results and on making a growing contribution to delivery and sustainable development over the years. The success of the DBSA as a leading development finance institution is testimony to its good leadership and management.

Trevor Manuel

In collaboration with the relevant stakeholders, the DBSA identified priority interventions that could improve the performance of the health sector.



Incoming Governor's foreword

Mr Pravin Gordhan

South Africa finds itself in trying times. The impact of the global crisis has spread from the financial sector in developed countries to the real economy all over the world. South Africa has not escaped the effects of the crisis.

Nonetheless, the country finds itself in a better position than most others, owing to its prudent economic management, and the tough fiscal decisions of the past have enabled us to respond to the crisis in a proactive way. We have recently tabled our most expansionary budget yet, easing monetary policy, expanding infrastructure investment and increasing the scope of public employment programmes. Encouragingly, there are indications that the recession will bottom out at the end of the year.

Government remains committed to eradicating poverty, building capacity for long-term growth, creating decent jobs, sustaining livelihoods, improving the quality of education and health care, promoting rural development and addressing barriers to growth and investment. This is reflected in the spending priorities of the medium-term strategic framework.

However, achieving these goals will be particularly challenging amidst the economic crisis. Closer partnerships are required between all sections of society to achieve inclusive growth. In particular, closer alignment is required between state-owned enterprises and development finance institutions, to maximise investment and drive the expansion of government's infrastructure programme.

Against this backdrop, I am pleased to assume the role of Governor of the DBSA. This crisis has provided us with an opportunity to transform and restructure the South African economy on a more fundamental level, positioning ourselves to take full advantage of the eventual global recovery. The results achieved by the organisation under the guidance of my predecessor are sound, and the DBSA has built a strong foundation for accelerating delivery.

The organisation is implementing a series of interventions to upscale outputs, in line with the new demands being made on development finance institutions.

Government will expand the callable capital of the DBSA from R4,8 billion to R20 billion, enabling the DBSA to expand its loan book by a further R108 billion over the next five years. The Bank is working on support interventions to improve liquidity.

The Bank will also explore innovative ways of addressing historical challenges, including sustaining jobs and accelerating infrastructure delivery at all levels of government, ensuring that the government's big build programme is achieved despite global problems.

Improved governance in state institutions and structures is a key priority of this administration. The DBSA will continue to provide technical and managerial support to municipalities through the Siyenza Manje programme. The organisation will also explore other ways to assist poorly capacitated municipalities and other organisations to improve governance and delivery.

I would like to take this opportunity to acknowledge the significant contribution of my predecessor, Minister Trevor Manuel, in establishing the DBSA as a strong and sustainable institution. I look forward to working with the Bank, under the leadership of Jay Naidoo and the DBSA Board, Brian Figaji and the Development Fund Board, and Paul Baloyi and his Executive Team and staff as we continue to pursue the goal of creating a just and inclusive society.

Pravin Gordhan

Pravin Gordhan

The DBSA Vulindlela Academy provided training to 5 259 delegates from South Africa and the region.

Board of Directors

Mr Jayaseelan Naidoo (54)

Director: J&J Group

DBSA Director as from:
1 May 2000

Chairman of the DBSA Board as from: 1 August 2000

Other directorships:
Bill and Melinda Gates Foundation: Global Health Advisory Panel Member

Clinton Global Initiative: Health Advisory Panel Member

Dr Reddy's Laboratories: Chairman of the Board (non-executive)

First South Financial Services (Pty) Ltd: Non-executive Director

Global Alliance for Improved Nutrition: Chairman of the Board (non-executive)

International Telecommunication Union: Advisory Board Member (non-executive Director)

J&J Group Development Trust: Founder Member (non-executive)

loveLife Trust: Trustee and Deputy Chairperson

Macquarie First South (Pty) Ltd: Non-executive Director

Old Mutual Life Assurance Company (SA) Ltd: Non-executive Director

Old Mutual Life Holdings (SA) Ltd: Non-executive Director

Prof. Brian de Lacy Figaji (64)

Company Director

DBSA Director as from:
1 August 1997

Academic qualifications:
DEd, Coventry University (UK) (2002)

DLitt, Hayward, Cal State, (USA) (2001)

MEduc (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)

Other directorships:
Bovidae Investments: Non-executive Director

Cape Lime: Non-executive Director

DBSA Development Fund: Chairman of the Board (non-executive)

Dormell: Chairman of the Board (non-executive)

I&J Holdings: Chairman of the Board (non-executive)

Marib Holdings: Chairman of the Board (non-executive)

Nedbank Ltd: Non-executive Director

PetroSA: Non-executive Director

Mr Paul Cambo Baloyi (53)

Chief Executive Officer and Managing Director: DBSA

DBSA Director and staff member as from: 1 July 2006

Academic qualifications:
Advanced Management Programme, INSEAD (2006)

MBA, University of Manchester (2004)

Senior Executive Programme, Harvard Business School (2001)

Management Development Programme, University of Stellenbosch (1996)

Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

Other directorships:
Block II Waterford (Pty) Ltd: Executive Director and Shareholder

Business Ventures: Non-executive Director

Chrometco Ltd: Non-executive Director

DBSA Development Fund: Chief Executive Officer and Managing Director

Harith Fund Managers: Non-executive Director; DBSA Nominee

Nulane Investment Holdings (Pty) Ltd: Non-executive Director

Pan African Investment Fund: Non-executive Director; DBSA Nominee

Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director

TCX Investment Management Company: Non-executive Director; DBSA Nominee

Mr Andrew Boraine (50)

Chief Executive Officer: Cape Town Partnership

DBSA Director as from:
1 August 2005

Academic qualifications:
BA Hons (Economic History), University of Cape Town (1987)

BA (History), University of Cape Town (1983)

Other directorships:
Accelerate Cape Town: Non-executive Director

Cape Town City Hall Redevelopment and Management Company: Non-executive Director

Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)

DBSA Development Fund: Non-executive Director

SA Cities Network: Non-executive Director

St Patrick's Trust: Trustee

Mrs Thembisa Dingaan (36)

Consultant and Director of Companies

DBSA Director as from:
1 August 2007

Academic qualifications:
H Dip Tax, University of the Witwatersrand (2000)

LLM, Harvard University (1997)

LLB, University of KwaZulu-Natal (1995)

BProc, University of KwaZulu-Natal (1994)

Other directorships:
Export Credit Insurance Corporation of South Africa: Non-executive Director

Identity Corporate Advisors (Pty) Ltd: Executive Director

Mustek Ltd: Non-executive Director

Skweyiya Investment Holdings (Pty) Ltd: Executive Director

Mr Trevor Fowler (58)

Chief Operations Officer: Office of the Presidency

DBSA Director as from:
1 August 2004

Academic qualifications:
Pr Eng (1982)

BSc (Civil Engineering), University of Manitoba, Canada (1979)

Ms Nomboniso Gasa (41)

Independent Gender and Policy Researcher and Analyst

DBSA Director as from:
1 August 2003

Academic qualifications:
Certificate in Women's Studies, University of the Western Cape (1996)

BA (Political Science), University of the Western Cape (1990)

Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1989)

Other directorships:
DBSA Development Fund: Non-executive Director

Gender Equality Commission: Chairperson

Human Sciences Research Council: Non-executive Director

Dr Lulu Gwagwa (50)

Chief Operating Officer: Lereko Investment Holdings (Pty) Ltd

DBSA Director as from:
1 August 2004

Academic qualifications:
PhD (Development Planning), University College London (2003)

MSc (Social Policy), London School of Economics and Political Science (cum laude) (1990)

Certificate in Gender Planning, University College London (1989)

Masters in Town and Regional Planning, University of Natal (1980)

BA (Geography), University of Fort Hare (1978)

Other directorships:
FirstRand Ltd: Non-executive Director

Massmart: Non-executive Director

Sun International Ltd: Non-executive Director

Vox Telecom (Pty) Ltd: Non-executive Director

Board of Directors (continued)

Dr Deenadayalen Konar (55)

Director of Companies and Consultant

DBSA Director as from:
1 August 2001 (co-opted to Audit Committee: 1 June 1995)

Academic qualifications:
DCom, University of South Africa (1989)

MAS, University of Illinois (1981)

CA (SA) (1978)

Postgraduate Diploma in Accounting, University of Durban-Westville (1978)

BCom, University of Durban-Westville (1975)

Other directorships:
Automobile Association of South Africa: Non-executive Director

Exxaro Resources Ltd: Non-executive Director

Illovo Sugar Ltd: Non-executive Director

J D Group Ltd: Non-executive Director

National Horseracing Authority: Non-executive Director

Old Mutual Life Assurance Company (SA) Ltd: Non-executive Director

Old Mutual Life Holdings (SA) Ltd: Non-executive Director

Sappi Ltd: Non-executive Director

SA Reserve Bank: Non-executive Director

Securities Regulation Panel: Member

Sentech Ltd: Non-executive Director

Steinhoff International Holdings Ltd: Chairman of the Board (non-executive)

Prof. Omar Aboobaker Latiff (55)

Associate Professor of Accounting (Taxation): University of KwaZulu-Natal

DBSA Director as from:
1 August 2007

Academic qualifications:
Financing Infrastructure in a Market Economy, JFK School of Government, Harvard University (2000)

H Dip Tax, University of Natal (1992)

CA (SA) (1981)

BCompt (Hons), University of South Africa (1979)

BCom (Accounting), University of Durban-Westville (1976)

Other directorships:
373 Loop Street, Pietermaritzburg cc: Member

Bellewan (Pty) Ltd: Non-executive Director

Flamingo Trust: Trustee

HASMA Investments (Pty) Ltd: Non-executive Director

Jacaranda Trust: Trustee

Jodya cc: Member

LMD Africa Chartered Accountants Inc: Non-executive Director

LMD Africa Forensics (Pty) Ltd: Non-executive Director

Mariam BB Noorgat Family Trust: Trustee

Mlando Investments (Pty) Ltd: Non-executive Director

Moosa Noorgat Family Trust: Trustee

Omar Aboobaker Latiff Family Trust: Trustee

Styleprops 104 (Pty) Ltd: Non-executive Director

Mrs Wendy Lucas-Bull (56)

Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA Director as from:
1 August 2005

Academic qualifications:
BSc, University of the Witwatersrand (1976)

Other directorships:
Anglo-Platinum (Pty) Ltd: Non-executive Director

Business Venture Investments (Pty) Ltd: Non-executive Director

CIDA City Campus: Non-executive Director

Dimension Data Holdings Plc: Non-executive Director

Eskom Holdings Ltd: Non-executive Director

IQ Group (Pty) Ltd: Non-executive Director

Lafarge Industries and Mining South Africa (Pty) Ltd: Non-executive Director

Le-Sel (Pty) Ltd: Non-executive Director

Partners for Housing: Non-executive Director

Dr Claudia Manning (42)

Executive Director: Sangena Investments

DBSA Director as from:
11 August 2005

Academic qualifications:
DPhil, University of Sussex (1996)

MPhil, University of Sussex (1992)

BA Hons (Economic History), University of Natal (1988)

Other directorships:
DBSA Development Fund: Non-executive Director

Roadcrete Africa (Pty) Ltd: Non-executive Director

Stewart Scott International (Pty) Ltd: Non-executive Director

Mr Ivan Mzimela (47)

Executive Chairman: Hollard Risk Capital

DBSA Director as from:
1 August 2007

Academic qualifications:
Leadership Development Programme for Senior Executives, Ashridge Business School, London (2000)

Leadership for Change, Directors Diploma in Corporate Governance, Wits Business School (1999)

Project Management Certificate, IBM (1998)

Strategic Planning Certificate for Chief Executives, National University of Singapore (1997)

MA (Counselling and Educational Psychology), University of Regina, Canada (1992)

BA Hons (Psychology), University of the North (1985)

BA (Social Work), University of the North (1984)

Other directorships:
DBSA Development Fund: Non-executive Director

Hollard Life Insurance Company: Non-executive Director

Insurance Institute of South Africa: Non-executive Director

Insurance Sector Education and Training Authority: Non-executive Deputy Chairperson

South African Insurance Association: Chairman of the Board (non-executive), Human Resources Committee member

Mrs Malijeng Theresa Ngqaleni (50)

Chief Director: Provincial and Local Government Infrastructure, Intergovernmental Relations Division, National Treasury

DBSA Director as from:
3 February 2009

Academic qualifications:
MSc (Ag. Econ), University of Saskatchewan, Canada (1989)

BA (Economics), National University of Lesotho (1983)

Other directorships:
DBSA Development Fund: Non-executive Director

Ms Tryphosa Ramano (37)

Chief Financial Officer: WIPHOLD Group

DBSA Director as from:
1 August 2007

Academic qualifications:
Executive Leadership Development Programme, Harvard and NABA Business School (2002)

CA (SA) (1994)

Postgraduate Diploma in Accounting, University of Cape Town (1993)

BCom (Accounting), University of Cape Town (1992)

Other directorships:
Adcorp Holdings: Non-executive Director

Afrisun Leisure (Pty) Ltd: Non-executive Director (Alternate)

Emfuleni Casino Resort Manco (Pty) Ltd: Non-executive Director (Alternate)

Emfuleni Resorts (Pty) Ltd: Non-executive Director (Alternate)

Financial Services Board of South Africa: Non-executive Director (Alternate)

Legae Securities (Pty) Ltd: Non-executive Director

Legae Securities Trust: Trustee

National Credit Regulator: Chairperson, Audit Committee (non-executive)

Old Mutual Investment Group Property Investments (Pty) Ltd: Non-executive Director

Sasria Ltd: Non-executive Director

South African Institute of Chartered Accountants: Audit and Risk Committee Member (non-executive)

USB Executive Development Ltd: Non-executive Director

Women Investment Portfolio Holdings Ltd: Executive Director

Prof. Edward Charles Webster (66)

Professor of Sociology: University of the Witwatersrand

DBSA Director as from: 1 August 2007

Academic qualifications:
PhD, University of the Witwatersrand (1983)

BPhil, University of York (1972)

MA (Politics, Philosophy and Economics), Oxford University (1971)

University Education Diploma, Rhodes University (1964)

BA Hons (History), Rhodes University (1964)

Other directorships:
Chris Hani Institute: Non-executive Board Member

DBSA Development Fund: Non-executive Director

Human Sciences Research Council: Member of Council

Labour Job Creation Trust: Trustee

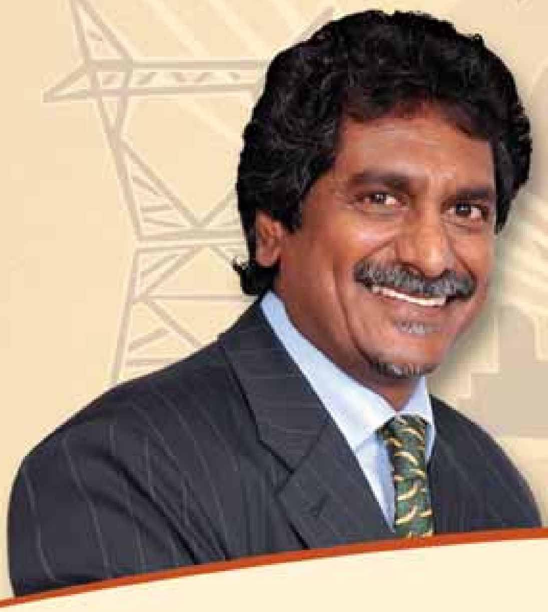
Board member during the year under review

Mr Lungisa Fuzile (44)

Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA Director between:
1 August 2006 and 3 February 2009

DBSA Corporate Secretariat
Mr Bernard Mhango, Group Corporate Secretary, PO Box 1234, Halfway House, 1685



Chairman's report

Mr Jayaseelan Naidoo
Chairman

These are times of unprecedented crisis and change. The global economic crisis has reached our shores at a time when South Africa is determined to build a developmental state. In some respects, this moment in history highlights precisely why we need development finance institutions like the Development Bank of Southern Africa (DBSA).

In South Africa, the powerhouse of the continent, manufacturing and mining production have fallen sharply. African economies have been seriously affected by the drastic decline in the demand for export products and the drop in the prices of key export commodities. This, coupled with the international credit crisis, has made the cost of raising capital prohibitive.

Prior to this global crisis, we enjoyed more than a decade of economic growth in South Africa and per capita income growth in the rest of Africa was on the upturn. The abrupt interruption of these trends threatens our development agenda, especially the protection and creation of decent jobs.

These developments have highlighted our growing interdependence with the world, and our vulnerability to international shocks – economic and environmental – which can rapidly weaken our struggle against poverty. Last year, we saw how a dramatic rise in food prices, triggered by a sharp escalation in the oil price, among other things, adversely affected household food security. The poor are the worst hit by higher food and transport costs, which constitute a large part of their living expenses.

The new constraints presented by the economic crisis complicate existing infrastructure challenges, notably inadequate energy supply in the wake of population growth, and rapid and growing urbanisation increases the strain on existing infrastructure. Although the power shortages stimulated investment in energy generation, the post-crisis risk aversion and the higher cost of funding also introduced new hurdles. All this serves as a sobering reminder that our struggle against poverty in South Africa and the region cannot succeed without fostering good governance in public and corporate entities, across governments and the global economy and financial system. In this crisis, choices have to be made between competing priorities.

The enormous task of eradicating poverty and inequality has become ever more difficult. To counter the impact of the crisis, we require an extraordinary effort from all role players, notably development finance institutions such as the DBSA. In addition to providing counter-cyclical credit, the DBSA has channelled our advisory and implementation capacities to support the state in becoming more effective. Our key challenge now is to increase development impact even though we have fewer resources at our disposal.

In response to the financial crisis, the DBSA is making every effort to support the massive infrastructure development programmes under way in South Africa and the region. It has strengthened its partnerships with government, state-owned enterprises and various development finance institutions. The Bank will also boost its development financing for priority infrastructure projects and increase its technical and grant assistance for project development and training. The aim is to leverage public finance grants of over R20 billion for local infrastructure and to train more than 7 000 professionals and officials, including young graduates to ensure the supply of skilled expertise in (amongst others) areas of project management and infrastructure development.

Our expanded financing will be available for public, private and public-private entities investing in infrastructure and other priority sectors. In South Africa, these sectors include water, sanitation, roads and transport, power, health, education and housing. The emphasis will be on municipalities and state-owned infrastructure enterprises, which are facing new constraints due to the financial crisis.

"In response to the financial crisis, the DBSA is making every effort to help protect the massive infrastructure development programmes under way in South Africa."

Special attention will be given to local infrastructure and broad-based economic empowerment, to protecting and creating jobs, and to promoting the culture of accountability for performance. In the wider region, the focus will be on network-type infrastructure with regional effects, such as transport, power, water and communication, but other sectors such as tourism, agribusiness and mining will also be considered.

These priorities set the tone for the DBSA's future development work. We remain committed to maintaining our relevance and we continuously strive to do more, and better, through innovation and growth. Our guiding principles as an organisation are performance that is measurable and delivery that improves development outcomes for our people.

Central to improving our development outcomes will be strengthening the DBSA's advisory capacity, and supporting the government where necessary in its strategic planning and performance monitoring and evaluation. Drawing on the various achievements of the past financial year, including the facilitation of the Health and Education Roadmaps, which are now plans in sector departments of government, the Bank will continue to align its own development agenda and the government's long-term planning framework more fully. This agenda centres on three areas of intervention – social transformation, capacity development, and economic potential and growth – which are critical to our success as a country and region.

The Bank's roles as implementer and integrator have also grown substantially. This consolidates our new hands-on approach and reflects the new strategic qualities that characterise our ethos, which demand a renewed commitment to be pioneering, responsive, effective, capable, committed and ethical in our dealings with clients, partners and stakeholders.

As we conclude our 25th anniversary celebrations, we will carry forward this positive momentum and expand our vision for development finance in the region and across the continent. To achieve this, we will have to sustain our high levels of performance, respond more urgently to the needs of our clients, and be ready to give our best at all times.

The DBSA's future direction thus proceeds from its shared, developmental vision of *a prosperous and integrated region progressively free of poverty and dependency.* And we remain committed to the deepening of our *development impact in the region through expanded access to development finance, and the effective integration and implementation of sustainable development solutions.*

I am confident that our team is ready, willing and able to address the new challenges, and I am delighted with the continued commitment shown to "development activism". I am particularly pleased to congratulate management and staff on this year's exceptional results, as detailed in the Chief Executive Officer's report. It is notable that these results were achieved in a very difficult operating environment, especially for financial and development institutions. We are called upon to make yet another quantum leap in our development impact. I am confident our staff will rise to the challenge.

I wish to thank the Board for their invaluable advice and determined effort to make the DBSA a successful institution. I wish to acknowledge the support and strategic guidance of our Governor, Minister Trevor Manuel, who has been an enormous inspiration over many years. I would also like to extend a warm welcome to our new Governor, Minister Pravin Gordhan who, I am certain, will be a source of renewed inspiration and partnership.

Jayaseelan Naidoo

Executive management

Mr Pieter de la Rey (45)

Group Chief Financial Officer

DBSA staff member and Group Executive as from:
1 August 2007

Academic qualifications:
MCom (Business Management), University of Johannesburg (2004)

CA (SA) (1993)

BCompt (Hons), University of South Africa (1989)

BCompt, University of South Africa (1987)

Mr Ernest Dietrich (46)

Group Executive: Treasury

DBSA staff member as from:
2 January 2001

Group Executive as from:
1 April 2006

Academic qualifications:
CFA Charter (2002)

MBA, University of Cape Town (1996)

MSc (Mathematics), University of the Western Cape (1992)

HDE, University of the Western Cape (1985)

Dr Snowy Joyce Khoza (51)

Group Executive: Strategy and Communication

DBSA staff member and Group Executive as from: 1 October 2002

Academic qualifications:
Executive MBA, Graduate School of Business, University of Cape Town (2008)

Finance for Executives Programme, INSEAD, France (2005)

Utility Regulation and Strategy, University of Florida, USA (2001)

Global Programme for Management Development, University of Navarra, Spain (2000)

Economics and Public Finance Certificate, University of South Africa (1999)

PhD (Social Policy), Brandeis University, USA (1996)

MA (Social Science), University of South Africa (1990)

BA Hons (Social Work), University of Fort Hare (1986)

BA (Social Work), University of the North (1981)

Other directorships:
Chamber of Commerce South Africa: Member of Economic Advisory Board

Ka-Manowi Manor cc: Non-executive Director

Ministry of Housing: Member of Panel of Advisors

Mintirho Investments (Pty) Ltd: Non-executive Director

National Housing Finance Corporation: Non-executive Director

Tiisano Construction (Pty) Ltd: Non-executive Director

Trans-Caledon Tunnel Authority: Chairman of Board (non-executive)

Vamana Designs (Pty) Ltd: Non-executive Director

Water Research Commission: Chairman of Board (non-executive)

Dr Paul Kiyingi Kibuuka (48)

Group Executive: Capacity Development and Deployment

DBSA staff member as from:
1 August 1994

Group Executive as from:
1 July 2009

Academic qualifications:
DPhil (Demography), University of Pretoria (1999)

MA (Demography) (cum laude), University of Pretoria (1996)

BA Hons (Demography), University of Pretoria (1994)

BStat, Makerere University, Uganda (1984)

Mr Magare Luther Mashaba (57)

Group Executive: South Africa Operations

DBSA staff member as from:
14 January 1985

Group Executive as from:
1 September 2001

Academic qualifications:
Advanced Management Programme, INSEAD Executive Education (2004)

Treasury Management Training, New York Institute of Finance (2002)

Financial Markets and Instruments, University of Pretoria (2000)

Capital Markets Explained, International Faculty of Finance (1999)

Diploma in Economics, Economics Institute, University of Colorado (1993)

MSc (Ag. Econ), Michigan State University (1993)

BSc Hons (Ag. Econ), University of Pretoria (1986)

BSc (Ag. Econ), University of Fort Hare (1981)

Other directorships:
Hluma Local Investment Agency: Non-executive Director

Mafikeng Industrial Development Zone (Pty) Ltd: Non-executive Director

Rural Housing Loan Fund: Non-executive Director

uShaka Marine World: Non-executive Director

Mr Ravindra Naidoo (38)

Group Executive: Development Planning and Implementation

DBSA staff member and Group Executive as from:
1 May 2008

Academic qualifications:
MPA, Harvard University (2004)

Certificate in Policy Management, Harvard University (2003)

Certificate in Policy Management, University of Manchester (1998)

Diploma in Project Management, Damelin (1998)

BCom, University of Durban-Westville (1991)

Mrs Loyiso Ndlovu (38)

Group Executive: Human Capital and Technology

DBSA staff member as from:
1 October 2002

Group Executive as from:
1 October 2006

Academic qualifications:
MBA, University of South Africa (2006)

Management Development Programme, University of South Africa (2003)

BSc (Industrial Information Technology), University of Central England, Birmingham (1994)

Other directorships:
Conservation International: Advisory Council Member

Fair Cape Holdings: Non-executive Director

Mr Admassu Yilma Tadesse (40)

Group Executive: International

DBSA staff member as from:
1 June 2002

Group Executive as from:
1 September 2006

Academic qualifications:
Senior Executive Programme for Africa, Harvard Business School (2003)

MBA, Wits Business School (2002)

MSc (Policy & Planning), London School of Economics (1994)

BA (Economics), University of Western Ontario (1991)

Other directorships:
Commonwealth Africa Investments Ltd: Non-executive Director

Development Bank of Zambia: Non-executive Director

Energy Poverty Action Alliance, World Economic Forum: Member of the Panel

Promotion et Participation pour la Coopération économique (Proparco): Non-executive Director

SADC Development Finance Resource Centre: Trustee

Executive management (continued)

Mrs Leonie van Lelyveld (38)

Group Chief Risk Officer

DBSA staff member as from:
1 April 1998

Group Executive as from:
1 January 2006

Academic qualifications:
CA (SA) (1997)

Certificate in the Theory of Accounting, University of South Africa (1994)

BCompt Hons (Accounting), University of Pretoria (1993)

BCom (Accounting), University of Pretoria (1992)

Mr Heinz Maria Weilert (45)

Group Chief Operating Officer

DBSA staff member and Group Executive as from:
1 October 2007

Academic qualifications:
Fellow of Insurance Institute of South Africa (2002)

MCom (Accounting), University of the Witwatersrand (1990)

CA (SA) (1990)

BCom Hons (Accounting), University of the Witwatersrand (1986)

BCom, University of the Witwatersrand (1985)

Other directorships:
Nedbank Namibia Ltd: Non-executive Director

NedNamibia Holdings Ltd: Non-executive Director

Southern African Association for Learning and Educational Differences: Treasurer

Organisational structure

Chief Executive Officer and Managing Director
Paul Baloyi

Group Chief Operating Officer
Heinz Weilert

Group Executive: Treasury
Ernest Dietrich

Group Chief Financial Officer
Pieter de la Rey

Group Chief Risk Officer
Leonie van Lelyveld

Group Executive: Human Capital and Technology
Loyiso Ndlovu

Group Executive: Strategy and Communication
Dr Snowy Khoza

Group Executive: South Africa Operations
Luther Mashaba

Group Executive: International
Admassu Tadesse

Group Executive: Development Planning and Implementation[1]
Ravindra Naidoo

Group Executive: Capacity Development and Deployment
Dr Paul Kibuuka[2]

Changes after 31 March 2009

1. *Formerly Research and Information.*
2. *Appointed Group Executive on 1 July 2009, previously Heinz Weilert (acting).*

Chief Executive Officer's report

Mr Paul Baloyi

Chief Executive Officer and Managing Director

The Development Bank of Southern Africa's performance for the year under review has yielded results that are historically a watershed. This is a fitting testimony, reflective of good strategic investments in organisational competencies and skills in the past. It is equally reflective of a history of leadership that has set the base for and achieved a growth trajectory in development impact unequalled by most development finance institutions within the region. A pleasing feature in the growth is that eradication of backlogs and addressing household connections to basic services received greater attention.

The year under review

The impact of the global financial crisis has been widespread, but equally penetrative in depth, in particular within the financial sectors of developed economies. Whilst the region, and especially South Africa, escaped the primary effects, secondary effects, the scarcity of liquidity and its costs have adversely affected the economy, particularly the area of fixed capital development, which by extension is having a material negative impact on employment. Whilst most sector institutions have been adversely affected, the DBSA has fared better than the sector and by contrast ended the year with improved results compared to the previous year. Whilst this is strategically in line with our Vision 2014 milestone, the negligible fallout does merit some explanation.

Firstly, the DBSA's portfolio is largely public sector (local government) and impact on this portfolio lags behind the market. Our analysis indicates that the global crisis is unlikely to manifest in material impairment, unless response to the crisis by government, as planned, is not implemented within agreed timelines, and the fiscal contraction results in a significant downward review of government expenditure.

Secondly, the local financial sector has shown some resilience to the main systemic factors from the global crisis (the direct collapse of the interbank system). However, access to liquidity and its costs are the major factors. The average annual funding requirement for the public sector is estimated to be around R150 billion (inclusive of the current-year portion of the planned build expenditure of approximately R750 billion, but net of own generated funds), and 50% thereof is more likely to be funded by the private sector. It is anticipated that the balance of 50% will be funded by the government (both directly and indirectly through state-owned enterprises and development finance institutions) through a number of special interventions. Similarly, barring undue delays, this is within the realm of possibility for public sector entities to achieve, save that liquidity costs are likely to be a major factor in the affordability of services to the general public. Thirdly, demand for public sector risk remains buoyed by the flight of capital from private stock, and competitive bidding for public sector stock is still evident.

Challenges notwithstanding, we are of the view that the resultant funding gap, net of both government and private sector planned investments, should be manageable. The government is aware of the possible shortfall and discussions are afoot to intervene, especially for crucial expenditure. Concentrated single sector risk (e.g. Eskom) will still be a major challenge.

Overall, DBSA portfolio quality remains good, with 75% being public sector and the balance being infrastructure funded through private sector intermediaries.

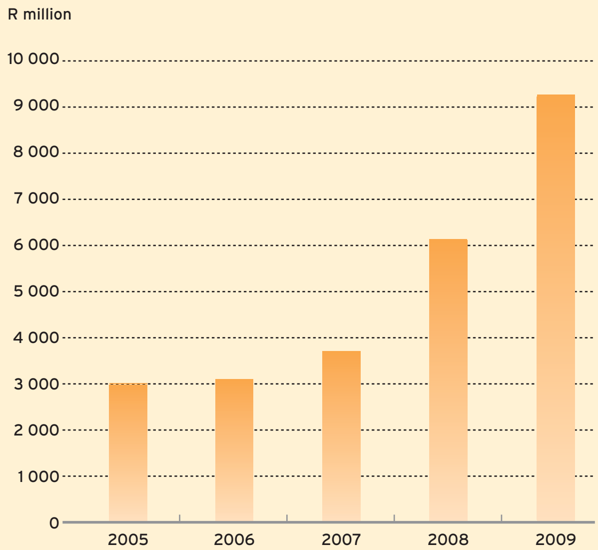
Highlights

The DBSA's Balanced Scorecard focuses on three main components flowing from our internal development agenda, namely development impact, sustainability and organisational capability. These components reflect elements contained in the Shareholder Compact agreed to with the government, and underpin our adherence to and expansionary interpretation of the government's objectives for the DBSA. The Bank's performance in terms of each of these three components is briefly outlined below.

"The Development Bank of Southern Africa's performance for the year under review has yielded results that are historically a watershed."

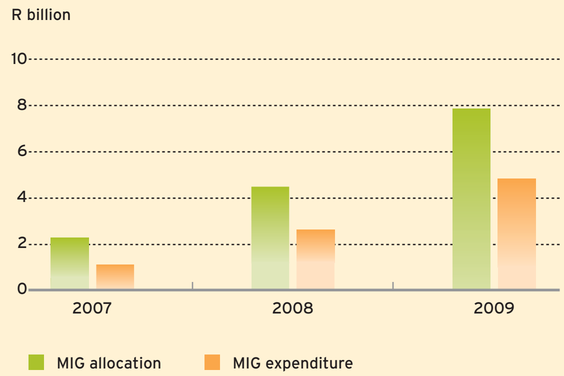
Development impact

Disbursements are at historical highs from the 2005/06 level of R3,0 billion, and levels for the anniversary year ended 31 March 2009 are now treble the base year at R9,3 billion. A pleasing factor is that the resultant loan portfolio growth rates consecutively achieved (26% for 2008/09) reflect diversity in sectors and intermediaries funded without compromise to overall portfolio quality.

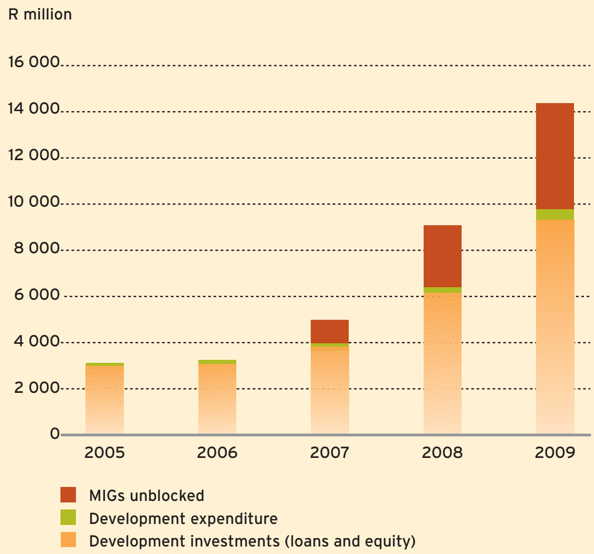


Loan and equity disbursements, 2004/05 to 2008/09

A fact not often emphasised is the role of the DBSA in enabling funding flows to poor or weak municipalities and other institutions. Trends depicted in the figure below show equally impressive growth in unlocking the flow of MIG funds to underdeveloped municipalities through our flagship Siyenza Manje programme. The combined effect of DBSA financing activities amounted to R14 billion for the year, with a commensurate effect on the delivery of infrastructure (both social and economic) and a heightened impact on our millennium goals (jobs created and households connected to basic services). These aspects are more fully illustrated in the Development impact section of the report.



MIG/capex release and expenditure facilitated by Siyenza Manje, 2006/07 to 2008/09



Total financial value of DBSA's interventions (including MIGs), 2004/05 to 2008/09

The activities of the DBSA Development Fund form a significant part of the development impact of the Bank as a whole. While the level of DBSA-generated grant funding was below the desired target, the quality of the projects funded shows greater depth and diversity; this is clearly a more substantive outcome than mere expenditure achieved. The number of municipalities assisted by Siyenza Manje deployees increased to over 200 during the year, with more than 2 700 projects under management. The focus of the deployment programme was on project completion, and here too there has been significant improvement, with 769 projects completed in 2008/09 (up from 281 in the previous year). The Vulindlela Academy made a significant contribution to the improvement of skills within the public sector, with 5 259 delegates, including councillors, local government officials and officials from development finance institutions in the region, receiving training this year (as against 2 944 in the previous year). The development impact achieved through our Sustainable Communities programme would be understated if no reference were made to its direct impact on communities, which demonstrates the value of Social Compacts at a local level in getting the community involved in helping themselves in a sustainable manner.

Full details of the activities of the DBSA Development Fund are disclosed in the Annual Report of the Fund.

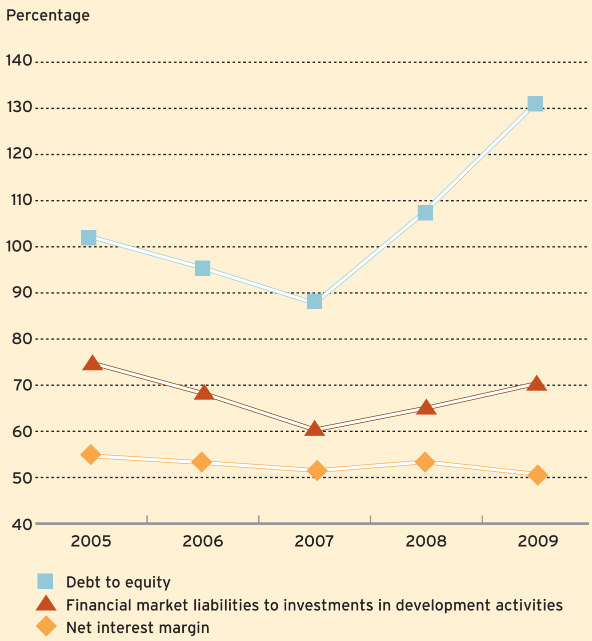
Sustainability

Our credit rating by agencies (Standard & Poor's and Fitch) remains unchanged per 2007/08 performance. Whilst optimistic about an upward review, we are mindful of the caution by the agencies owing to the global crisis and at most anticipate being aligned to the sovereign rate.

The Bank's lending portfolio was reviewed during 2008/09, and in the context of the global crisis the risk profile showed no material deviation, largely for the reasons mentioned in the paragraphs above. Costs have been well maintained at below 40% and there was a deliberate position adopted by management ahead of the crisis.

A notable achievement, which attests to the growth trajectory, is that net income attributable to financing activities grew by 23% to R1,6 billion from R1,3 billion in the previous year. This is after additional specific provisions on distressed clients.

The margin decline reflects the reduction in endowment effect following growth in assets funded by additional borrowings relative to the base funded from the shareholder's capital and historical reserves.



Financial ratios, 2004/05 to 2008/09

Organisational capability

The final component of the DBSA's Balanced Scorecard measures the capability of the organisation as it moves towards achieving excellence in execution. During the year, the training of staff remained at acceptable levels. The Bank also focused on reducing vacancies to manageable levels (below 15%) to ensure effective delivery in terms of its mandate.

The DBSA received three significant accolades during the year under review:

- Best Development Bank in Africa award, presented in Washington in October 2008
- PMR Africa Golden Arrow award for 2008, from a national survey on state-owned enterprises conducted by PMR.africa
- JSE/Chartered Institute of Secretaries Annual Report merit award 2008

There was also an improvement in the Bank's professionalism and staff engagement as measured through the Q12 staff survey. The results of the survey reflect good staff attitudes in their engagement with executives and through direct reports. In addition, the Markinor survey conducted at the end of March 2009 indicated that the DBSA is held in high esteem by its clients and other stakeholders.

The year ahead

In the year ahead, the DBSA looks forward to a redefined and significantly extended role in supporting the developmental objectives of the government.

Following the Polokwane statements of intent by the ruling party in 2008, which focused on increasing the performance and outputs of government institutions, particularly development finance institutions, the DBSA proactively engaged the government in this regard. In view of the government's expanded objectives for the DBSA, the Bank undertook a comprehensive review and planning exercise. First, it laid the groundwork for ensuring that its outputs will increase significantly in 2009/10. Second, it reviewed its state of readiness and capacity in terms of the global crisis. Several interventions were identified to strengthen the DBSA's ability to increase delivery and assist the institutions of government through its twin roles of addressing institutional and market failure.

The first intervention entails negotiations with the government to recapitalise the Bank by increasing its callable capital to R20 billion. If this is properly leveraged, the DBSA will be able to provide over R100 billion in additional loans in the medium term (three to five years). The DBSA is also strengthening its institutional capacity and human resources to enable it to carry out its expanded mandate without jeopardising quality and development impact.

These interventions will enable the Bank to extend its client offerings in innovative ways, while maintaining effective internal and financial management. This will provide for a good base to support the government's stated objective of restructuring and transforming the South African economy ahead of the anticipated global recovery. Suffice it to say that, on the back of the recapitalisation exercise, the DBSA has entered into an agreement with the Minister of Finance that significantly increases the organisation's targets over the next three to five years. If this agreement is properly implemented and managed, and partners are leveraged as contemplated, this could see the DBSA doubling or even quadrupling its financing over this period.

Finally, a special word of thanks is due to the former Minister of Finance and outgoing Governor of the DBSA, Trevor Manuel, for his unstinting support of the Bank during his tenure. The Bank is privileged to have served under his transformative stewardship. The DBSA looks forward to working under the guidance of the new Minister of Finance and incoming Governor, Pravin Gordhan, to reach even greater heights in serving the people of the region. I wish to thank the Chairman of the Board, Jay Naidoo, and the members of the Board for their valuable strategic guidance during the year. A final word of thanks is due to my executive team, management and staff of the DBSA for their unwavering commitment to the values and vision of the Bank.

Paul Baloyi

Macroeconomic overview

The shadow of the global financial crisis fell over the world economy in 2008 and lengthened as the year progressed. By March 2009, many countries were in synchronous recession and the global financial system was not yet out of its difficulties. Neither Africa nor South Africa, which have strong linkages with the world economy, could escape the effects.

The financial crisis took hold at a time when both structural and cyclical factors were already slowing global growth and shifting the growth momentum away from the advanced countries towards emerging and developing markets. Economic performance in Africa had improved, albeit from a low base, with many countries reaping the benefits of improved governance, better economic management and strong international demand for commodities. South Africa likewise enjoyed a record period of growth, although skills and infrastructure capacity constraints as well as cyclical developments in the consumer and export sectors had begun to slow the rate of growth. As a result of growing inflationary pressures from both foreign and internal sources, monetary policy was tightened in a series of interest rate increases. In the household sector, high debt levels, lower employment growth and rising interest rates slowed the growth in consumer spending. Deteriorating business conditions and weakening consumer and business confidence started to affect private sector fixed investment. The export sector, however, was still supported by demand from rapidly growing emerging economies. Also, public sector spending, both current and capital in nature, played a larger role in supporting the growth of the economy.

As 2008/09 progressed, the problems of the global financial system had a decisive impact on the world economy. Trouble in the housing market in the United States weakened several large financial institutions. As some prominent institutions succumbed, confidence in the global interbank market crumbled. The resultant deleveraging by financial institutions and greater risk aversion among lenders brought a severe tightening of global credit conditions. Thus the housing and financial sector crisis, which was largely institutional in origin, had a devastating effect on the already slowing economies of advanced countries. Tightened credit conditions and deteriorating confidence affected both the corporate and household sectors, and economic prospects subsequently worsened. Asset contagion spread as corporate performance worsened and a broad range of stock and other asset values fell.

The economic consequences of the financial contagion spread first through a handful of advanced economies and then rippled out more widely. The deepening recession in these countries meant global trade, cross-border finance and investment flows also deteriorated. Emerging economies and developing countries that depend on foreign demand and foreign capital quickly felt the effects. Official forecasts of global growth were progressively downgraded in unprecedented fashion and, by March 2009, the International Monetary Fund was anticipating a contraction in global economic activity for 2009 – the first such forecast in 60 years. The increasingly recessionary environment saw commodity demand and prices fall, and inflation began trending down.

In this climate, developing countries faced increasing challenges. Reduced global demand for commodities and lower commodity prices began to affect their export sectors and the attendant negative effects increasingly spilled over into their domestic sectors. In addition, tight international credit conditions reduced access to both trade finance and foreign loan and project finance – both of which are necessities for trade-dependent emerging market and developing economies. Furthermore, financial pressures in the advanced economies and lower investor risk appetite saw both foreign direct investment and portfolio investment flows to emerging markets weaken. For countries with a small savings base and high finance needs this became increasingly worrisome, especially as flows of official development assistance came under threat. Emerging markets and developing countries with large deficits on their current account looked particularly vulnerable. By the end of 2008/09, the advanced economies were well into recession, and both emerging economies and developing countries were recording much weaker economic growth.

With the global economy heading for a prolonged recession, extensive action was initiated by the Bretton Woods institutions, national governments and central banks, and further measures were taken as the situation worsened. The policy response had three main components: measures to stabilise the financial system and free up credit flows; a rapid easing of monetary policy to lessen the strain on the corporate and household sectors; and a fiscal injection to support troubled industries, thus allowing them to adjust to new circumstances, and to stimulate growth through fixed investment in infrastructure and other initiatives. However, the popularity of national measures to support local industry and protect local jobs raised concerns about a resurgence of protectionism, with its attendant threats to international trade and global economic welfare. At the multilateral level, the capacity of the International Monetary Fund to provide liquidity to the global economic system was enhanced, making it more responsive to the concerns of developing countries. Institutions such as the World Bank, as well as donor countries, pledged special measures to mitigate the impact of the financial crisis on developing countries.

Initially, South Africa seemed buffered against the global crisis. The sound regulatory framework for its financial sector meant that local banks were not exposed to compromised assets abroad and had applied stringent credit standards at home. However, as the international crisis spread, both the financial and real sectors of the South African economy were soon affected. The export sector, like those in other exporting countries, quickly felt the effects of a slowdown in international demand. Export volumes fell and global commodity prices dropped sharply. Corporate earnings and employment suffered in exposed sectors. The decline in consumer spending accelerated as incomes and jobs were shed, consumer balance sheets suffered and credit continued to tighten. Durable goods sectors were particularly affected. Furthermore, as consumer demand declined and business confidence fell, real growth in fixed investment spending by the private sector slowed significantly. (One exception to this was investment in mining in support of the energy sector.)

In this climate, the large spending programmes by the government and the public corporations were increasingly significant in buffering the economy. These programmes included infrastructure investments both to support future growth and to eradicate the services backlogs experienced by poor communities. Fiscal policy thus played a significant role in supporting the economy, while also promoting social development.

In the monetary sector, tighter global liquidity conditions, reduced investor confidence and lower risk appetites all affected the local economy. Portfolio capital flowed out of the country as global investors pulled back from emerging markets. The availability of and conditions attached to foreign lines of credit worsened, offshore capital was more difficult to raise and attracted higher risk premiums, and the local stock market fell. This raised concerns about the country's ability to secure adequate funding for its large public sector infrastructure investment programme, in view of its structural savings deficit and high dependency on foreign capital.

Towards the end of 2008/09, domestic monetary policy was eased, following a reduction in both demand and price pressures in the local economy. The series of downward adjustments in interest rates helped lessen the impact of difficult global and local economic conditions on the local household and corporate sectors.

The above developments in the global and local economy presented serious operational challenges to development institutions, precisely when there was a growing need for developmental support and for grant, concessional and commercial funding. The DBSA had to confront and manage particular operational risks. Principal among these was the need to gain adequate access to affordable foreign and local funding, given the tight conditions in the global and domestic financial markets. Furthermore, as donor governments felt the budgetary pressure from support packages for their own ailing economies, the availability of concessional funds was compromised. A further challenge for development finance institutions in South Africa and the SADC region was the escalation of development and lending risk as recessionary conditions tended to reduce the viability of existing and planned projects and affected the balance sheets and project execution capacity of borrowers. This underscores the critical importance of good risk management in development finance institutions to enable them to sustain the momentum of development interventions in both adverse and benign economic conditions. The rest of this Annual Report highlights the measures taken by the DBSA to address these challenges and expand its counter-cyclical funding in support of the restructuring and recovery of the economy.

Development impact and sustainability overview

The Development Bank always strives to strengthen the impact of its development interventions to the benefit of its stakeholders and clients, as well as the poor communities it serves. Development impact is a driving force in the Bank's activities and central to its Vision 2014 corporate strategy. In line with this strategy, the following section on development impact aims to improve transparency in reporting by reflecting the Bank's emphasis on measurable development results.

The DBSA's strategic objective is a progressive realisation of socio-economic development in the region. The Bank addresses market and institutional failure by providing integrated and sustainable development solutions. To this end, it has adopted clear and targeted strategies that build on its unique role and capabilities to broaden and deepen its development impact. In order to focus operational efforts on the fundamental development challenges facing the region, the Bank has implemented a market segmentation framework that categorises its interventions into three segments: social transformation, economic potential and growth, and capacity development. This framework supports the three BSC perspectives, namely development impact, sustainability and organisational capability, with development impact given the highest weighting.

This section highlights key initiatives during the year under review, starting with an overview of the macroeconomic impact of the Bank's operations. This is followed by a review of initiatives carried out by the Bank's capacity building arm, the DBSA Development Fund, such as the Siyenza Manje, Sustainable Communities and Local Economic Development programmes. These programmes are supported by the DBSA's Vulindlela Academy, which provides market-specific training to a range of development institutions. The Bank also supports development initiatives driven by local and international partners through its agency function.

The focus of this section then shifts to a review of the DBSA's environmental and social impact, in line with its commitment to triple bottom line reporting. The Bank tries to ensure that the interventions it supports enhance the sustainability of natural environments, as well as the social cohesiveness of beneficiary communities.

Although some special initiatives are highlighted here, the development impact approach is embedded in the normal operations of the Bank. The South Africa Operations and International Divisions drive development impact through development lending and equity investments in the region. Highlights of their developmental work are discussed, followed by the research outcomes of the Development Planning and Implementation Division.

The final part of this overview section reports on the appropriation of the Bank's revenue for development impact, through restating its financial statements to reflect the developmental activities. This demonstrates the importance of prudent financial management to balance the dual imperatives of progressive development impact and long-term financial sustainability. The Financial and Risk overviews in this Annual Report provide more detail in this regard.

It is important to note that the DBSA operates in partnership with a range of local, regional and international institutions to ensure that it obtains the best development outcomes. Most of the development initiatives discussed in this section are undertaken in partnership with other organisations, and the Bank is pleased to acknowledge the significant role of its partners in the success of these interventions.

Macroeconomic impact

The DBSA uses a Partial General Macroeconomic Equilibrium Model based on a Social Accounting Matrix (SAM) to calculate the socio-economic impact of its projects. The model is unique in that it specifically incorporates the Bank's focus on labour-intensive methods of construction. The model, which has 2006 as a base year, has been adjusted to 2008/09 prices, and the discussion below is in real (inflation-adjusted) terms.

In 2008/09, the DBSA and its co-funders approved projects to the value of R89,1 billion. The Bank's share was R20,5 billion or 23%, which is an increase of 73% from the previous year. The real value of the Bank's signed agreements with clients increased by 8%, while the disbursements increased by 38%. The bulk of the disbursements were allocated to the transportation (21,2%), entrepreneurial and manufacturing (14,6%), roads and drainage (14,3%) and communication (13,3%) sectors.

These disbursements improved the living standards of poor communities by providing basic services (water, sanitation, electricity and waste removal) to 646 000 households. Just over a third of the disbursements were channelled to small contractors involved in implementing projects.

The SAM models were used to calculate the impacts of the DBSA's funding, and these were compared to the previous year's results. The findings are shown in the figures below. Note that the approved funding portfolio is generally only disbursed in future years. This portfolio will therefore have only a potential impact, which will come into effect once the funds are actually disbursed. The same holds for signed agreements. Hence only the disbursed funding portfolio can be said to have an actual development impact this year. The figures below show all three of the portfolios.

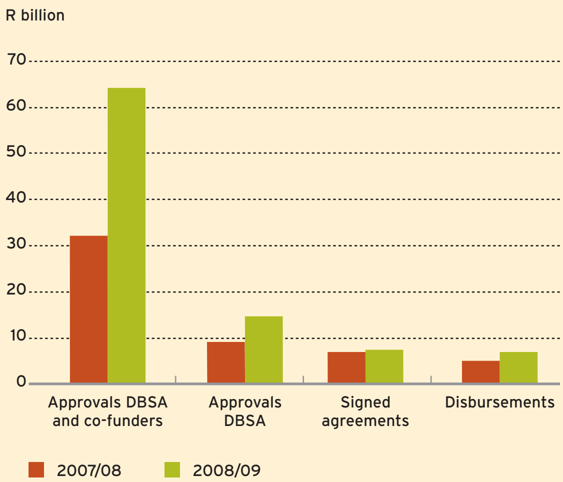
It is estimated that the total funding approved by the Bank and its co-funders has a potential impact of R89,6 billion on GDP, of which R64,2 billion will be in South Africa. This constitutes approximately 2,8% of South Africa's GDP in 2008/09 (1,5% in 2007/08). The actual impact of the Bank's disbursements on the GDP of the southern African region is estimated at R10,1 billion, of which R6,7 billion is in South Africa.

The total funding approved by the DBSA and its co-funding partners in 2008/09 has an estimated potential impact on employment creation of over 547 000 employment opportunities in the southern African region. Of these, 358 000 employment opportunities could be created in South Africa, which is 48% higher than the previous year. The Bank's own disbursements will create an estimated 62 500 employment opportunities, of which 37 600 (60%) will be in South Africa (up from 32 600 in South Africa in 2007/08).

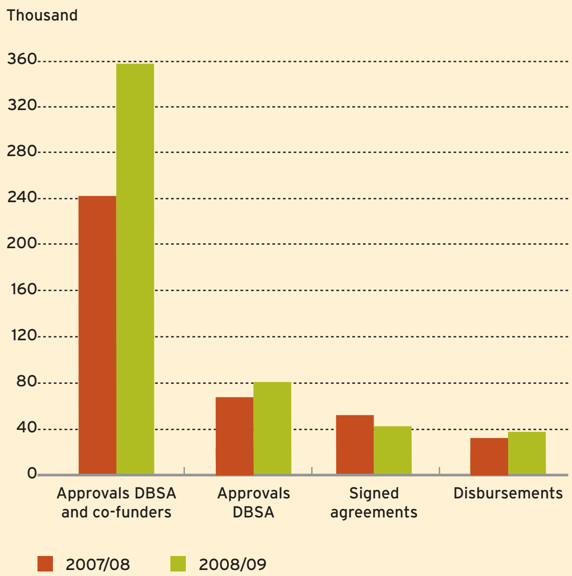
To support the economic activity initiated by these disbursements, a capital amount of R26 billion will be employed, directly and indirectly, in the southern African region. Over R18 billion of this will be in South Africa, made up of R7,2 billion in DBSA disbursements and R11 billion in capital invested by other industries to supply the additional materials and goods required. This amounts to 3,4% of South Africa's total gross fixed capital formation in 2008/09 (compared to 2,9% in 2007/08).

Every investment results in additional income to households through economic linkages. The total funding approved by the DBSA and its co-funders has the potential to create additional household income of R43,1 billion in South Africa. Of this amount, R7,2 billion will be to the benefit of poor households. The DBSA's disbursements will create additional total household income of R4,5 billion, of which R0,8 billion will accrue to low-income households.

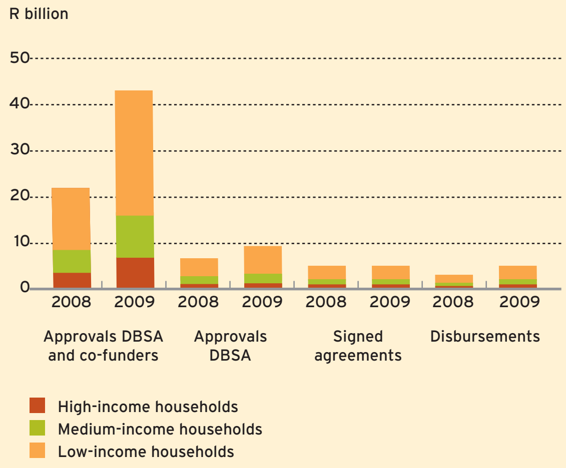
The investments also contribute to government revenue for all three spheres of government (national, provincial and local) through the taxes paid on additional economic activity. The additional tax revenue as a result of DBSA disbursements in South Africa is estimated at R2,1 billion.



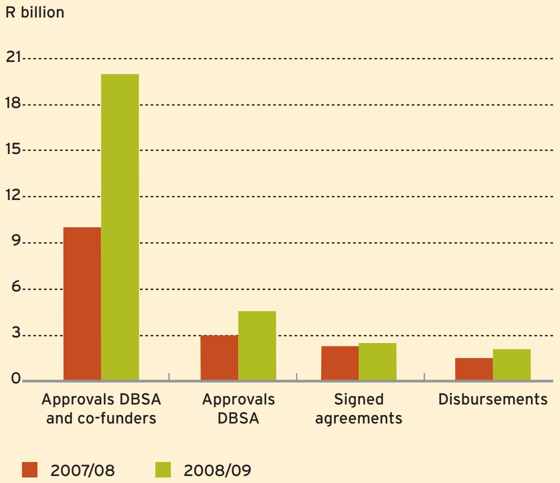
Estimated impact on GDP in South Africa, 2007/08 and 2008/09



Estimated employment creation in South Africa, 2007/08 and 2008/09



Estimated impact on household income in South Africa, 2007/08 and 2008/09



Estimated impact on government revenue in South Africa, 2007/08 and 2008/09

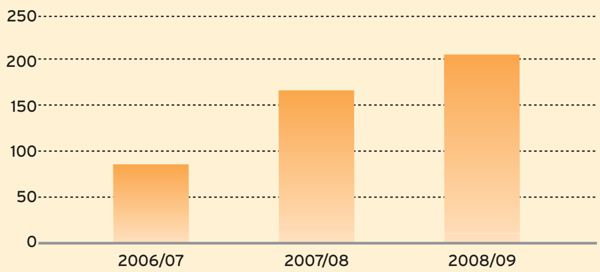
Siyenza Manje

The Siyenza Manje programme deploys financial, technical and planning specialists to under-resourced municipalities in order to build their capacity. The specialists, aided by young professionals, provide support in the following broad areas:

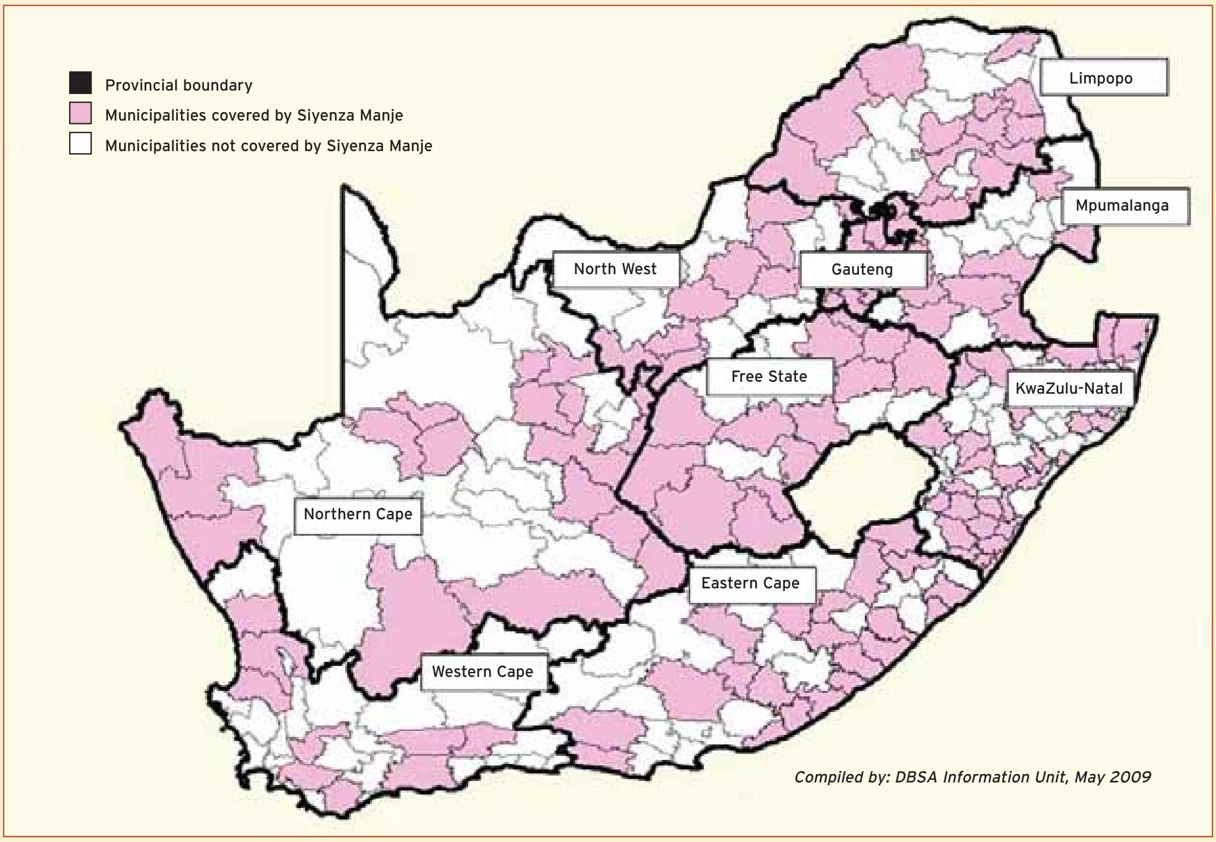
- *Municipal Infrastructure Grant (MIG) expenditure:* The deployees help to identify, design and register projects and facilitate implementation processes, including contract management. The initial focus on MIG projects has been expanded to include infrastructure projects funded by other government or private sources.
- *Institutional capacity building:* The programme builds capacity in financial management, including aspects of compliance, such as the compilation of financial reports in line with statutory requirements and the development of municipal policies and procedures.
- *Planning interventions:* Assistance is provided in developing the statutory systems required for planning, such as spatial development frameworks, master planning, and land-use management.
- *Training interventions:* Deployees transfer skills to young professionals and municipal officials, while providing specialised hands-on support. In addition, they assess the training needs of municipal officials so that the Vulindlela Academy can design tailor-made courses in the identified areas. The deployees also help officials and councillors prepare portfolios of evidence toward certification in their areas of expertise, whether they are artisans or professionals such as engineers, chartered accountants and technicians.

During the year under review, the Siyenza Manje programme continued to grow its portfolio, responding to calls for support from low-capacity municipalities through individual deployments or shared services. The programme also ensured closer collaboration with key sector departments by establishing the Siyenza Manje Working Committee. This Committee, which includes the National Treasury, the Department of Water Affairs and Forestry (DWAF), the Department of Provincial and Local Government (DPLG) and the South African Local Government Association (SALGA), allows the stakeholders to provide active oversight and guidance.

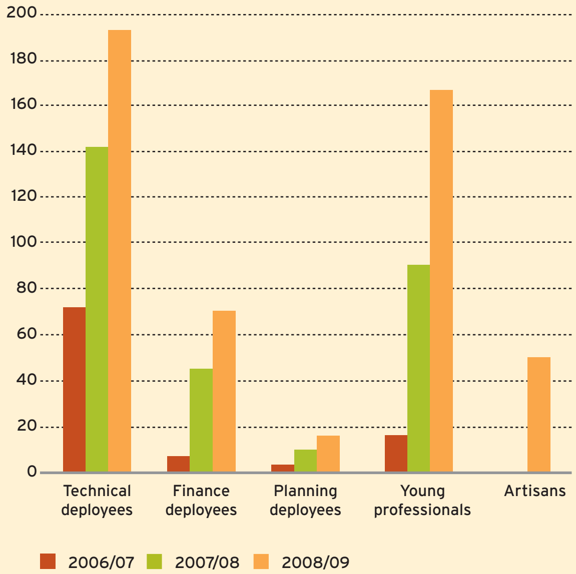
In the year under review, the programme deployed specialists in 172 municipalities across all provinces, thereby supporting 205 municipalities on a shared-service basis (as shown in the figure). By comparison, only 155 municipalities were supported in 2007/08. The map shows the spatial distribution of the municipalities.



Number of municipalities supported by Siyenza Manje, 2006/07 to 2008/09

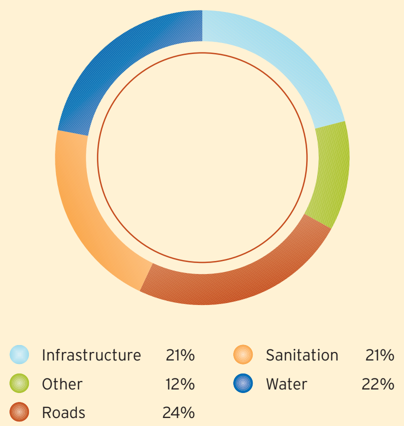


This year, the Siyenza Manje programme deployed 527 specialists and young professionals, a 56% increase on 2007/08. The figure below provides a breakdown of the deployment trends.

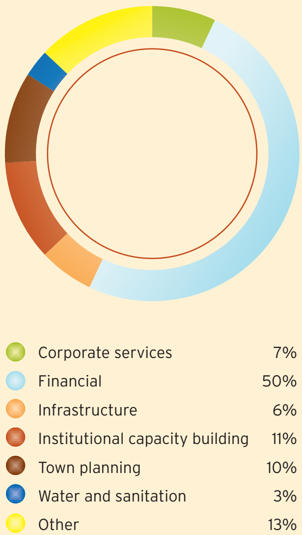


Siyenza Manje deployment trends, 2006/07 to 2008/09

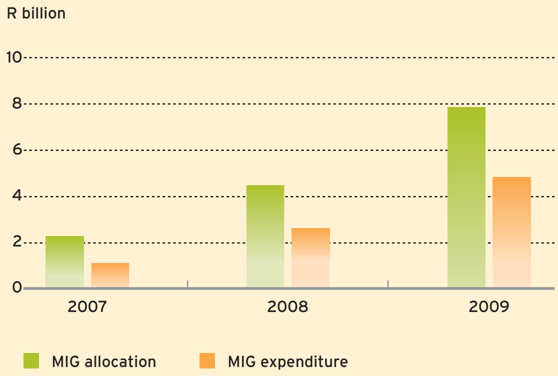
The Siyenza Manje technical experts helped to facilitate 2 778 technical projects during the year. At year-end, 74% of these projects were in the implementation, completion and close-out stages, an indication of how the deployment of expertise is expediting development initiatives from start to finish. The technical experts completed 769 projects against a target of 520 (almost 48% above target). These projects connected over 276 000 households to water and almost 139 000 to sanitation facilities. In addition, almost 18 800 jobs were created.



Distribution of completed projects per sector (technical), 2008/09

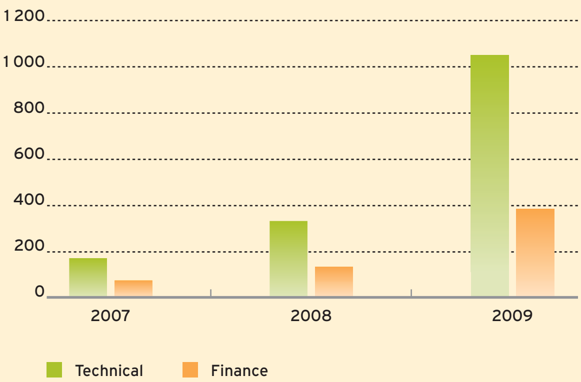


Distribution of completed projects per sector (non-technical), 2008/09



MIG/capex release and expenditure facilitated by Siyenza Manje, 2006/07 to 2008/09

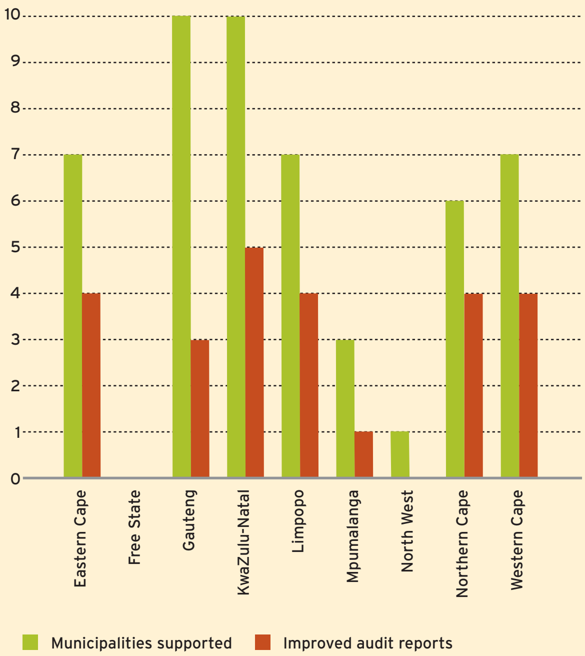
The deployment of Siyenza Manje finance experts improved the quality of audit reports, as shown below. The experts helped municipalities to resolve audit queries and respond adequately to the Auditor General.



On-the-job training by Siyenza Manje deployees, 2006/07 to 2008/09

The capacity building component of Siyenza Manje provided on-the-job training to 384 municipal officials in financial skills and 1 048 in technical skills. This is a significant increase in the growth and outreach of the programme, as shown in the figure above.

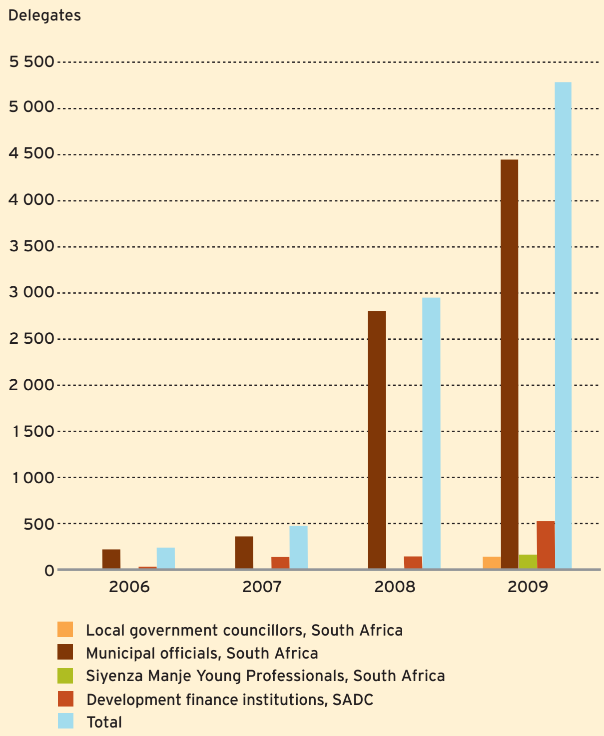
In the first three years, Siyenza Manje focused on expediting the implementation of MIG projects and building urgently needed institutional capacity to handle such projects. The programme contributed to releasing R7,8 billion in MIG funds (against a target of R6,5 billion) and facilitating total MIG expenditure of R4,8 billion (against a target of R3,8 billion), as shown in the next figure.



Siyenza Manje municipalities with improved audit reports, 2008/09

Vulindlela Academy

The DBSA Vulindlela Academy provides critical training in finance, management and planning to build human and institutional capacity for improved service delivery in South Africa and the region. Its training programmes include municipal and public finance management, project management, municipal governance, project finance, risk management, community leadership development, local economic development, sustainable development, supply chain management as well as procurement.



Delegates trained by the Vulindlela Academy, 2005/06 to 2008/09

Highlights of the Academy's activities during the year include:

- Training 1 537 delegates on the Local Government Network (LGNet), a local government knowledge-sharing platform for all municipalities in South Africa
- Providing Japan International Cooperation Agency (JICA) training on public finance and public-private partnerships to all development finance institutions in the region
- Training 5 259 delegates in a range of courses on finance, planning and management
- Establishing an e-learning platform to increase the outreach of the Academy's training courses
- Strengthening partnerships with key stakeholders such as SALGA, the Local Government Sector Education and Training Authority (LGSETA), the Public Administration, Leadership and Management Academy (PALAMA), and the Local Government Leadership Academy (LOGOLA)

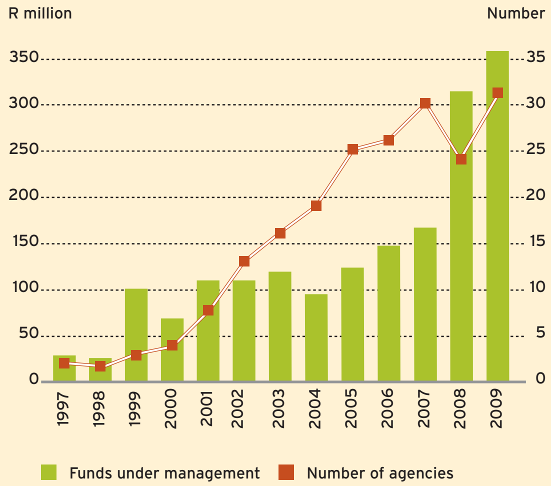
Local Economic Development Initiative

During the year under review, the Local Economic Development Initiative (LEDi) formulated its strategy and risk management frameworks. The first three projects were appraised and will be launched in 2009/10. In the process, criteria were established to determine the needs and potential of local economies, and these criteria will form the basis for preparing local economic development plans and identifying catalytic interventions in local economies.

Factors such as access to basic services, the presence of economic opportunities, levels of employment and population trends were analysed to identify priority regions for future LEDi interventions. The LEDi team worked with key stakeholders to determine funding gaps and find ways of eliminating them in the identified priority areas.

Agencies

The Agencies programme helps local and international development and funding agencies to plan, programme and implement development initiatives. It focuses on initiatives that enhance the public sector's capacity to promote development or test innovative approaches and best practices in development. The programme provides tailored services, ranging from project management and research to financial, treasury and logistical assistance. As shown in the figure below, 31 agencies and R351,8 million are currently under management.



Funds under management and number of agencies, 1996/97 to 2008/09

Development impact and value added by agency programmes, 2008/09

Programme	Sponsor	Funding*	Objective	Development impact
Voluntary counselling and testing facilities (VCT)	KfW	€1,3 million	To promote the prevention of HIV/AIDS and encourage behavioural changes	61 clinics completed in KwaZulu-Natal, Mpumalanga and Eastern Cape
Succulent Karoo Ecosystem Programme (SKEP)	Conservation International	R2,6 million	To promote conservation and development projects	25 projects implemented, benefiting 96 families and creating 40 new jobs
Job Creation Trust (JCT)	COSATU/ FEDUSA/ NACTU	R6,4 million	To promote job creation and development programmes	Four projects funded creating 270 jobs
Municipal Finance Management Technical Assistance Project (MFMTAP)	National Treasury	R8 million	To develop financial policies and systems, and provide advice to officials	30 Municipal Finance Management Act (MFMA) training modules developed by educational service providers Asset management guide produced
Infrastructure Delivery Improvement Programme (IDIP)	National Treasury	R13,4 million	To develop systems for infrastructure planning and budget improvement	35 advisors deployed in nine provincial government departments

**Disbursed during the year*

Sustainable Communities

The Sustainable Communities programme promotes sustainable development that meets the needs of South African communities without compromising the ability of future generations to meet their own needs. It focuses on empowering and capacitating communities to engage in equal partnerships with government, civil society and the private sector in order to formulate their own development agenda and access the resources needed to implement it.

The DBSA has concluded several memoranda of understanding with private and public sector entities around specific areas of sustainable development. A number of these memoranda are intended to facilitate economic development in various sites by ensuring that the private sector is integrated as a key partner in the Sustainable Communities programme. Projects emanating from these partnerships with the private sector range from agriculture to property development, but common to all of them is the principle that the community is an integral part of the implementation process and ownership structures of the initiative. Projects that were scoped and planned in the year under review focus on the following areas:

Site	Stakeholders	Progress	Impact
Keiskammahoek Agriculture partnership with private sector	• Unilever • Spicenet • University of Fort Hare • Eastern Cape Department of Agriculture • Siyakholwa Foundation	• Projects in this area focus on developing opportunities for community farmers to supply ingredients to Unilever • Phase 1 of the project focused on paprika for Unilever's Robertsons Spices, essential oils for perfumes and soaps, and a little maize farming for the communities around Keiskammahoek	• Sidalukukhanya Agricultural Forum established, consisting of 62 small-scale farmers • Off-take agreement signed with Unilever • Project charter signed by all participating parties and farmers • Farmers trained • DBSA grant funding approved for project • 62 hectares of paprika cultivated and harvested from February 2009
Tramways Land restitution based in Sea Point; land originally owned by the City of Cape Town	• Tramways Trust • City of Cape Town • Department of Rural Development and Land Affairs • Cape Town Commission on Restitution of Land Claims • ABSA	• Development plan finalised and development partner secured • Initial DBSA loan of R6,6 million approved and disbursed • R900 000 grant approved for training, skills development and support for the beneficiaries	• 34 families to benefit • Socio-economic study to be done to ensure sustainability once the beneficiaries start earning income • First example of DBSA post-settlement support project in terms of MOU signed with Land Restitution Commissioner
Richmond Land restitution based in Cape Town	• City of Cape Town • Department of Rural Development and Land Affairs • Cape Town Commission on Restitution of Land Claims • Richmond Park Joint Venture Consortium	• Development partners secured • DBSA grant of R505 000 approved • Legal firm appointed to provide legal support to the beneficiaries before signing Development Facilitation Contract	• Development worth R3,0 billion • 401 families to benefit • 66 permanent jobs to be created • Community to own 25% of the development

Site	Stakeholders	Progress	Impact
Grabouw	• Theewaterskloof Municipality (TWK) • Provincial Department of Human Settlements • Group 5 • Grinaker-LTA • Mountain to Ocean (MTO) • Community stakeholders • Molteno Brothers • Overberg Training College • Elgin Learning Foundation	• Projects identified include Eikenhof Dam, municipal improvement district, community precinct, Elgin community project, housing estates • Social Charter adopted by Stakeholders Forum and TWK • Sustainable Development Framework adopted by TWK • Elgin College and Overberg College merged into one college • A draft implementation plan completed	• R1 billion worth of projects scoped and feasibilities completed • Graduates of Overberg Training College were employed in the project • 20 more jobs created in the housing project at Rooidakke
Mthatha	• District and local municipalities • Strategic Committee • Community • Business community • National Treasury (Neighbourhood Development Partnership Grant) • Provincial Department of Human Settlements	• Completed Neighbourhood Development Partnership Grant projects (street lighting, veteran stadium, road repairs) • Completed Comprehensive Sustainable Development Plan to the level of Council approval	• 200 jobs created • 10 local contractors supported • 3 projects completed

Job Creation Trust projects, Northern and Western Cape

Total cost R4,3 million

The DBSA administered contributions from the Job Creation Trust to support three projects in the Northern and Western Cape, namely the Central Karoo/Murraysburg, Mier/!Khomani San and Kamiesberg projects. These projects support economic development by promoting job creation in rural and remote communities through community-based local economic initiatives. Their focus varies from the upgrading of community infrastructure to the development of community enterprises and the establishment of poverty relief projects.

The projects were particularly successful in providing temporary employment – about 350 temporary jobs were created. In Murraysburg, the IDP Forum facilitated the selection of women and men from the poorest households for employment, while in Kamiesberg, rural people were employed in upgrading roads. In addition, 18 people entered permanent employment at the Mier and !Khomani San game farms, a brick-making project in Murraysburg and a pre-school at Nourivier, Kamiesberg.

Substantial portions of the project costs went towards capacity building and skills development, which will benefit local communities in any future projects. The projects also helped the municipalities to develop capacity for local economic initiatives (none of them had formulated their local economic development plans at the time). Lessons learnt from these projects will inform future Job Creation Trust initiatives administered by the DBSA.

Environmental impact

The DBSA's environmental policy aims to ensure that its programmes and projects are socially responsible, environmentally sound and in line with government requirements. In addition, the Bank also monitors the environmental impact of its internal activities to ensure that they are environmentally sound.

Environmental management

The DBSA's environmental management processes for internal operations are based on ISO 14001, the International Organisation for Standardisation's key standard in this area. During the year, the Bank focused on energy consumption in terms of its environmental policy for facility management. It commissioned an energy audit to establish its carbon footprint and guide its efforts to improve energy efficiency by using appropriate equipment and promoting appropriate behaviour on the part of its employees. In response to the recommendations of the audit, the Bank refitted its office building with energy-efficient lights and installed solar water-heating systems. The Bank is also formalising its reporting process by implementing the IsoMetrix Management System, which in future will provide data on all key environmental factors, namely water and energy consumption, paper use, waste management, carbon footprint (including business travel emissions), land and biodiversity management, occupational health and safety, and environmental accounting. This reporting will be guided by the Financial Sector Supplement to the Global Reporting Initiative (GRI) for environmental management in the financial sector.

Environmentally sustainable operations

The DBSA remains a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI), a global partnership between UNEP and the financial sector aimed at fostering environmental and social awareness in this sphere. The initiative has over 170 signatories among development finance institutions, commercial banks, fund managers and insurance companies worldwide. In line with its commitments under UNEP FI, the Bank reviewed its environmental appraisal procedures to reflect international good practice and aligned the related policy requirements with the legislative and regulatory requirements for environmental impact assessments in South Africa and the southern African region. The review considered the views of key local and international stakeholders. One of the main changes flowing from the review is the strengthening of the environmental requirements on financial intermediaries to ensure that on-lending activities are done in a socially responsible and environmentally sound manner.

The DBSA's policy requires all programmes and projects to undergo a rigorous environmental appraisal as part of the broader investment appraisal process. The Bank adhered to this requirement during the year under review, underscoring its commitment to sustainable development in terms of the Millennium Development Goals.

The Bank continues to broaden its support for the development of environmentally friendly infrastructure, mainly in the energy sector. The examples below highlight some of the sustainable energy initiatives funded by the Bank, several of which have been or are being registered under the Clean Development Mechanism (CDM). The CDM is one of three flexible mechanisms established under article 12 of the Kyoto Protocol to enable the trading of carbon credits or credits for carbon emission reductions. The CDM benefits developing countries through the transfer of clean(er) technology, foreign direct investment, income streams for the sale of emission reductions or certified emission reductions, and the overall improvement of environmental quality or performance.

Sustainable energy portfolio

MethCap Project: The project involves the use of biogas to generate electricity for on-site use by PetroSA, the South African national oil company. The project is expected to have an annual emission reduction of 29 933 tCO_{2e}. The total project cost was R23 million and the DBSA provided R16 million in loan financing.

Hernic Ferrochrome Cogeneration Project: The project involves the use of the flue-gas (carbon monoxide) to generate electricity. Currently, the flue-gas is flared, resulting in greenhouse gas emission. The projected certified emission reductions and tCO_{2e} emission reductions are yet to be calculated and confirmed. This will be the first CDM project in the North West.

Bio 2 Watt (Pty) Ltd: The project involves the use of biogas generated from manure and other organic waste products of intensive livestock farming. The Bank provided a technical assistance grant of R380 000 towards the development of a detailed business plan.

NOVA: The DBSA provided a technical assistance grant of R130 000 to the NOVA Institute for a Highveld air quality project. The estimated emission reduction is 16 285 tCO_{2e} through the reduction of coal usage.

Programmatic Carbon Credit Facility

This initiative aims to set up a programmatic Clean Development Mechanism (CDM) for subsidised housing in South Africa to reduce greenhouse gas emissions through passive design elements, energy-saving devices, solar energy, and potential funding via the carbon market. It is a partnership between the national Department of Housing, the Strategic Energy Fund, the South African National Energy Research Institute, the National Housing Finance Corporation and the DBSA. The project aims to:

1. Develop internationally recognised CDM methodologies for assessing and recording the carbon savings from various housing elements, including:
   - An approved solar water heater methodology
   - Approved models for improving thermal performance and calibrating climatic zone and structure types
   - A registered programme of activities for solar water heaters and improvements in thermal performance
2. Implement these methodologies in a superior CDM-registered programme of activities to provide a mechanism for improving the quality of energy services in dwellings (and other structures)
3. Establish a coordinating entity to market the mechanism and manage resources in and out of the housing developments, which entails:
   - A web-based marketing and project activity registration portal
   - A strategy for recalibrating the models that underpin the methodologies and monitoring project activities
   - Embedding the strategies in a coordinating institution

Kouga Wind Energy Project, Jeffreys Bay: The DBSA contributed R400 000 to the project to fund the feasibility and environmental impact assessment studies. Environmental authorisation was granted by the Eastern Cape provincial government in March 2009.

Strategic environmental initiatives

The DBSA supported a number of national and regional strategic environmental initiatives during the year.

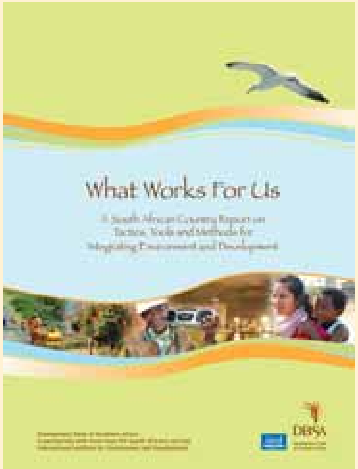
- The Bank hosted the Gauteng branch of the South African affiliate of the International Association for Impact Assessment (IAIA-SA), a monthly gathering of professionals from a range of disciplines to discuss best practice and reflect on key environmental and social developments.
- The DBSA joined the Environmental Goods and Services Forum (EGSF), an industry representative body initiated by the Department of Trade and Industry. The environmental goods and services sector is concerned with activities to measure, minimise or correct environmental damage, as well as problems related to waste, noise, the ecosystem and climate change. The Bank sponsored the first official event of the EGSF, the Buy-Environmental Conference and Trade Show held at Midrand in June 2009.
- The DBSA co-sponsored a successful conference on "Implementing Environmental Water Allocations – Promoting the Sustainable Use of Rivers, Wetlands, Estuaries and Underground Water" held in Port Elizabeth in February 2009. The conference was organised by the Water Research Commission (WRC) and the DWAF, with the support of the International Association of Hydrological Sciences (IAHS), the International Union for Conservation of Nature (IUCN), and the Chartered Institution of Water and Environmental Management (CIWEM).
- On the operational side, the Bank developed an investment strategy on waste management for South Africa and the region. The strategy aims to promote sustainable service delivery by providing appropriate financial and institutional support. Several strategic initiatives are currently under way, involving key stakeholders in the waste management sector.
- The DBSA provided grant assistance to poor municipalities in the Eastern Cape for strategic environmental assessments and environmental management systems and plans. The Chris Hani District Municipality made significant headway in this regard by completing its gap analysis on environmental management and establishing an environmental management system. In addition,

pilot projects were identified for innovative training programmes.

- A report on mainstreaming environmental issues into development was published (see box below). In addition, the DBSA handbook on enabling environmental impact assessment legislation in the SADC region, published in November 2007, was reprinted in response to high demand and is also available as a web-based document (www.saie.com). The second edition of the handbook is being prepared.

What works for us – A South African country report on tactics, tools and methods for integrating environment and development

The DBSA, in partnership with the International Institute for Environment and Development (IIED), completed a study on the successes, failures and perceived effectiveness of environmental mainstreaming approaches, tools and tactics in South Africa. The study covered a range of levels (from national to district and community) and a range of users, and summarised lessons learnt in order to guide environmental mainstreaming in the future. It is part of a global initiative facilitated by IIED to help poorer nations mainstream environmental concerns into development decisions. The first phase of this initiative will produce a "User Guide for Environmental Mainstreaming".



The initiative stands in support of the aims of the Partnership for Environmental Assessment in Africa (PEAA), which is a collaboration between international development agencies and Capacity Development and Linkages for Environmental Assessment in Africa (CLEAA). CLEAA is a pan-African network of institutions that facilitates capacity building in environmental assessments and promotes their use. The programme has been endorsed by the African Ministerial Conference on the Environment (AMCEN).

Social impact

In the year under review, the DBSA intensified its inputs to strengthen positive social impact through various formal and informal interventions. Its support for social infrastructure, corporate social responsibility, transformation and knowledge interventions is outlined below.

Social infrastructure

CEO Corporate Social Responsibility Fund

Every year, the Bank cooperates with development partners across the country in lending support and committing resources to worthy initiatives through its CEO Corporate Social Responsibility Fund. The theme for this year's support was "Education for School Children".

The flagship programme for the year was the Bank's partnership venture with the Lap-desk Company to provide 8 900 lap-desks to 13 disadvantaged schools in the North West, Mpumalanga, Limpopo, Eastern Cape and KwaZulu-Natal. Lap-desks are ergonomic, durable desks that fit on students' laps whether they are seated in a chair, on a bench or on the floor, creating a positive teaching environment in schools that do not have conventional desks. The lap-desks, valued at R869 000, were handed over at the different schools, and this allowed the DBSA to identify related infrastructure backlogs that could form the basis of future support to these institutions.

An amount of R400 000 was made available to the Ubuntu Education Fund in Port Elizabeth, which provides schooling for vulnerable children who have been orphaned by HIV/AIDS. A contribution of R80 000 was also made to the Baphalaborwa Municipality's bursary fund, which provides much-needed bursaries to eligible members of the community.

The CEO Fund agreed to provide a grant of R394 200 to the HIPPY SA Foundation's Diepsloot programme.

The programme, which will run for 30 weeks a year over two years, helps parents to provide home-based educational enrichment for their pre-school children. This is an opportunity for the DBSA to offer longer term support, and members of staff can volunteer to assist on the programme. The programme's promotion of self-reliance on the part of parents is consistent with the Bank's developmental approach.

The CEO Fund also approved a partnership with the Department of Public Service and Administration (DPSA) and the Governance Capacity Building in Africa project to build capacity in the Regional Economic Communities. An amount of R250 000 was made available for this initiative, which aims to build capacity in the African Union and its structures, thus contributing to the effective implementation of the African agenda.

Community outreach

In the months of May and June 2008, foreign nationals living in various urban centres across South Africa fell victim to sustained and brutal xenophobic attacks. The Bank responded to the crisis by contributing, along with other local institutions, to emergency relief efforts coordinated by the government, civil society organisations and international relief agencies, with a multi-million rand donation. In addition to this emergency relief provided by the Bank, Bank staff donated a range of essential supplies, including food, clothing and blankets.

Knowledge interventions

In addition to the knowledge interventions discussed in the section on Research and Information, the following interventions contributed specifically to growing the social sector.

- *Social impact assessment dialogue:* In the DBSA, social impact assessment forms an integral part of the project appraisal, monitoring and evaluation processes. The DBSA, in partnership with the International Association for Impact Assessment – South Africa (IAIA-SA), hosted a dialogue session with social impact assessment practitioners and stakeholders. This dialogue helped to ensure that the Bank's social impact processes are informed by the experiences of specialists in the field, while also giving specialists an opportunity to improve the quality of their own applied social impact tools and practices.
- *Education roundtable:* The DBSA continues to support dialogue on issues of national importance, such as education. One particularly interesting dialogue session featured the screening of *Testing Hope,* an educational documentary produced by Molly Blank. This film follows the lives and aspirations of four Grade 12 students at Oscar Mpetha High in Nyanga, Cape Town, as they prepare for their final exams. It shows their circumstances and the hopes of their parents, but also how hope is dashed when they do not achieve the results they need for admission to the universities of their choice. The dialogue showcased the Bank's ability to bring together people from different sectors to identify and explore stress points and initiate solutions for education.
- *Knowledge Management Africa:* The Knowledge Management Africa (KMA) initiative aims to bridge the gap between the generation of knowledge and its implementation on the continent. It stands in support of regional integration and the goals for socio-economic development and poverty alleviation set by the African Union and the New Partnership for Africa's Development (NEPAD).

  Following the successful second biennial conference held last year, the focus this year was on preparing for the third biennial conference in Dakar, Senegal in July 2009. The DBSA and the Senegalese team jointly developed a concept paper to guide the preparatory work for the conference. The theme of the conference was identified as "Knowledge to Reposition Africa in the Global Economy", with the following focus areas:

  - Knowledge management and economic challenges
  - Knowledge management and social challenges
  - Knowledge management and the environment
  - Knowledge management and governance
  - Knowledge and emerging innovations and technology

  The ultimate aim is to ensure that the refocused KMA can respond to the challenges faced by regional development finance institutions, utilities, and state-owned entities in the development arena. In addition, the aim is to create an institutional structure for KMA, with clearly defined governance parameters, a funding mechanism and long-term objectives that will deepen the impact of this important initiative on the continent.

Broad-based black economic empowerment

The introduction of the Codes of Good Practice under the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, enables organisations to track their black economic empowerment (BEE) performance against an agreed and comparable set of parameters.

BEE score per element

Element	Target	Score achieved	% of target achieved
Management and control	15	15,14	100,9
Employment equity	15	11,50	76,7
Skills development	20	5,57	27,9
Preferential procurement	20	16,15	80,8
Enterprise development	15	12,52	83,5
Socio-economic development	15	15,00	100,0
	100	**75,88**	

These deal with different aspects of transformation, such as stakeholders, staff, clients, procurement practices, business partners and the community.

Empowerment and transformation have been important fundamentals in the Bank for many years. This was borne out by the results of the Bank's first assessment against the Codes. The DBSA achieved an overall "Level Three Contributor" performance against the targets, giving it an effective rating of 75,88 under the "Adjusted Generic Scorecard" applicable to public entities, as shown in the table above.

The DBSA exceeded 75% of the target in five of the six measurement categories. In the sixth category, skills development, the Bank has steadily improved over the years. This will remain an important focus area for the Bank, as it aims to improve on its rating in the next cycle.

Appropriation for development impact

In last year's Annual Report, the Bank reported for the first time on its financial contributions that are specifically targeted at development impact, over and above its normal operations. These contributions include funding for poorly resourced municipalities under the Targeted Infrastructure Programme (TIP), expenditure on research and advisory services, technical assistance grants to clients for purposes such as feasibility studies, and grants to the DBSA Development Fund, which promotes capacity building, mainly through the Siyenza Manje programme.

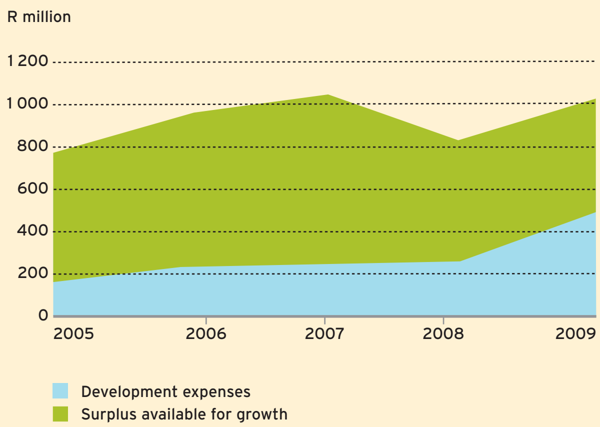
The table and graphs overleaf present the annual development expenditure incurred by the DBSA and the DBSA Development Fund. They show a rapid increase in both the value and the proportion of the sustainable surplus allocated to development expenses. In the year under review, the DBSA allocated R463,9 million to development expenses, up from R248,2 million in the previous year (an increase of 86,9%). This represents 46,5% of the distributable surplus, as shown in the table and the graph on the *Application of the surplus,* and a 199% increase in financial contributions towards development over the five-year period, from R155,1 million in 2004/05 to R463,9 million in 2008/09. The graph on the *Operating and development expenses* shows that the DBSA was able to manage its operating expenses carefully and retain sufficient surplus to maintain financial sustainability, even while accelerating its development expenditure. The increase in development expenditure was mirrored by the increase in development lending, as indicated in the graph on the *Total investment in development*. This increase occurred across a range of initiatives, as shown in the graph on *Development expenditure by type of initiative*. These initiatives were discussed in some detail in the first part of this development impact report. The final graph on the *Total financial value of DBSA's interventions* brings together the total financial value of the DBSA's interventions – its disbursements on development investments, the development expenditure and the value of MIG funding unblocked through the Siyenza Manje programme.

Development expenditure

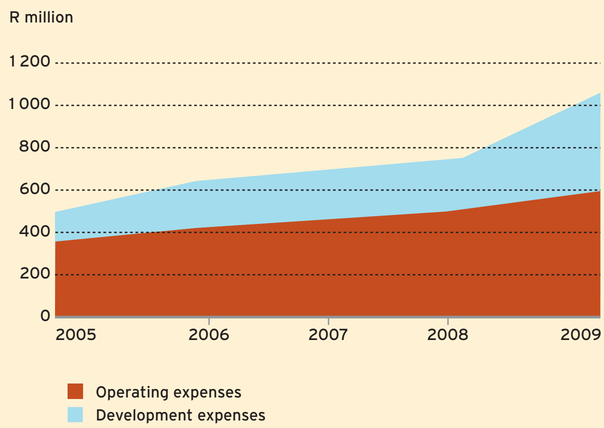
	5-year average	2008/09	2007/08	2006/07	2005/06	2004/05
Retained surplus	1 179 324	**1 586 121**	1 293 764	1 282 772	1 100 382	749 489
Add back: Foreign exchange and financial (gains) / losses	(321 225)	**(797 366)**	(583 512)	(344 991)	(233 990)	(51 511)
Grants	41 433	**82 468**	46 295	32 102	32 980	34 242
Sustainable earnings	899 532	**871 223**	756 547	969 883	899 372	732 220
Development expenditure included in sustainable earnings	63 132	**127 216**	68 202	70 494	53 842	32 956
Distributable surplus	962 664	**998 439**	824 749	1 040 377	953 214	765 176
DBSA direct development expenditure	(129 695)	**(249 489)**	(142 373)	(102 596)	(86 823)	(67 198)
Subsidised lending rates	(20 579)	**(65 088)**	(19 832)	(15 218)	(2 758)	–
Research expenditure	(43 856)	**(62 128)**	(48 370)	(39 240)	(36 586)	(32 956)
Capacity development and deployment	(19 643)	**(39 805)**	(27 876)	(16 036)	(14 499)	–
Grants	(45 617)	**(82 468)**	(46 295)	(32 102)	(32 980)	(34 242)
Application of grant to DBSA Development Fund	(133 819)	**(214 477)**	(105 797)	(121 923)	(138 969)	(87 929)
Capacity building grants	(84 441)	**(101 049)**	(59 846)	(67 349)	(120 375)	(73 585)
Siyenza Manje – DBSA contribution	(34 507)	**(93 983)**	(36 397)	(42 156)	–	–
Other Development Fund expenditure	(14 870)	**(19 445)**	(9 554)	(12 418)	(18 594)	(14 344)
Surplus available for growth	699 150	**534 473**	576 579	815 858	727 422	610 049
Total development expenditure	(263 514)	**(463 966)**	(248 170)	(224 519)	(225 792)	(155 127)
Development expenditure as % of distributable surplus	27,3	**46,5**	30,1	21,6	23,7	20,3

A concerted effort was made to accelerate development activities, while operating expenses remained well managed.

A growing proportion of sustainable earnings is spent on development activities (2008/09: 46%), while sufficient surplus is still retained to finance future growth.



Application of the surplus, 2004/05 to 2008/09

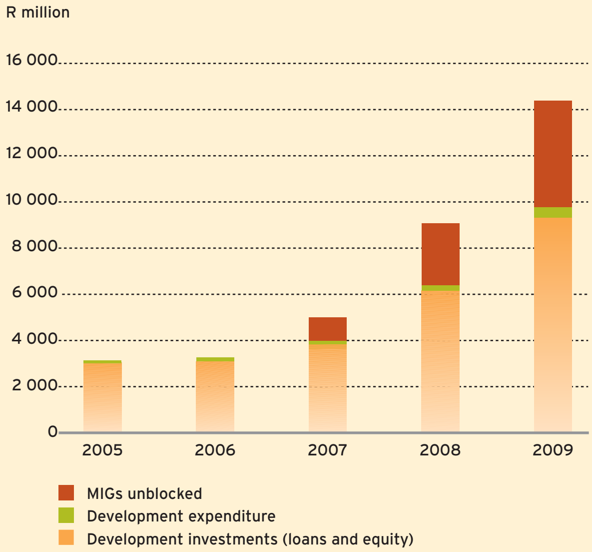


Operating and development expenses, 2004/05 to 2008/09

The Bank's total impact on development increased significantly during the year under review.

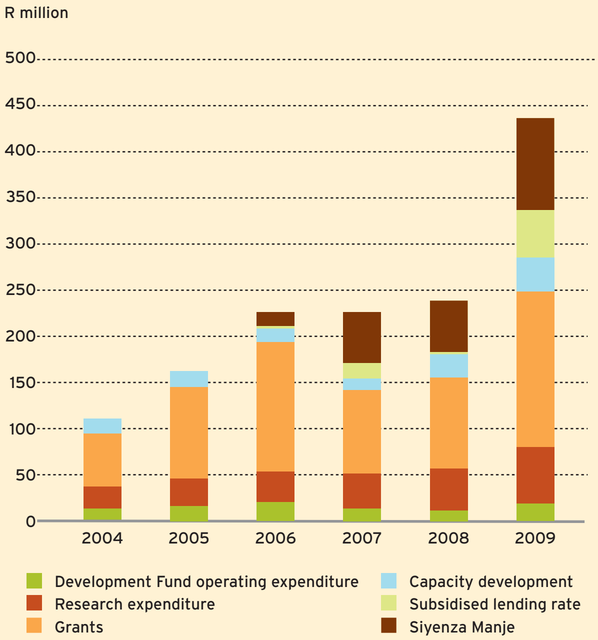
Total investment in development, 2004/05 to 2008/09

The Bank's higher total impact on development through funding and funding facilitation is shown in the graph below.



Total financial value of DBSA's interventions (including MIGs), 2004/05 to 2008/09

Development expenditure accelerated greatly, both in terms of the value and number of initiatives.



Development expenditure by type of initiative, 2004/05 to 2008/09

The year ahead

The initiatives outlined in this section highlight the extent to which the Development Bank has increased its development impact during the year. The Bank's commitment to development involves far more than simply allocating funding: it also means providing human, financial and technical support to development initiatives so that there is real development impact, which translates into higher standards of living for the communities served. While the Bank is proud of its achievements during the year, it is aware that much remains to be done. The DBSA looks forward to making a significantly larger contribution to development in the year ahead.

The following sections of the Annual Report review the Bank's operational and knowledge activities, which contribute to development impact in the normal course of business.

Operations overview

Mr Luther Mashaba

Group Executive: South Africa Operations

South Africa Operations

Strategic overview

Nature of business

The challenge facing the DBSA today is to expand its support for initiatives aimed at meeting South Africa's huge development needs. The South Africa Operations Division is the Bank's main investment arm in the country. The Division provides financial and non-financial support for infrastructure development through public and private sector institutions. The focus is on eradicating backlogs in infrastructure and on promoting economic development and growth, human resources development and institutional capacity building. To this end, South Africa Operations works closely with other divisions of the Bank to provide multifaceted, comprehensive development solutions, involving technical assistance, knowledge interventions and other instruments.

The Division aims to provide seamless support for the investment activities of its private and public clients. To ensure that such support is effective and that its portfolio is well managed, the Division is structured as follows:

- Three *Public Sector Clusters* work with public institutions that deliver services or promote local economic development at municipal level. These clusters have built up a detailed understanding of clients and their development needs in each of the nine provinces.
- The *Project Finance Cluster* focuses on private sector and state-owned enterprises and utilities that deliver infrastructure, and on national programmes where high levels of specialisation are required.
- The *Private Equity and Investment Banking Cluster* deals with the specialised needs associated with equity transactions, investment banking and broad-based BEE projects. As these services are also required outside South Africa, this Cluster has been placed with the Treasury Division, and serves both the South Africa Operations and International Divisions.
- A *Portfolio Management Cluster* was established to ensure tighter monitoring and management of the divisional portfolio. This Cluster serves all the other clusters in the Division. It works closely with the Group Risk Assurance Division on maintaining the health of the portfolio; and with the Group Strategy, Treasury and Finance Divisions on strategic planning, and the financial health and management of the portfolio.

Operating environment

In recent years, we have seen unprecedented investment by all spheres of government in South Africa. Initially, investment focused on providing municipal infrastructure for basic services such as water, sanitation, roads and electricity, as well as on housing. This expansion of basic services and associated growth in economic activity put pressure on bulk supply networks and capacity. In response, the government then directed investment towards road infrastructure, e.g. the South African National Roads Agency Limited (SANRAL); public transport, e.g. the Gautrain and Airports Company South Africa (ACSA); and energy generation, e.g. Eskom and independent power suppliers. In the coming decade, the government's development agenda is likely to channel investment towards education, health care and bulk water supply. However, despite the massive investments already made by government and state-owned enterprises, more funding is still required to reduce infrastructure backlogs and stimulate economic growth. Investments need to be targeted appropriately across all sectors and aimed specifically at poor communities.

In this context, the Division's work is underpinned by three approaches:

- *The provision of social infrastructure across all areas:* More than 22% of the country's households are still without infrastructure such as water, sanitation, roads, education, health care and housing.
- *Increased investment in bulk infrastructure:* The roads, energy and water sectors are a critical part of an enabling environment for development. Such infrastructure directly affects the sustainability of community development and lays the basis for economic growth. In poorly resourced areas, the unit cost of providing this infrastructure is unaffordable; while in core areas, infrastructure backlogs are stifling economic growth.

- *Economic infrastructure for growth and job creation:* The provision of infrastructure can stimulate job creation and thus help to alleviate poverty. The levels of poverty (estimated at 20 million people) and unemployment (estimated at 12,5 million) remain unacceptably high, especially in the rural areas and hinterlands.

In relation to both its public and private sector clients, the South Africa Operations Division is operating in an uncertain economic environment, and the limited planning and implementation capacity of municipalities exacerbates the situation. These factors weigh heavily on the cost of funding, the risk profile of the portfolio and the absorption capacity of the Bank's delivery intermediaries. The price-driven municipal tendering process continues to pose particular challenges and often limits the scope for optimising the development impact of municipal investments. The situation calls for new ways of reaching the underserviced parts of the market, of strengthening their infrastructural base and helping them to create an enabling environment for sustainable interventions.

Non-government institutions have shown an increased appetite for providing infrastructure, and the utility sector is also mobilising funding to address the backlog in bulk infrastructure. While this has created new delivery channels for the Division, it has also introduced challenges with regard to the specific skills required for such transactions. This has been evident particularly in the mining, energy, manufacturing and property development sectors. Meanwhile, cities hosting the 2010 World Cup have continued to prioritise associated projects such as the development of precincts and public transport.

In the past year, the Division worked to increase funding for development in South Africa in a targeted manner, and to deepen its development impact through infrastructure that stimulates economic growth or provides basic services. It also sought to promote and strengthen cooperation between the different role players. The Division accordingly aimed to:

- Expand the scope of its interventions in a targeted manner
- Diversify its client base to generate wider socio-economic returns, balance its portfolio and reach out to those not yet benefiting from development initiatives
- Develop and finance sustainable private sector projects and public-private partnerships to promote development across all provinces and key sectors
- Tailor-make support packages for the different municipal markets:
  - Bigger municipalities: initiatives that promote service delivery and growth, thus creating an enabling environment, especially for poor communities
  - Smaller and under-resourced local municipalities: investment support combined with technical assistance, knowledge interventions, development facilitation and the gradual building of capacity
- Originate projects in areas of institutional failure, coordinating with national initiatives and providing post-implementation support to ensure sustainability
- Optimise the development impact of the services it delivers by designing interventions carefully and aligning them with knowledge products

Operations review

During the year under review, the Division grew and diversified its portfolio in order to service poorly resourced communities and support the provision of economic infrastructure. The main instrument of support, loan finance, was combined with technical assistance, advice and other non-financial services to strengthen the delivery capacity of intermediaries and to maximise the development impact of interventions.

Some of the specific results achieved are reflected in the sections below.

Increasing funding for service delivery and economic growth through investment loans

The Division's portfolio grew to R23 billion (2007/08: R15 billion) in line with its drive to diversify its delivery channels, reach a broader population and increase the volume of its support. The target for new investment approvals was R5,8 billion (based on market forecasts and actual performance history), but performance far exceeded this: R19,7 billion in new investment loans was approved for 128 projects this year (up 35% on 2007/08). The average value per approval increased to R154 million (R61 million in 2007/08). This was due mainly to the multi-year nature of the programmes being funded, the extent of the bulk infrastructure programmes of the state-owned enterprises, and the broadening of the Bank's delivery channels to reach more institutions in the infrastructure field.

Typically, there is a lag of three to six months between the approval of a project and its conversion into a signed commitment, which then allows for actual implementation. In the municipal market, most projects are funded through a tendering process. Non-governmental institutions, private companies and state-owned enterprises often follow protracted negotiation processes and the conversion rate of project approvals into commitments in the same year is generally low. The uncertain economic environment also caused institutions to delay the implementation of their programmes. As a result, the Division achieved a conversion rate of 62% of project approvals into commitments during the year (77% in 2007/08). This amounted to new commitments of R8,2 billion for the year. Terminations, where projects were approved

City of Tshwane municipal support programme, Gauteng

Total cost R1,0 billion; DBSA contribution R825 million

The objective of the City of Tshwane's infrastructure programme is to enhance the socio-economic development of the greater metropolitan area, particularly in the poorest communities, by providing and rehabilitating municipal infrastructure services. The programme includes projects to upgrade and extend infrastructure such as bulk and reticulated water supply, sanitation, electricity supply, roads and storm-water drainage.

One component of the loan to the metro was an amount of R150 million from the TIP, which supports the provision of services to the poorest communities in the area. Among the priorities were to increase access to free basic services, create jobs for local communities, enhance socio-economic empowerment through the government's Expanded Public Works Programme, develop skills through project-specific training, and reduce illegal electricity and water connections by supplying free basic services.

This funding addressed urgent needs for basic infrastructure and benefited 31 000 people; 3 310 job opportunities were created in the process.

by the DBSA but not taken up by clients, amounted to R1,57 billion. Projects worth a further R11,5 billion were in the negotiation phase by year-end.

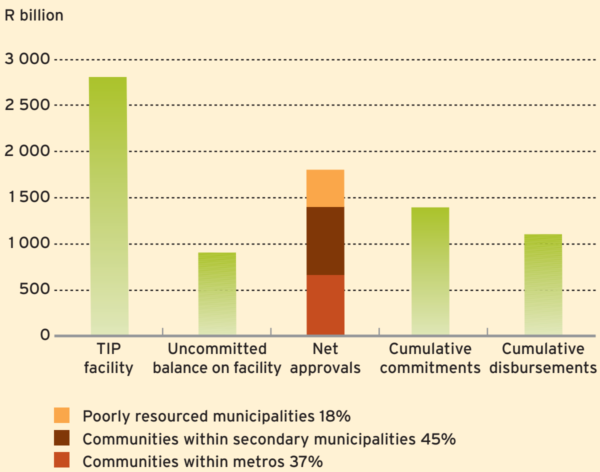
Disbursements of funds reached R7,1 billion (target: R4,2 billion), which accelerated the implementation of infrastructure projects. Considering the nature of the projects committed to during the year and current rates of conversion, it is anticipated that the rate of disbursements will continue to rise over the next year.

Outreach to poor communities

One of South Africa's most daunting challenges is to create a sustainable living environment for all its communities. The hinterlands in which more than 30% of South Africans reside are generally serviced by under-resourced municipalities. These areas lack an economic base, they have low absorption capacity and their levels of service delivery are typically poor. It is estimated that more than half the total backlogs in basic infrastructure are in these areas. Poor and underserviced communities are also found in metropolitan areas, of course, partly because people have migrated to places that are perceived to offer more opportunities.

In addition to financial resources, these poorly serviced areas also need capacity building, especially in project implementation. This required South Africa Operations to cooperate closely with other divisions to provide meaningful support in the year under review. There was particularly fruitful cooperation between the Targeted Infrastructure Programme (TIP) and the Development Fund's Siyenza Manje deployment initiative. The TIP is a concessional programme launched in 2004 to build financial sustainability in poorer municipalities through tailor-made combinations of technical assistance and investment support. It remains the main instrument for delivering financial support to poor municipalities. The uptake level of this R2,8 billion programme to date is now at 65%. In 2008/09, the Division used this facility to target underserviced communities in poor and metropolitan municipalities. This year, 37 new TIP projects with a total value of R612 million were approved and R507 million of this amount was subsequently disbursed.

The following graph shows the cumulative uptake of the TIP facility.



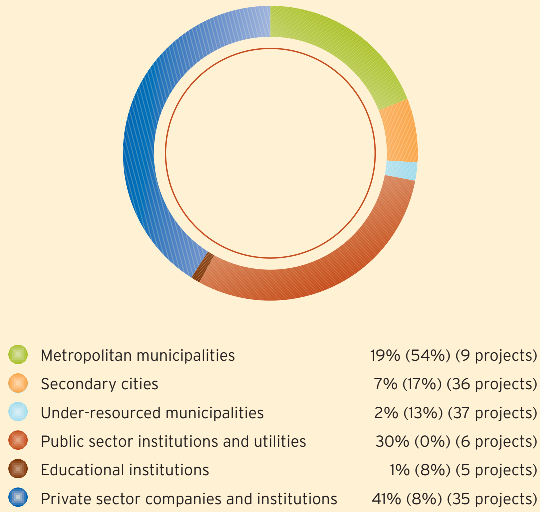
Targeted Infrastructure Programme

Broadening the delivery channel by diversifying the client base

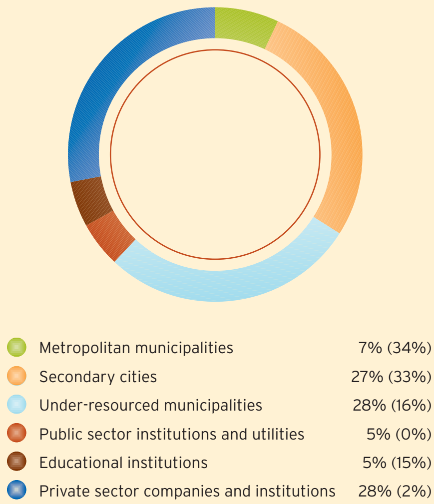
In total, 91 clients benefited from the 128 investment projects (2007/08: 94) registered during the year. Given that it is a strategic priority of the Division to broaden its support across social and economic sectors, the expansion of the client base, especially with regard to economic and enabling infrastructure, was encouraging. Support to municipalities through new approvals represented 28,6% of the total value of approvals. Utilities and state-owned enterprises accounted for 29,3% and educational institutions for 0,9%. Non-municipal clients, mainly involved in providing social and economic infrastructure, registered 41,2% of the total value of approvals for the year.

This growth in the role of non-municipal clients stems from the recognition that development in poorly resourced areas requires new partners to bridge the capacity gap. The Division's development strategy is therefore two-pronged: it strengthens the capacity of municipalities; and it builds the local economy by funding projects in the productive sectors through non-governmental institutions.

The diversification of the client base in this regard is evident in the two figures below. The first figure shows the value approved per category of client, while the second shows the number of projects approved in each category (with the 2007/08 percentages in brackets).



Value of approvals per client category



Number of approvals per client category

Among municipalities, the prominent role of metropolitan municipalities as delivery channels is obvious from the value of approvals – they accounted for 67% of the total, through nine programmes. Two of these programmes were targeted at the poorest communities through the TIP. Metropolitan municipalities are important delivery channels as they reach significant numbers of poor people, and the Division's support in this regard was aimed specifically at helping to overcome the huge backlogs in informal settlements and foster an enabling environment for job creation.

University of the Western Cape student village project, Western Cape

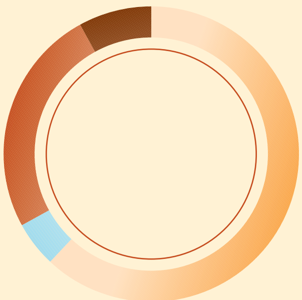
Total cost R250 million; DBSA contribution R225 million

The University of the Western Cape student village project is a unique partnership with the private sector to provide student accommodation. An additional 2 000 beds will be made available, increasing the capacity of the University to absorb students on the campus by as much as 35%.

The social imperative of this project was rooted in the negative consequences of the lack of student accommodation, particularly for students from the rural areas. Many students were forced to travel long distances, live in shared accommodation, or pay exorbitant rates for alternative housing. This contributed to poor performance and high dropout rates.

The project will be managed primarily by a joint venture between the Kovacs team (from the private sector), Academic World (the university) and an entity led by young BEE entrepreneurs.

Support to secondary and poorly resourced municipalities also grew during the year, as reflected in the following figure. Total support to the municipal sector grew by 16% to R5,6 billion for the year.



- Metropolitan municipalities 62%, 6 programmes (2007/08: 58%, 2 programmes)
- Under-resourced communities within metros 5%, 3 projects (2007/08: 7%, 2 programmes)
- Secondary cities 25%, 36 projects (2007/08: 24%, 33 projects)
- Under-resourced municipalities 8%, 37 projects (2007/08: 6%, 29 projects)

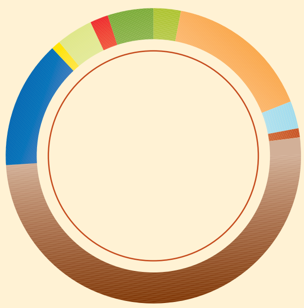
Value of municipal approvals, 2008/09

Geographical focus of support

South Africa is a land of contrasts, with an uneven distribution of development needs and economic potential. The country's spatial framework consists of a number of centres of economic activity, which are linked by corridors and surrounded by vast and underdeveloped hinterlands. Institutional and financial capacity is concentrated mainly in the core centres and to a lesser extent in the corridors; in the under-resourced hinterlands, institutional and financial capacity is limited, absorption capacity is low and service delivery is poor. Recently, however, areas of the hinterland that are rich in resources have attracted investment attention, mainly in the mining and power generation sectors.

In respect of social infrastructure, provinces with metropolitan municipalities and larger urban centres continued to display greater absorption capacity and greater demand for support, given the concentration of poor communities in urban areas. The biggest demand for enabling infrastructure came from areas with the highest economic growth, and investments in road and air transportation infrastructure therefore followed the pattern for provinces with metros and large centres. Support for economic infrastructure was also more evident in Gauteng and in resource-rich areas of Limpopo, the Northern Cape and Mpumalanga.

The following figure shows the geographical focus of the Division's support through new investment approvals during the year under review (with the 2007/08 percentages in brackets).



Western Cape	3% (11%)	KwaZulu-Natal	14% (54%)
National and multi-provincial	16% (0%)	Limpopo	1% (4%)
Eastern Cape	3% (5%)	Mpumalanga	4% (2%)
Free State	1% (6%)	North West	2% (2%)
Gauteng	51% (15%)	Northern Cape	5% (1%)

Approvals per province, 2008/09

North West water and sanitation programme, phase 2, North West

Total cost R100 million; DBSA contribution R100 million

The North West water and sanitation programme is in its second phase of implementation. The programme is a national government priority, aimed at improving the water supply to formal settlements in six towns. This will contribute to better living conditions and health outcomes, and also help to prevent downstream environmental degradation.

The North West government identified the DBSA as a partner in this programme. As the six municipalities involved have limited capacity, the Bank provided a support package of both loan and grant funding, while the provincial government provided back-up facilities and played an oversight role through a representative steering committee. One of the successes of this programme to date has been the high level of participation by all the role players, including the beneficiary communities. The DBSA has deployed a Siyenza Manje engineer to the provincial Department of Local Government and Housing to ease capacity constraints on the programme.

In rand value terms, approvals in six provinces grew compared to the previous year. The reduction in the Western Cape and KwaZulu-Natal portfolios (by 8% and 40% respectively from 2007/08) arose from the fact that certain multi-year programmes approved in previous years were being implemented this year. By contrast, the decrease in exposure to the Free State is attributable to a lack of absorption capacity and low levels of activity by utilities and state-owned enterprises in the province.

The significant growth in the Gauteng portfolio (tenfold in real terms) is the result of increased investments in economic and enabling infrastructure, led by the transportation sector. The Bank's exposure to national programmes also increased, mainly in the commercial, information and telecommunications sectors. Investments directed at the development of resource-rich areas were made in Mpumalanga, Limpopo and the Northern Cape. The Eastern Cape programme grew by 113% in real terms, mainly as a result of commercial investments.

The DBSA addresses the needs of poorly resourced communities in the more remote parts of the country, where municipal absorption capacity is low and economic opportunities are limited, through longer-term capacity building programmes. These include technical assistance products developed in close cooperation with the Siyenza Manje programme.

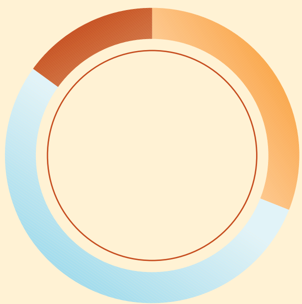
During the year, we launched an initiative to develop joint programmes in collaboration with other divisions of the Bank. This led to the establishment of 12 joint projects in which technical assistance, advice, support by deployees and investment funding are packaged together. The newly launched LEDi will be an important instrument for realising this collaborative work during the year ahead.

Sectoral focus of interventions

The following figures show investment in infrastructure by market and sector during 2008/09 (with the 2007/08 percentages in brackets).

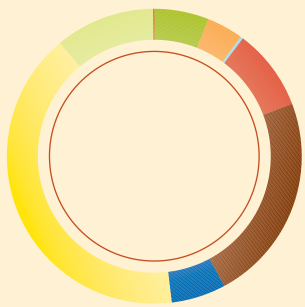
All market segments grew significantly in real terms. However, the figures show the increased emphasis on enabling infrastructure, which accounted for 54% of approvals, mainly in the transportation and energy sectors. Social transformation infrastructure, which is funded mainly through municipalities, aims to create sustainable living conditions and a better quality of life for beneficiary communities. In this category, the emphasis during the current year was on community facilities and roads (64% of approvals), whereas during 2007/08 it had been on energy, sanitation and housing (48% of approvals), a shift influenced by the programmes for the 2010 World Cup.

Economic infrastructure approvals (15% of total approvals) were mainly in respect of entrepreneurial activities, and growth and development funds to stimulate broad-based economic development. Mining and manufacturing projects were also prominent, although the levels of investment were lower than in 2007/08, partly owing to international economic conditions.



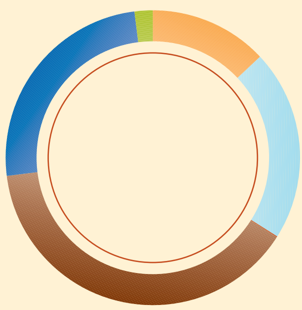
Social	31% (66%)
Enabling	54% (20%)
Economic	15% (14%)

Market focus of approvals, 2008/09



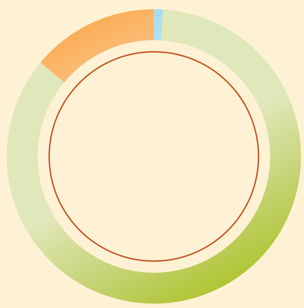
Education	6% (5%)	Sanitation	6% (11%)
Energy	4% (13%)	Community facilities	41% (18%)
Institution building	0,3% (0,1%)	Water	11% (11%)
Residential housing	9% (24%)	Communications	0,1% (0%)
Roads and drainage	23% (17%)		

Sectoral focus of approvals within municipal areas, 2008/09



Water	2% (0%)	Institution building	0,1% (0%)
Communications	13% (29%)	Roads and drainage	39% (40%)
Energy	21% (31%)	Transportation	25% (0%)

Sectoral focus of enabling infrastructure approvals, 2008/09



Agriculture, Tourism	1% (8%)
Entrepreneurial	85% (69%)
Mining, Manufacturing	14% (23%)

Sectoral focus of economic infrastructure approvals, 2008/09

Independent Power Producers project, Eastern Cape and KwaZulu-Natal

Total cost R9,0 billion; DBSA contribution R2,0 billion

This project aims to supplement the bulk supply of electricity to meet South Africa's energy demands. It involves the construction of two identical 1 000MW oil-fired power stations in the Eastern Cape and KwaZulu-Natal, which will provide peak load electricity to Eskom. A 15-year power purchase agreement with Eskom is envisaged, and the utility will be the sole off-taker in terms of its Independent Power Producers Programme.

The project is being implemented by the SUEZ Consortium, a joint venture between SUEZ-Tractebel SA, Legend Power (Pty) Ltd and a broad-based empowerment trust, thus linking international and local expertise, and empowering previously disadvantaged segments of the community. The DBSA is contributing R1,4 billion in senior debt towards total construction costs of more than R9 billion, and the Bank is also underwriting another R600 million in empowerment financing.

Innovative approaches to providing development finance

Finding appropriate ways of providing sustainable infrastructure remains a challenge. In under-resourced municipalities, traditional funding and delivery mechanisms are often ineffective. To ensure that more people benefit from economic growth, broad-based BEE must remain a priority. We also need to support alternative providers of enabling infrastructure, particularly in energy generation.

With these considerations in mind, the Division found new ways to package its support during the year under review, as the following examples show.

- *KwaZulu-Natal Growth Fund:* This initiative demonstrated the potential of a growth fund to strengthen the economic base and broaden participation in the local economy. The Division subsequently supported the replication of the concept in the Northern Cape, Mpumalanga, Limpopo, North West and Gauteng. However, the process is time consuming and the results will only be visible over the medium term.
- *Roads infrastructure:* The use of funds for infrastructure such as roads has been actively explored in the North West and Gauteng.
- *North West water and sanitation programme:* After the success of the first phase of this programme, an expanded model was developed in partnership with several municipalities and the provincial government, supported by the national government (see box on page 43).
- *Zero Waste Organic Farming Trust, Eastern Cape:* This project, which was initiated in partnership with the community, aims to introduce zero waste farming. Once the Trust had been established, a study was launched to test the feasibility of cooperative fish-feed production, based on zero waste practices, for communities in the Mooiplaas area.
- *ELIDZ People Powers Africa Investigations, Eastern Cape:* The non-compliant Hoodpoint waste water operation discharges waste into the sea in the Buffalo City municipality. People Powers Africa is testing the feasibility of a zero waste intervention in the operation, and the Division provided a grant to co-fund this study. The aim is to develop an innovative alternative solution to the waste water problem in the area.

Originating projects where a development gap exists

During 2007/08, the Division began to take a hands-on approach to identifying development opportunities. This allowed the Division to assume the role of lead facilitator, arranger and potential project developer, in situations where municipalities lacked the capacity to package and implement projects themselves. The essence of project origination is to bridge a delivery gap, proactively stimulating development where it would otherwise not have taken place. This work takes many forms, from helping municipalities to implement projects that have been delayed by a lack of capacity to packaging projects more actively.

Building on lessons learnt in the previous year, 12 projects were approved during 2008/09 (up from seven in 2007/08). A further six are currently being prepared. These initiatives have long lead times because of the institutional complexities involved: once projects have been identified, feasibility studies must be done, and then projects have to be designed and the institutional arrangements finalised before financial closure can take place. Some projects initiated during the past year are outlined below:

- *Sales Talk:* The Division initiated the project and assisted with its design, leading to an investment in the development of low-cost housing.
- *SUEZ Independent Power Suppliers:* The Division guided this project opportunity, which led to the conceptualisation, packaging and implementation of an initiative to enter the energy generation market.
- *Ngquza Hill municipal infrastructure programme:* Together the Division and the municipality identified priority needs and brought them forward on the municipality's development programme. This led to the funding of the municipal infrastructure programme for 2008/09.
- *Durnacol:* Phase 1 of this project involves the upgrading of existing buildings at the old Durnacol mining complex for use as a skills development training centre.
- *Govan Mbeki Municipality:* The project aims to provide basic services to the targeted communities through the procurement of compactor trucks for waste collection and road graders for gravel roads. The Bank originated the project in discussion with the municipality and effectively brought it forward on their development agenda.

Mobilising co-funding on development projects

The demand for investment in infrastructure to eradicate backlogs and create a platform for economic growth is estimated at more than R500 billion a year. The government and development finance institutions can only provide a portion of this requirement and it is therefore crucial that public and private sector investors cooperate in funding efforts. The Division focused on integrating such funding into its projects to find the optimal development solutions.

In mobilising co-funding during 2008/09, the Division achieved a ratio of 1:2,2 on committed projects against a target of 1:1,3 (compared with 1:2,8 in the previous year). This was made possible by increasing the co-funding of projects outside the public sector, and by partnering with other funders and the government on municipal projects, especially for poorly resourced municipalities. Close cooperation with the Siyenza Manje programme and with national government to align funding flows is central to this effort. As for projects funded through private sector companies and equity funds, the Division limits its investments to a maximum of 25% of project value.

The year ahead

In 2009/10, the Division will remain dedicated to accelerating development by providing additional capital for infrastructure interventions. The focus will be on reducing backlogs and enabling growth across all sectors and market segments, especially in poor communities and in areas with limited capacity.

Specific challenges for the Division include the need to broaden its development outreach by providing alternative means of support and to diversify the intermediary channels for such support. In areas such as health, education and provincial roads, for example, few intermediaries have the ability to take up funding from the DBSA.

Certain sectors that have both a high economic impact and large job creation potential, such as tourism and agriculture, are on the fringes of the Bank's mandate in respect of direct investment. The Division needs to

Sishen Iron Ore Company, Northern Cape

Total cost R5,4 billion; DBSA contribution R750 million

This project aims to build the Northern Cape economy and create sustainable development through employment creation and income generation.

A new opencast mine is being developed to exploit iron ore deposits. The mine, which is scheduled to start production in the first half of 2012 and ramp up to full capacity in 2013, will have a lifespan of more than 20 years. Iron ore is used to produce pig iron and direct reduced iron, the primary raw materials for the production of steel locally and internationally.

The Sishen Iron Ore Company is already the biggest employer in the Northern Cape. The new mine will create additional job opportunities and contribute to eradicating poverty. To date, an estimated R2,7 billion has been disbursed on this project, of which the DBSA contributed R375 million.

counter the institutional failures that hamper progress in these important sectors and find new ways of facilitating development. This should be complemented by specific capacity building and empowerment initiatives to promote broad-based BEE and strengthen infrastructure delivery channels.

Many of the municipalities that serve marginalised communities have particularly limited implementation and absorption capacity. Support to the municipal sector must be packaged in a way that promotes sustainability. Metropolitan municipalities will remain a focus area given their important role in delivering meaningful volumes of support and the need to finalise preparations for the 2010 World Cup.

The adverse global economic conditions have affected the availability and affordability of funding, and these will be critical considerations as the Division tries to find appropriate ways of channelling development resources. The target of accelerating new approvals over the next three years is a daunting one, but it is crucial that we increase investment in infrastructure in the drive to deliver services and eradicate poverty.

Neotel SNO (Neotel and Nexus) telecommunications project

Total value R4,1 billion; DBSA contribution R2,7 billion

In a bid to diversify South Africa's communications network, the government decided to grant a second national fixed-line operating licence. This is part of a long-term government effort to liberalise the telecommunications sector, reduce the cost of these services and enhance their quality. The government duly awarded the second national licence to SNO (now trading as Neotel), which thus became the first full-scale competitor to Telkom. The project is set to have great development impact by reducing the economic transaction costs arising from the high price and poor quality of telecommunications services.

The DBSA has been involved with Neotel and Nexus (Neotel's broad-based BEE partner) since 2006. Neotel has started rolling out its services in Johannesburg and Tshwane, and is preparing to expand access to consumers outside Gauteng. During the year under review, the Bank allocated a further R2,4 billion for the establishment of telecommunications infrastructure and R120 million as part of Nexus's empowerment participation.

This project presented particular challenges: there were high technological requirements to be met in a changing environment, and facilities to be set up over a wide geographic area. Other critical aspects of the project included the development of interfacing platforms between different technologies and flexible implementation platforms, special risk mitigation measures, and methodologies to ensure broad-based empowerment. Overall the project demonstrated the potential for sectoral diversification.

Operations overview

Mr Admassu Tadesse

Group Executive: International Division

International Division

Strategic and operating context

The International Division operates on a continent well endowed with environmental diversity, natural and human resources, and cultural and archaeological richness. Africa is poised for accelerated growth and transformation, increasingly so following the end of several long-running civil wars and the consolidation of democratic rule in most of its states.

The region embarked on a new growth trajectory in the mid-1990s, but growth has slowed since the start of the global financial crisis. It is noteworthy that Africa's new growth has come not only from better terms of trade owing to higher commodity prices (including oil) but from improved macroeconomic management and political governance. Until the financial crisis, the continent's rates of inflation were relatively low, fiscal balances were strong and foreign reserves were being accumulated. In recent years, debt relief has helped to reduce the debt overhang and ease liquidity constraints, enabling governments to undertake more public investment.

Although the decline and stagnation of the previous two decades have been reversed, the region's vast potential is far from fully harnessed. Despite strong overall economic performance in many countries, few are growing fast enough to make a substantial dent in their poverty numbers. The region faces several challenges, notably inadequate infrastructure and energy, insufficient trade and investment, and more recently a global food crisis and growing climate change risks.

Several overarching initiatives and sector development strategies are addressing these challenges. The African Union, principally through its New Partnership for Africa's Development (NEPAD), has identified strategic priority areas where action is required in infrastructure, agriculture, health, education, good governance and investment, among others. As far as infrastructure is concerned, the major commitments include increased investment in maintaining existing and building new infrastructure, new regulatory frameworks and the promotion of public-private partnerships.

When it comes to implementing these commitments, the results have been mixed. On the positive side, coordination has improved at the national level and for cross-border projects. Indeed, many countries have prepared strategic frameworks for road transport. In 2005, African countries and institutions supported the establishment of the Infrastructure Consortium for Africa, which will strengthen the NEPAD Short-Term Action Plan and the Medium- to Long-Term Strategic Framework. Furthermore, in 2006 the African Union, NEPAD, regional economic communities and the African Development Bank adopted a Coordination Mechanism for the Development of Infrastructure in Africa with the aim of forging a common agenda in this area.

However, there are several constraints. According to the MDG Africa Steering Group, the continent has tangible limitations in the maintenance of infrastructure and in transformational energy generation projects, including large-scale hydro-power and transmission networks. The slow rate of overall progress in attaining the Millennium Development Goals (MDGs) is a serious cause for concern. The first joint meeting of the African Union Conference of Ministers of Economy and Finance and the ECA Conference of African Ministers of Finance, Planning and Economic Development in early 2008 acknowledged that the main constraints include delays in implementing national development plans and strategies, and in mobilising adequate resources to scale up investments in key sectors.

In agriculture, commitments include the 2003 Maputo Declaration on Agriculture and Food Security in Africa, calling for 10% of public expenditure to be devoted to agriculture and rural development by 2008; the 2003 Comprehensive Africa Agriculture Development Programme (CAADP) framework, calling for agricultural growth rates of 6%; the 2004 Sirte Declaration on the Challenges of Implementing Integrated and Sustainable Development in Agriculture and Water in Africa, which contains 25 ambitious commitments, including a reaffirmation of the ones made through the CAADP and in the Maputo Declaration; and the 2006 resolution of the Abuja Food Security Summit. Progress is being made in implementing the Comprehensive Africa Agriculture Development Programme framework with the conclusion of regional compacts through the regional economic communities. These development strategies are mirrored in SADC's Regional Indicative Strategic Development Plan (RISDP).

It is clear that a large part of the solution lies in expanding infrastructure across sectors. This has been identified as a high priority by the African Union and the various regional economic communities. The need to expand infrastructure gives rise to a large development financing gap: recent estimates put the region's annual requirements at US$80 billion per year, with the power sector accounting for US$42 billion and transport US$20 billion per year. The overall development financing gap in the region is estimated at US$40 billion per year.

Unfortunately, the global economic crisis has taken its toll on the region. It hit the key drivers of growth, especially capital inflows, trade flows, natural resource sectors (oil and minerals) and agricultural exports. It also threatens to undermine macroeconomic stability owing to widening current account and budget deficits. A budget deficit of 5,8% of GDP is projected for 2009 for the continent as a whole, down from a surplus of 2,8% in 2008. The current account balance is expected to deteriorate from a surplus of 2,7% of GDP in 2008 to a deficit of 5,3% in 2009. The widening "twin deficits" severely limit the ability of African governments to respond to the crisis and to sustain their development programmes. There is therefore a serious concern that the growth crisis may degenerate into a development crisis. This constitutes a major threat to the continent's infrastructure development agenda, as financiers and sponsors withdraw and projects are unable to meet their revenue and funding targets. The implication is that development finance institutions operating in the region, including the DBSA, have to assist in filling some of the gaps, stabilising and reducing the cost of funding, and fundamentally rebuilding confidence.

Scope and engagement

In line with its vision of an integrated and prosperous region, progressively free of poverty and dependency, and the growing emphasis on the greater integration of countries and regional economic communities on the continent, the DBSA created a dedicated division to house its international operations. The year under review was the first in which the International Division operated as custodian of the Development Bank's regional development strategy.

The Division provides a mix of financial and non-financial products and services to a range of public and private sector clients and partners in the region. It focuses on regional integration, particularly in relation to economic infrastructure sectors with high financing gaps, such as energy, transport and ICT. It is also concerned with social infrastructure such as health, nutrition and education, while considering other sectors that either support infrastructure development, such as mining and tourism, or promote exports and economic diversification.

The Division's financing and investment operations are focused on the southern African region, but extend selectively to multi-country infrastructure projects, initiatives and special purpose funds that cut across the continent. Although located outside southern Africa physically, such projects have a significant development impact in the region and advance its integration with adjacent sub-regions in respect of infrastructure and related markets.

In the year ahead, the Division will consider support for the development and interconnection of the southern and eastern African power pools, which will feed into one another. Infrastructure integration between southern and eastern Africa was given renewed impetus earlier this year when the heads of state of South Africa, Zambia, Uganda, Rwanda and Kenya, representing their regional economic communities, signed a tripartite interregional integration agreement between SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

As part of its regional capacity building, advocacy and thought leadership functions, the Division also plays the role of advisor, partner and integrator, actively promoting international relations to build smart partnerships and represent the Bank in key regional and international development initiatives.

Operations review

The International Division had a successful year, achieving robust growth targets despite the global financial crisis that dampened the pace of lending and investment across the continent. Like all banks operating in this period, the DBSA was affected by the higher cost of funding and had to find innovative ways of packaging projects to enhance their viability.

The Division grew its net loan portfolio by 12,0% from R6,53 billion at the end of March 2008 to R7,31 billion a year later. At the same time, the Division significantly increased its exposure to equity instruments from R691 million to R1,33 billion, an increase of 93%. The growth in the portfolio was achieved through disbursements of R2,17 billion, marginally lower than the R2,38 billion of the previous year. The Division also showed strong growth in approvals and commitments: total approvals amounted to R3,86 billion (R2,39 billion in 2007/08) while commitments totalled R3,49 billion (R2,92 billion in 2007/08).

While two poor countries, Mozambique and Zambia, remain the largest recipients of the DBSA's development financing in the region, the Division continued to diversify its portfolio by expanding its exposure to two large low-income countries, Tanzania and the Democratic Republic of Congo (DRC).

Apart from being a stable country with promising prospects, Tanzania is a bridge to the eastern Africa region, which shares promising synergies with southern Africa, especially in the power, transport and telecommunications sectors. To strengthen these synergies, the Division approved a commitment of US$25 million to the Maweni Clinker and Cement Plant in Tanzania and disbursed TZN31,9 billion for the network expansion of a cellular network operator, Millicom Tanzania, trading as Tigo. A further US$40 million was approved to assist the Tanzania Ports Authority with upgrading the Dar es Salaam port. The limitations of this key port have constrained the trading capacity of several countries in the region, especially landlocked areas such as Zambia and the eastern DRC. The port is an important project in the North-South Corridor, an integrated spatial development initiative jointly supported by SADC, COMESA and the EAC. The initiative seeks to unlock the vast potential of mining, power, agriculture, tourism, trade and human development in this area, which stretches from South Africa to Djibouti in the upper reaches of COMESA.

The International Division has made inroads into the challenging operational environment of the DRC, after a concerted effort to invigorate the reconstruction and development process in support of the bi-national commission between the DRC and South Africa. The first commitment to the DRC was a US$10 million contribution to the refurbishment of the Grand Karavia Hotel in Lubumbashi. The DBSA is also the financial institution mandated to fund several priority infrastructure projects in the DRC.

The Division increased its development financing for social infrastructure in the region, specifically in Lesotho, which has strong synergies with its South African neighbour in important sectors such as water and power. This year, the DBSA joined forces with the government of Lesotho and a private sector consortium to support the construction of a modern public hospital and related clinics. This pioneering public-private partnership, in which the Bank was the lead arranger, is described in the box below.

The projects highlighted above helped the Division not only to expand the scope of its development impact but also to diversify its portfolio, as shown in the graphs opposite. While the R1,03 billion Konkola Copper Mine transaction in Zambia made up a significant portion of 2008/09 disbursements, this was balanced by the investments in the Tanzanian telecommunications sector; support for the development finance sector, through an equity investment in Proparco, the French development agency, and further commitments to pan-African investment funds.

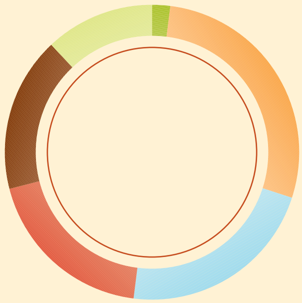
Driven by the financial crisis, the level of non-performing loans increased to 9,2% of the total loan portfolio, up from 4,7% in the previous year. In response, the Division established a portfolio management unit that will monitor the continued feasibility of its projects closely. This unit will also identify warning signs from projects that may require proactive and early assistance from the DBSA to preserve their sustainability.

A new impetus to advanced health care in Lesotho and the region

The health-related MDGs pose a major challenge for sub-Saharan Africa. According to the World Health Organisation (WHO), most countries in the region have stagnated or lost ground in terms of meeting these MDGs. Owing to financial and institutional capacity constraints in these countries, the majority of people in the region have inadequate access to health care.

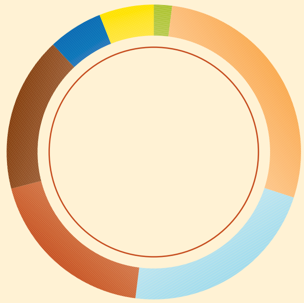
Recognising this challenge, the government of Lesotho entered into a public-private partnership with a Lesotho-South Africa consortium, anchored by the South African group Netcare, to build and operate a new 390-bed hospital, and refurbish and operate four filter clinics associated with the existing hospital.

The DBSA was appointed as lead arranger of this project, which is unique to the health sector in the region. The Bank committed R740 million to the project, including R60 million to facilitate the participation of a local economic empowerment group in the hospital. This group is a consortium of doctors, nurses and health care workers from Lesotho and South Africa, and it is hoped that involving them in this way will help to counter the brain drain among health professionals in the region. The project will also stimulate economic development in other areas through substantial backward and forward linkages with the local construction, textile, maintenance and security industries.



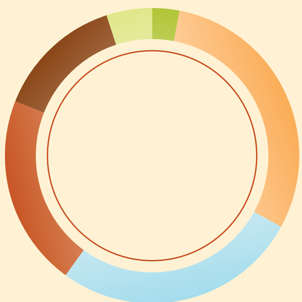
DRC	2%	Lesotho	19%
Zamiba	28%	Multi-country	17%
Tanzania	22%	Mozambique	12%

Approvals by country, 2008/09



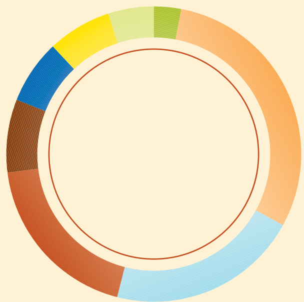
Tourism	2%	Funds	17%
Mining	28%	ICT	6%
Transport	22%	Manufacturing	6%
Health	19%		

Approvals by sector, 2008/09



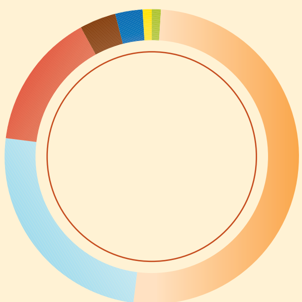
DRC	3%	Lesotho	21%
Zamiba	30%	Tanzania	14%
Multi-country	27%	Madagascar	5%

Commitments by country, 2008/09



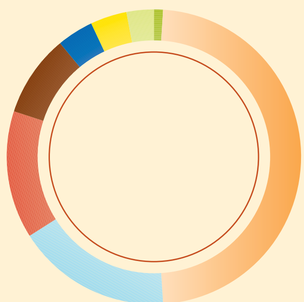
Tourism	3%	Financial services	8%
Mining	30%	ICT	7%
Health	21%	Manufacturing	7%
Funds	19%	Agribusiness	5%

Commitments by sector, 2008/09



Botswana	1%	Madagascar	4%
Zamiba	51%	Mauritius	3%
Multi-country	25%	Mozambique	1%
Tanzania	15%		

Disbursements by country, 2008/09



Tourism	1%	Funds	9%
Mining	48%	Energy	4%
ICT	17%	Agribusiness	4%
Financial services	14%	Manufacturing	3%

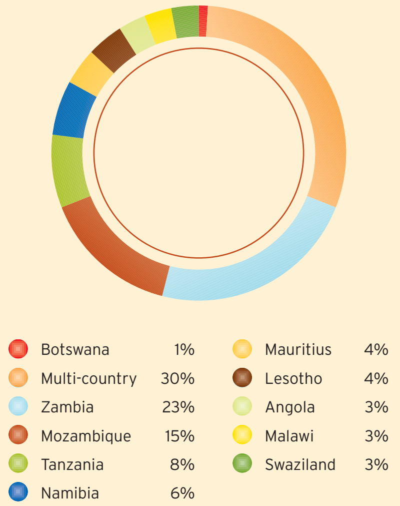
Disbursements by sector, 2008/09

The International Division's activities were not limited to direct investment and financing. It was a member of an international transaction advisory team advising ZESCO, the Zambian parastatal electricity provider, on the development of its Kariba North Bank and Itezhi-Tezhi power stations. The SADC Ministers of Energy also asked the Division to work on behalf of the Southern African Power Pool (SAPP), the Regional Electricity Regulators Association of Southern Africa (RERA) and the SADC Secretariat to facilitate investment in priority electricity projects and accelerate the packaging of such projects.

With the region rightfully taking a greater interest in climate change issues, the International Division hosted a consultation meeting on a climate change strategy for sub-Saharan Africa in conjunction with the World Bank and the African Development Bank. It was also an important contributor to the African Ministerial Conference on the Environment.

Portfolio distribution

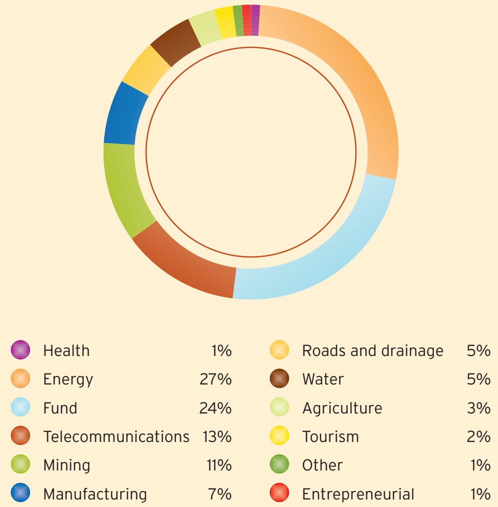
In line with the emphasis on regional integration and cross-border projects, multi-country investments make up the largest share of the Division's R8,64 billion asset portfolio. Zambia has a significant share of the investment portfolio, which is anchored by power infrastructure projects and related development projects in tourism and mining.



Portfolio distribution by country, 2008/09

From a sectoral perspective, energy projects continue to dominate the portfolio. While the International Division did not commit new funds to energy projects during the year, it is helping the SAPP to identify priority projects. The Division anticipates significant further investment in the energy sector once these projects become bankable.

The Division continues to use various funds as intermediaries for infrastructure investment: it provided equity to investment vehicles such as the Pan-African Investment Partners Fund, the Pan-African Infrastructure Development Fund and the Currency Exchange Fund.



Portfolio distribution by sector, 2008/09

Project development and preparation

The SADC region ranks last among the developing regions in terms of access to such infrastructure services as telecommunications, water, transport and energy. Its challenge is neither a shortage of infrastructure investment opportunities nor necessarily a lack of funding (at least, this was the case until the advent of the financial crisis). The challenge lies in the lack of bankable projects – projects with enough time and money invested in order to establish their financial viability from the standpoint of a financier. A closer look at the lists of infrastructure projects in the region reveals that many of them lack some of the basic information required for investment, such as detailed cost-benefit analyses or sustainability assessments.

For this reason, the International Division has continued to support the development and preparation of projects, together with one of its strategic international partners, the Agence Française de Développement (AFD), the French development agency. The DBSA-AFD Project Preparation and Feasibility

Serving as a reliable development partner – Timbuktu Manuscripts Preservation Project

The International Division's development support goes well beyond financing and includes the roles of advisor, project manager and agent. The DBSA served as the administrative trustee of the Mali Timbuktu Trust for several years, and the construction phase of this project has now been completed. The Bank administered the legal and financial arrangements of the Trust and ensured that appropriate governance and procurement processes were adhered to during the implementation of the project.

This project, a bilateral cooperation between Mali and South Africa, was initiated in 2001 during a state visit by South Africa's former President, Thabo Mbeki. The precious ancient manuscripts of early schools and universities held in Timbuktu date back to between the 16th and the 18th centuries, when the city flourished as the greatest academic and commercial centre in Africa. The manuscripts cover diverse subjects, from mathematics, chemistry, physics and optics to Islamic sciences, government legislation and treaties. With the manuscripts on the verge of being lost to decay and piracy, the South African government committed to sourcing funding from international donors to build an educational centre in Timbuktu where the texts could be housed.

The DBSA was proudly represented at the inauguration of the centre in January 2009 and is delighted to be playing a part in securing this valuable legacy of the people of Africa.

Study (PPFS) provided grant financing of R16,9 million during 2008/09, bringing the total funds made available for pre-investment activities to more than R55 million over the past five years. The total value of projects supported by the PPFS over this period exceeds R10 billion. Key strategic projects that have reached financing stage include the Ghana-Togo-Benin and the Zambia-Tanzania-Kenya energy interconnectors and the Kariba North Bank and Itezhi-Tezhi power generation projects. Due to the long lead times for preparing these projects, the Division will now begin to consider financing other bankable projects that emerge from them.

Smart partnerships

The immense infrastructure, growth and poverty gaps in the region require multi-institutional and multi-stakeholder responses. The DBSA is the only sizeable development finance institution in the sub-region, and its streamlined governance structure enables it to coordinate multi-stakeholder partnerships in pursuit of the region's strategic development agenda. The Bank therefore continues to consolidate partnerships with international stakeholders such as the German development institution KfW, the African Development Bank and the AFD. An example of this is the Division's R292 million equity investment in Proparco, a specialised subsidiary of the AFD that supports infrastructure and financial sector development in Africa. The DBSA's representation on the Proparco Board allows it to inform the investment strategies of this important source of development finance in the region. Efforts are also being made to support the new Africa Financing Partnership Initiative, which the African Development Bank is leading, with the active engagement of the DBSA, AFD, KfW and several other development finance institutions. The DBSA will be providing leadership in the promotion of priority infrastructure projects in the sub-region.

Together with the Industrial Development Corporation and the African Development Bank, the DBSA provides strong collective African leadership in development finance in the region. The Bank plays a key role in the Infrastructure Consortium for Africa, which promotes infrastructure priorities in the region. The DBSA also plays a leadership role in the governance of the SADC Development Finance Resource Centre in Botswana. The Centre promotes good governance and excellence in African development finance institutions. It is also a financial, technical and capacity building partner to several sub-regional and national development finance institutions.

The Division intends to strengthen its strategic linkages with and assistance to other areas south of the Sahara. This is especially important in view of the recent tripartite arrangement between SADC, the EAC and COMESA to support the development and integration of their infrastructure, which will be critical to advancing regional trade in this enlarged economic community.

The year ahead

Despite the uncertain global investment climate, the International Division remains positive about the outlook for Africa and is seeking viable lending and investment opportunities. This holds true especially in the infrastructure sector, where governments across southern Africa have recognised the need to address their infrastructure gaps. However, the Division is fully aware that it has to go beyond physical infrastructure and also promote social infrastructure projects and projects that address water, food and employment security. It will also increase its support for low-income countries and countries undergoing reconstruction, where they have viable projects, and for countries involved in projects that benefit the region as a whole.

The counter-cyclical mandate of a development finance institution such as the DBSA demands a stronger financing appetite over the next 12 months. The Bank's International Division therefore anticipates strengthening its position as one of the partners of choice on the African continent, as financier, advisor, implementer and integrator.

The Bank is exploring innovative ways of accelerating infrastructure delivery, ensuring that the government's big build programme is achieved despite global problems.

Research overview

Mr Ravindra Naidoo

Group Executive: Development Planning and Implementation

Strategic overview

The Research and Information Division plays a pivotal role in managing knowledge that enhances the DBSA's development impact and contributes to the public policy discourse in relevant development areas.

The Division comprises six key functions, namely research, policy, advisory services, information services, intellectual capital (university research network) and development planning. These functions were integrated more fully in the past year, enabling the Division to expand its role in public policy and support the Bank's internal operations.

Operations overview

During the year, the Division successfully completed several ongoing and new initiatives. The Division also engaged vigorously with strategic external stakeholders, which allowed it to influence the public policy discourse more effectively. Key achievements in the period are outlined below.

Research

The research function is a Bank-wide resource that supports the operational work of the organisation and also engages in the broader policy development arena. Its mandate is to analyse the social, political and economic environments and seek out sustainable solutions to the development challenges facing the country and the region.

The work of the research function is conducted according to its medium-term research agenda; this is revised annually to ensure that it remains relevant and responds to emerging priorities. In November 2008, the Division coordinated a workshop on a national research agenda, which was attended by high-level delegates from academia, various non-governmental organisations, government and research agencies. The workshop identified priority development issues for research in the external environment. It also focused on existing research initiatives by local institutions to avoid duplication of effort in this regard.

Regional integration was one of the main research areas in the past year. Two key studies were completed: an analysis of *Regional Economic Communities in African development and continental integration* and an examination of *Obstacles to a free trade area in the Southern African Development Community.* These studies inform the Bank's operational work in the region. Other areas of research included food and water security (see box opposite), local government service delivery, climate change, long-term development and employment creation.The research function also maintains macroeconomic models that deal with some of the quantitative requirements of the Bank and make it possible to measure its development impact more accurately.

The DBSA houses the accredited *Development Southern Africa* journal. Special issues of the journal in the year under review focused on *Living on the margins* and *The scramble for South Africa's natural resources: emerging contestations and insights.* During the year, the journal was awarded the prestigious Thomson Reuters Social Sciences Citation Index accreditation, in addition to its existing accreditation with the International Bibliography of the Social Sciences.

A strategic partnership was established with the Human Sciences Research Council to co-host the conference on "The Potential for and Challenges of Constructing a Democratic Developmental State in South Africa" (4–6 June 2008). The objectives of the conference were to contribute to theoretical insights on the developmental state, contextualise the developmental state in terms of South Africa's needs, highlight how a democratic developmental state can address the challenges of poverty, and assess the complementarities between a developmental state and a knowledge-based economy. The conference attracted high-level participation from government, development finance institutions, parliamentary portfolio committees, the private sector, and local and international institutions.

In view of the success of this conference, a second event was held in November 2008 to explore practical ways of dealing with the main policy challenges facing the developmental state. The workshop was a closed event for experts and practitioners engaged in economic policy and reform within the state, and more than 30 high-level delegates participated. The themes included the economic growth path for South Africa, financing a developmental state, the challenge of municipalities, employment generation, governance and public administration, and thoughts on a national planning commission. The general conclusion was that South Africa is an "aspiring developmental state" and much of the debate focused on how South Africa could become a more effective "working state", bearing in mind the significant socio-economic backlogs resulting from apartheid. The workshop agreed on the need for follow-up meetings to continue discussions on the role of the South African state in development, and the challenges and opportunities that it faces.

Water security studies

The water security programme consisted of a set of studies that assessed the current state of water security in the country, identified potential gaps for further research and outlined a role for the DBSA in this sector. In August 2008, workshops were held with key role players in the areas of research and policy, and research themes were identified. The resulting studies were conducted in partnership with a range of research institutions, and draft papers were presented at the Bank's Knowledge Week in October 2008.

Subsequently, consolidated reports were prepared, and in February 2009 a high-level, multi-stakeholder workshop was held with representatives from government, the private sector, and international and research organisations to take forward the work.

The research pointed to the need for a DBSA strategy to guide its investments in the water sector. During 2009/10, targeted dissemination and policy work will continue; this will include the development of a water investment strategy for the Bank.

Policy

The DBSA's policy function is integrally involved in analysing the external environment and providing policy support and advice on developmental issues.

During the year under review, the Division facilitated the development of "roadmaps" in two key social sectors – health and education. These sectors were identified as needing urgent review and turnaround strategies. The education roadmap process included relevant political heads and public officials, teachers' unions and other stakeholders. The process built stakeholder consensus around agreed documents, culminating in the development of the education roadmap and a ten-point programme. The document has been the stimulus for ongoing deliberation among key stakeholders. In the run-up to the national elections, the ruling party used the ten-point programme as a basis for its manifesto on education, and the pragmatic and inclusive approach adopted by the DBSA has enabled the roadmap to gain support among all political role players concerned about improving the quality of education. The programme has been adopted by the Presidency, which is working to put in place practical measures to implement it.

The parallel health roadmap process (see box on the next page) also involved relevant political heads and representatives from government, research and academic institutions, civil society, health unions, the private health sector and other stakeholders. The roadmap likewise sought to propose priority interventions to improve performance in the health sector. To this end, several consultative meetings were held, culminating in discussion documents and a draft roadmap for health sector reform. The last consultative meeting was held in November 2008, where the health roadmap and ten-point programme were finalised. This was followed by numerous presentations to stakeholders, along with newspaper articles and media interviews. The roadmap has been positively received by the Health Ministry and is being used as the basis for the Department's health strategy.

Toward reform in the health sector: a ten-point programme

In collaboration with the relevant stakeholders, the DBSA identified priority interventions that could improve the performance of the health sector. The following ten-point plan, which forms the basis of the recommendations, was positively received by the Health Ministry:

1. Establish a coherent and vision-based executive decision-making process, with inputs from a legislated consultative forum.
2. Develop appropriate messaging for a communication campaign by the Minister and the Presidency, with a particular focus on ensuring that the entire society addresses HIV/AIDS and tuberculosis as societal challenges.
3. Implement a comprehensive national health information system that can effectively support policy decision-making and monitoring of implementation.
4. Promote quality, including measuring and benchmarking actual performance against standards for quality.
5. Define an appropriately decentralised and more accountable operational management model for health service delivery, including revised roles and responsibilities for the national department, provinces, districts and public hospitals.
6. Bring in additional capacity and expertise to strengthen a results-based health system, particularly at the district level.
7. Establish a human resource strategy with national norms and standards for staffing, linked to a package of care.
8. Develop a strategic focus on child and maternal health.
9. Consider establishing specialised national agencies to focus on the national health information system, quality assurance, certificates of need in relation to expensive technology, etc.
10. Develop an implementation strategy and collaboration or partnerships to leverage funding, increase health sector efficiencies, and accelerate implementation of the National Strategic Plan.

The second *Infrastructure Barometer* was published in 2008. The *Barometer* series examines the contribution of economic and social infrastructure to South Africa's development path. The 2008 report explored the potential for increased public sector infrastructure spending to stimulate growth and reduce poverty and unemployment (see box below).

Infrastructure Barometer

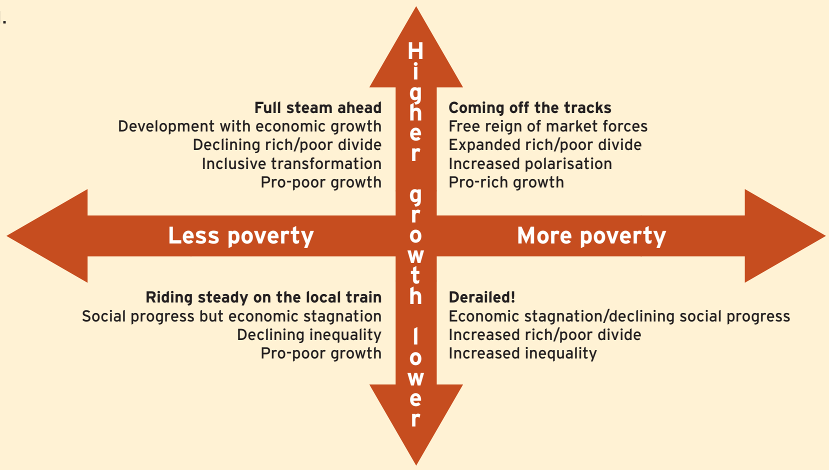
The *Infrastructure Barometer* is the DBSA's biennial research contribution to South Africa's high-level infrastructure discourse. The 2008 report focused on the impact of infrastructure investment on economic growth and development. The report took its focus from government's commitment to halving unemployment and poverty by 2014.

Research has shown that public sector investment in infrastructure can and does support shared growth. This happens through the overall fiscal stimulus, the forward linkages it creates to communities and businesses, and backward linkages through the opportunities stimulated in the construction and input supply sectors. But what is really happening in South Africa?

The *2008 Barometer* used formal economic modelling techniques, together with qualitative and quantitative tools, to examine the effect of different policy choices, including the level of public infrastructure spending, on growth and development. Four possible development paths (or "futures") are presented in the report, as shown in the diagram. The report then outlines what is required to achieve the desired development path. The *2008 Barometer* recommends that the government:

- *Commit to sustaining the high public investment beyond the current medium-term expenditure framework:* although R787 billion is currently committed for public sector infrastructure investment, such accelerated expenditure will have to be sustained over the longer term to support sustainable growth, employment creation, community development, and accelerated reductions in poverty and inequality.
- *Increase the labour absorption capacity of growth through technology diffusion policies:* public procurement policies can contribute to this goal by supporting private sector institutions that use labour-saving technologies.
- *Raise the labour intensity of growth significantly* by increasing the use of domestic producers, designing employment-intensive infrastructure, withdrawing subsidies that favour capital-intensive industries, and so forth.
- Expand the *guaranteed public works programme* to a massive scale.
- Strengthen *the scope and effectiveness of anti-poverty policies* to safeguard the poor and vulnerable.

The DBSA team presented the *Infrastructure Barometer* findings to a range of stakeholders, including the Bank's operational divisions, numerous sector-specific conferences (transport, ICT and energy) and provincial government departments. The *Barometer* is available free of charge in hard copy or from www.dbsa.org.



Future scenarios for South Africa

Information services

The information function is a Bank-wide resource that provides a range of data and information to ensure that business and development planning is informed by the social and economic context. In addition to its regular internal and external information and advisory services, the function contributed to a number of high-impact projects during the year. It played a critical role in finalising the Bank's market segmentation project, and in updating and extending the models for sector prioritisation, municipal services funding and the LEDi. The function also provided the data for the health and education roadmaps.

The Division, incorporating work done across the Bank, has finalised and maintains a model that can assess the state of development of each municipality or province. The Division completed the development of SAMs for all of the nine provinces. A combined SAM, summarising the provincial SAMs, was also completed, and it will now be possible to benchmark the provincial SAMs against the national SAM. Officials from all the provinces and 30 staff members of the Bank were trained in applying and interpreting the SAMs. The Division also trained 140 municipal officials in socio-economic information analysis to enable them to monitor sustainable development at municipal level. A new training initiative in integrated infrastructure investment planning at municipal level was piloted at a number of municipalities. The Division created an internal GIS capacity so that it can map a range of business and development-related information in support of the Bank's planning and reporting processes.

Advisory services

The advisory function is a Bank-wide resource of highly skilled professionals that have different areas of specialisation that are critical to infrastructure planning and development. The function regularly scans the environment and develops sector perspectives and investment strategies to enrich the Bank's operational activities. It also promotes best practice in priority areas of intervention by providing operational tools and guides to build internal and external capacity and by facilitating knowledge-sharing forums in support of stakeholders' needs.

During the year, new sector investment strategies were formulated in the areas of tourism, human settlement and waste management. The new *tourism investment strategy* updates the broad assessment undertaken in the 2004 tourism sector paper and, in particular, outlines an approach to tourism investment that is better focused and more explicitly developmental (see box opposite). The strategy provides overall direction on the role of the DBSA with respect to developmental tourism investment in South Africa and the SADC region, guides the various operations units in using this approach and, in so doing, seeks to expand the tourism portfolio of the Bank and its associated development impact. The *human settlements strategy* provides an overview of the role of the human settlements sector in attaining sustainable development, and guides the Bank in making sound sector investment decisions to foster integrated and sustainable communities. The Division also undertook a scan of the rail and road transport subsectors in the SADC region; an assessment of ICT infrastructure in the Free State, North West and Limpopo; and scenario planning for the water and sanitation sector in South Africa, in line with the research on water security reported above.

The principal best practice perspectives developed during the year under review include a country report on environmental mainstreaming in decision-making, a review of the discount rate for conducting cost-benefit analysis in the Bank, an assessment of the 2008/09 Integrated Development Plans according to the key performance areas of the local government strategic agenda, and updates of the suite of project appraisal guidelines in line with international norms.

In addition to the annual Knowledge Week with the theme "Ensuring Water and Food Security", the Division facilitated a number of knowledge forums, including a multi-stakeholder Youth in Construction forum in partnership with the Council for the Built Environment, the Concrete Manufacturers Association (CMA) and Cell C; and a dialogue on "Community Tourism" in association with Fair Trade in Tourism South Africa.

The year ahead

In the year ahead, the Division's priority will be to strengthen its external enagagements and, working with key stakeholders, to support the attainment of a developmental state in South Africa. The Policy and Research Units, along with the newly created development planning function, will be central in this work. At the same time, in order to strengthen the alignment between what the Bank proposes externally and the Bank's internal strategies, the Division will reinforce its internal advisory role. To this end, it will engage additional capacity to improve operational output and focus its existing capacity to ensure the development of quality information and knowledge products. The Division also intends to strengthen its partnerships with a range of research and policy

Developmental tourism investment: a new approach

Tourism projects can have the greatest developmental impact when they enhance or open up new destinations for tourists. The new tourism investment strategy seeks to position the DBSA as a leading financier of tourism destination development, a niche that complements funding by commercial banks. The strategy is catalytic in that it will open up new areas to development by viewing investment in tourism at the level of the destination as a whole, rather than the individual firm.

Supporting destination development requires a variety of skills and resources, which are well aligned with the five roles of the Bank. The following themes associated with this form of investment have been identified:

- *Anchor projects:* The DBSA will support major new anchor projects, typically involving public-private partnerships. Examples include international convention centres and the commercialisation of parks and nature reserves.
- *Clusters of small businesses:* Taken together, small tourism investments in the same geographic area can have a big impact by creating critical mass and making joint marketing possible. Tourism routes are one example of clustering investment. A number of small investments together can also lead to the regeneration of rural towns and areas within cities.
- *Infrastructural projects:* A specific emphasis will be placed on transport infrastructure. Airports and roads are important, as are rail and marine transport infrastructure, among others.
- *New market attraction:* The Bank will support investment projects that can attract new markets to an area and so contribute to destination development. This may be possible because a brand has global reach or because there is a distinct niche or source market.
- *Community-private partnerships:* Communities often own land in areas with high tourism potential. Where possible and practical, community partnerships will be pursued.

In order to maximise development impact, the strategy emphasises the following factors: the job creation potential of the project; the black empowerment status of South African projects, and local ownership or indigenisation of those in the rest of the SADC region; the environmental standards and practices involved; the scale and location of the project; the demand for infrastructure the project will generate; how the project promotes the development of suppliers and corporate social responsibility generally; and how it aligns with existing national and regional policies and strategies.

institutions to promote collaboration and augment scarce skills, particularly in specialised areas.

The research agenda will focus on a long-term development path for South Africa, options for improving service delivery by local government, broadening access to development finance, regional integration, and facilitating appropriate responses by development finance institutions to issues such as the global economic crisis. The Division will continue to strengthen its role in public policy by facilitating forums and analysing implementation in sectors such as education, health and public transport. In addition, attention will be paid to scenario planning in relation to policy development.

In support of the Bank's efforts to focus its investments optimally, the Division will work on the formulation of investment strategies for the health and water sectors, and contribute to improved risk profiling for the mining portfolio. The Division will also be involved in developing a climate change framework for the Bank and a resource planning tool for operating and maintaining municipal infrastructure.

The information services function plans to expand its municipal databases, making it possible to develop detailed municipal profiles that can inform the Bank's human and institutional interventions and projects at municipal level. The Division will also extend the sector components of its SADC country profiles and perspectives, so that potential projects and investments in the sectors may be identified. The GIS mapping initiative will be enhanced, and databases and information portals updated to support all the modelling and scenario-planning initiatives undertaken by the Division and the Bank.

The Division has been renamed as the Development Planning and Implementation Division to reflect the new focus of its activities.

South Africa has made huge strides in providing access to clean water for all of its people.

Financial overview

Mr Pieter de la Rey
Group Chief Financial Officer

The 2008/09 financial year was a landmark one for the DBSA. While the global financial crisis created turmoil in the economies of many countries, the focused impact of the Bank's operational, investment, risk, funding and financial strategies proved crucial in producing results that enhanced the institution's long-term sustainability. This financial strength provided a firm platform from which the Bank was able to amplify its development impact in South Africa and the SADC region in the year under review.

The Bank's financial results demonstrate a healthy growth in the balance sheet, mainly from income-earning assets (development loans and equity investments). The income statement reflects a strong performance, mainly due to a resilient net interest income and operating expenses managed within budgeted levels. Augmenting this was the net gain from financial assets and liabilities, and net foreign exchange gains.

The relatively faster growth in interest expense compared to interest income was mainly as a result of the steep growth in disbursements and the impact this had on the Bank's gearing ratio.

Although the recent economic decline did not have a drastic effect on the DBSA's performance, the Bank was not completely immune to the adverse market conditions. This was evident in higher than expected impairment costs, and in the decrease in income from equity investments compared to 2007/08.

The five-year financial review of the Bank is on the inside front cover, and the annual financial statements are on pages 89 to 156. The development expenditure table, which categorises all direct and indirect development expenditure, is on page 36.

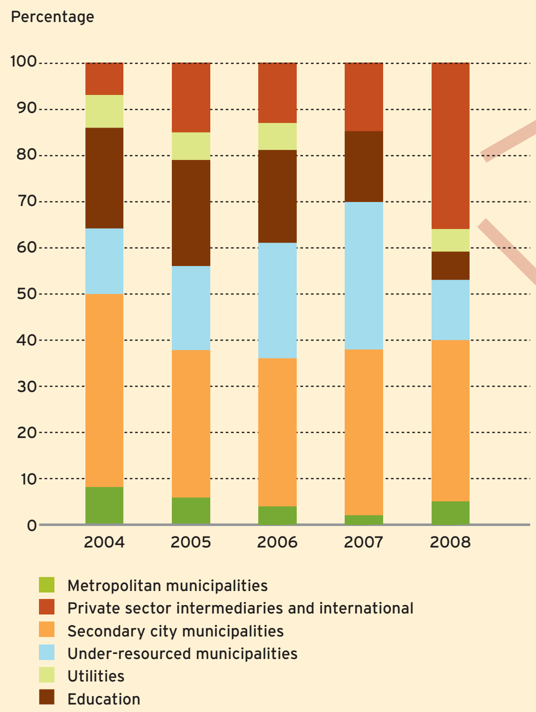
Financial results

Key financial indicators are given in the table below.

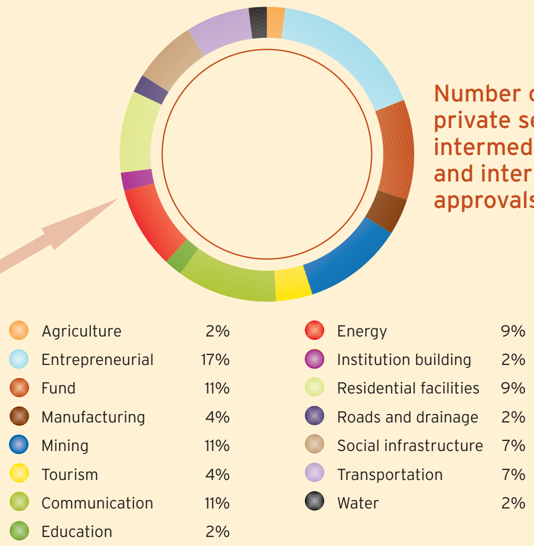
Financial indicator	**Actual 2008/09 R million**	Variance %	Actual 2007/08 R million
Loan and equity disbursements	**9 306**	51	6 160
Total assets	**40 382**	21	33 246
Development loans	**29 449**	26	23 288
Equity investments	**2 548**	25	2 041
Net interest income	**1 677**	11	1 516
Net gain from financial assets and liabilities	**573**	5	546
Operating expenses	**669**	-20	556
Impairment charge	**238**	28	331
Sustainable earnings	**871**	15	757
Profit for the year	**1 426**	13	1 266
Debt-to-equity ratio (%)	**131,3**		107,6
Interest margin (%)	**49,7**		53,1
Cost to income (%)	**37,6**		33,8
Return on assets (%)	**3,5**		3,8
Return on equity (%)	**8,3**		8,0

Financial position

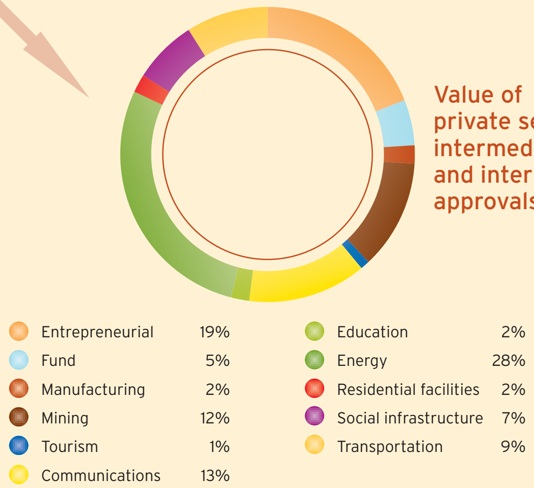
Approvals during the year moved up by 90% to R20,48 billion. The loan and equity approvals, split by market sectors, are reflected in the bar graph below.



Loan and equity approvals, 2003/04 to 2008/09

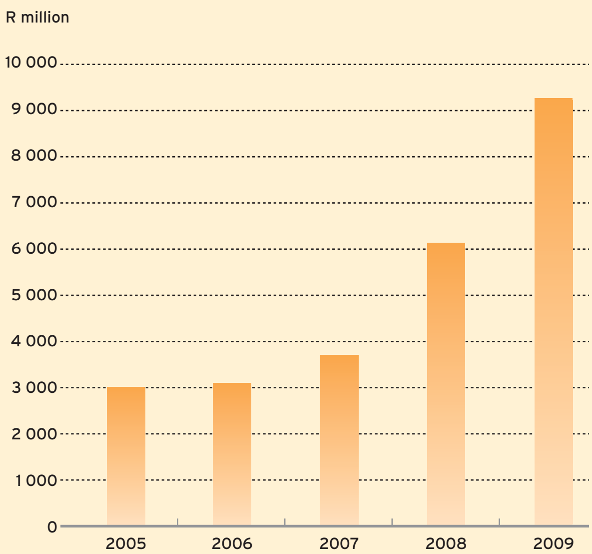


Number of private sector intermediaries and international approvals



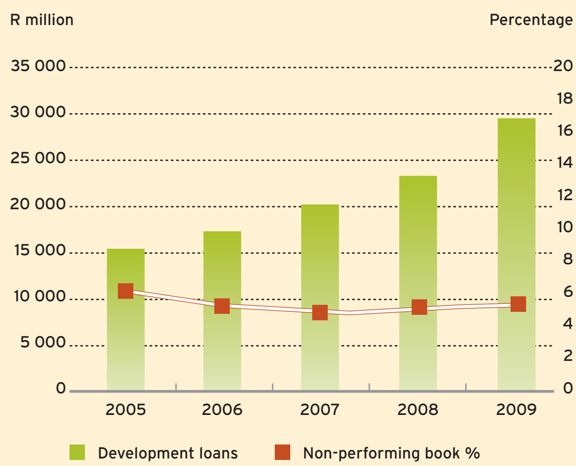
Value of private sector intermediaries and international approvals

The unprecedented peak in loan and equity disbursements is confirmed by the 51% increase over the previous year to R9,3 billion in the year under review, as reflected in the bar graph below.

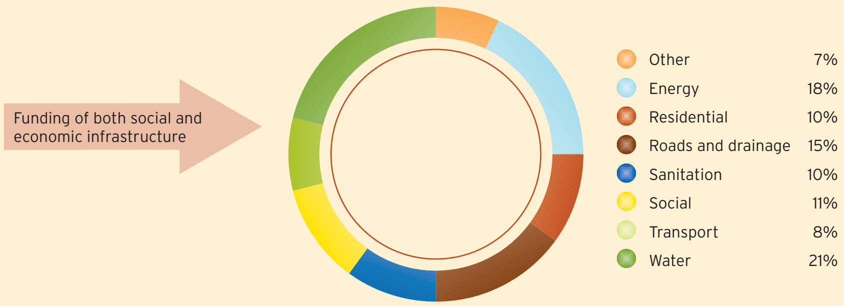


Loan and equity disbursements, 2004/05 to 2008/09

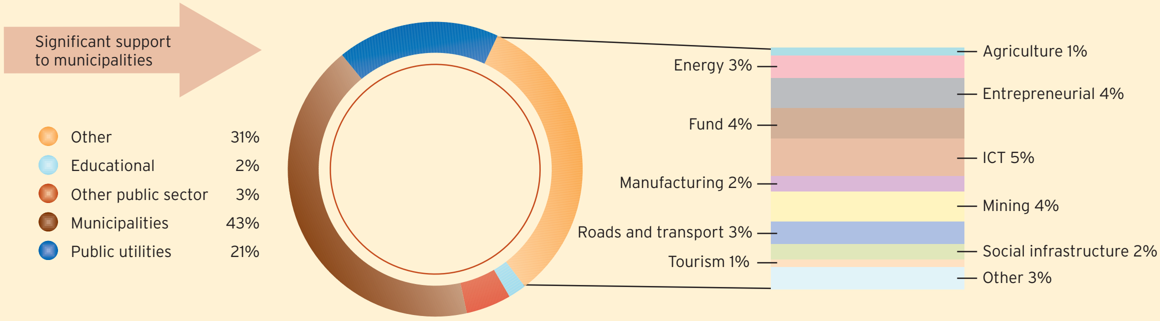
Non-performing book debt as a percentage of total book increased marginally and remains managed at a level of 5,4% in the year under review (5,2% in 2007/08) despite increased risk, as reflected in the bar graph below.



Quality of loan book, 2004/05 to 2008/09



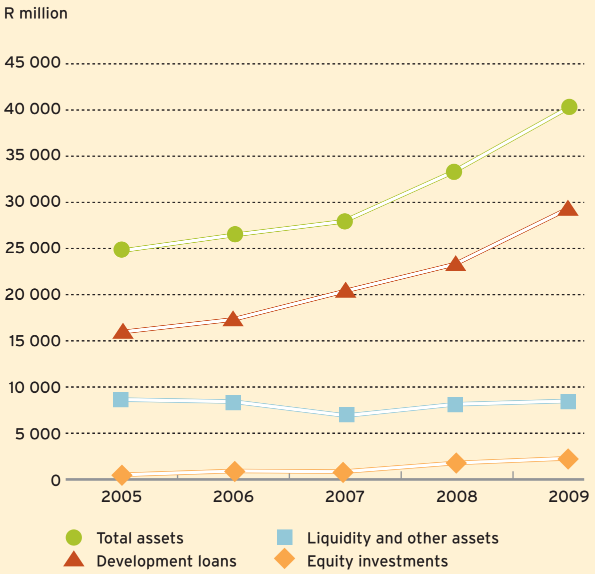
Diversity of public sector loan book, as at 31 March 2009



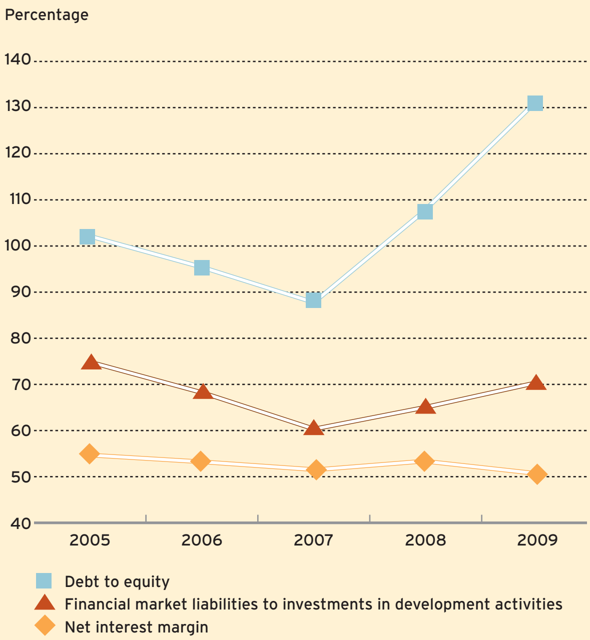
Diversity of total loan book, as at 31 March 2009

Income-earning assets (loans and equity investments) grew by 26% to R32,0 billion, and this was the major contributor to the growth in total assets to R40,4 billion (up 21% from the previous year), as reflected in the graph below.

The debt-to-equity ratio increased from 108% (2007/08) to 131% in 2008/09 as a result of the high growth in loan and equity disbursements. Most of the funding for the steep growth in disbursements came from borrowings, which affected the Bank's interest expense and therefore the net interest margin, as reflected in the graph below.



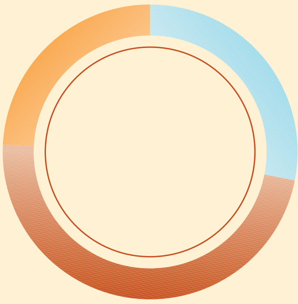
Growth of the balance sheet, 2004/05 to 2008/09



Financial ratios, 2004/05 to 2008/09

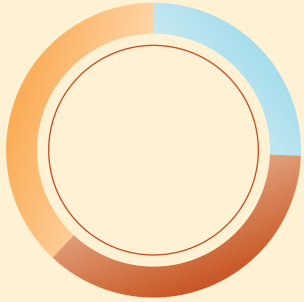
Equity investments analysis

The following charts summarise equity investments according to the portfolio split in the balance sheet and contribution to the income statement.



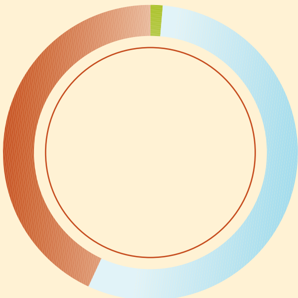
Private equity funds at fair value through profit and loss	28,1%
Direct equity investments at fair value through profit and loss	47,7%
Direct equity investments at held-to-maturity	24,2%

Equity portfolio based on net investment cost, 2008/09



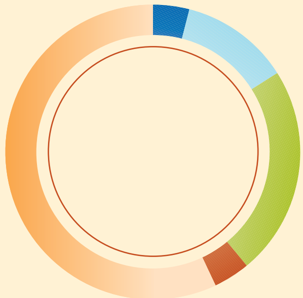
Private equity funds at fair value through profit and loss	25,6%
Direct equity investments at fair value through profit and loss	36,4%
Direct equity investments at held-to-maturity	38,0%

Equity portfolio based on net investment cost, 2007/08



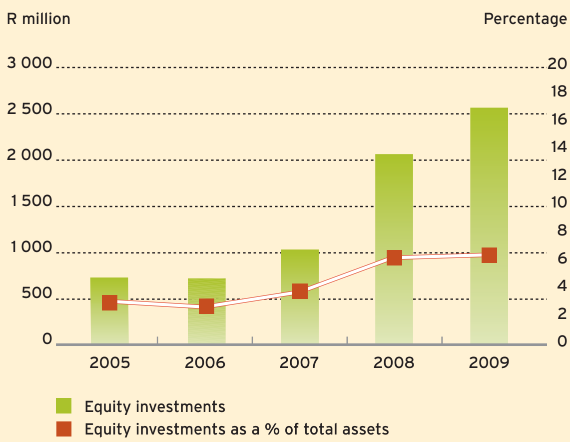
Direct equity investments at held-to-maturity	R5,7 million	(1,3%)
Private equity funds at fair value through profit and loss	R234,9 million	(55,6%)
Direct equity investments at fair value through profit and loss	R182,2 million	(43,1%)

Equity portfolio income statement fair value adjustment, 2008/09



Dividends received	R9,9 million	(4%)
Interest received	R30,3 million	(12%)
Fair value adjustment	R58,7 million	(23%)
Impairment loss	R9,5 million	(4%)
Foreign exchange adjustment	R148,3 million	(57%)

Equity portfolio impact on the income statement, 2008/09



Equity investments as a % of total assets, 2004/05 to 2008/09

Financial performance

As a result of increased disbursements net interest income rose by 11% to R1,7 billion.

The drop in the net interest income margin from 53% (2007/08) to 50% (actual and budget 2008/09) was due to a number of factors, including:

- Growth in disbursements as a result of an increased demand for infrastructure funding, which led to increased gearing
- The squeeze on the interest margin caused by competition
- The increased cost of borrowings brought about by the general decrease in market liquidity
- Increased investment in equities, which yield capital gains and dividends rather than interest income

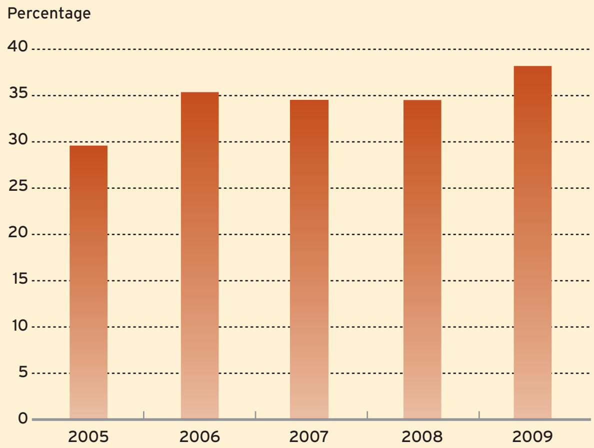
The foreign exchange gain of R224 million was due to the weakening of the rand against major foreign currencies.

The net gain from financial assets and liabilities of R573 million is made up primarily of the following:

- Net gain on equity investments: the fair value adjustment for the financial year recognised in the income statement is R59 million (2007/08: R559 million). The downward adjustment may be attributed largely to the mark-to-market adjustments on investments linked to platinum, driven mainly by the price of and demand for the metal. On the upside, the private equity funds portfolio and the direct equity investment portfolio showed strong gains.
- Debt securities issued and designated at fair value through profit and loss amounted to R78 million. This is attributable mainly to swap spread volatility during the year, resulting in the DV bonds issuing at spreads above swap substantially beyond those experienced in prior years. In order to obtain valuations closer to those reflected in the secondary market trading and issuance, the DBSA moved from its internal cash-flow discounting valuations to the Bond Exchange mark-to-market valuations.
- The balance resulted largely from the net gain on derivatives and investment securities, which was influenced mainly by the movement in interest rates and foreign exchange rates.

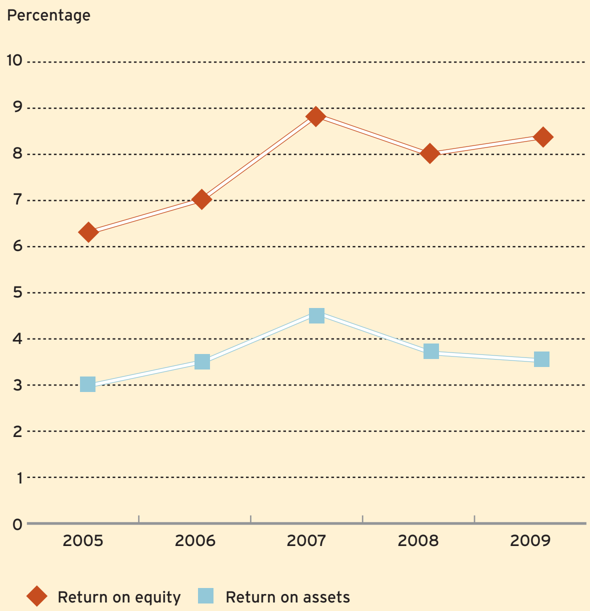
The net impairment charge of R238 million to the income statement is managed in line with the overall increase in the loan book as noted in the non-performing book debt ratios, which remain within acceptable norms.

The cost-to-income ratio of 37,6% (2007/08: 33,8% restated) was managed close to budget and well within the prudential limit of 45%. The increase is largely due to increased developmental spending and planned capacity increase in risk capabilities.



Cost-to-income ratios, 2004/05 to 2008/09

The return on assets and return on equity remain managed at 3,5% and 8,3% respectively.

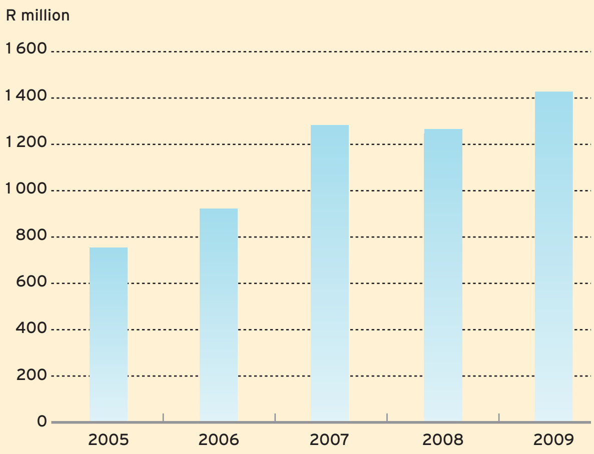


Return on assets and equity, 2004/05 to 2008/09

Sustainable earnings increased by 15% over the previous year to R871 million. This number is affected by the investment in development expenditure and the increased risk profile in provisions for the 2007/08 and 2008/09 financial years.

Profit from operations (before transfer to the Development Fund and capacity development and deployment expenses) increased by 23% to R1,6 billion, and is attributable mainly to the increase in net interest income, the net foreign exchange gain, the net gain from financial assets and liabilities, and the management of costs close to planned levels.

Profit for the year (after transfer to the Development Fund and capacity development and deployment expenses) increased by 13% to R1,4 billion.



Profit, 2004/05 to 2008/09

Financial sustainability and strategy

The core objective of the Finance Division is to maintain effective financial management, forecasting, financial analysis and decision-making capabilities within the Bank and its business divisions, so as to ensure long-term financial sustainability. This involves managing the following key financial ratios, among others.

Key financial ratios	Components	Outlook for 2009/10
Debt to equity (%)	Long-term debt over equity	Demonstrates the leveraging of the balance sheet. Expected to grow to over 168% in the new financial year, mainly as a result of the steep growth projected for disbursements.
Net interest income margin (%)	Net interest income over interest income	Reflects both the net margin charged to clients and the gearing of the Bank. The projected higher interest expense, mainly as a result of the projected increase in the gearing, will reduce this margin to just below 49%.
Cost to income (%)	Operating expense over net interest income plus net fee income plus other operating income	Managing this ratio is an effective way of controlling operating expenses. While a prudential limit of 45% is set for this ratio, the projection for the new year is in the range of 38% to 40%.
Return on assets (%)	Profit for the year over total assets	Will remain managed around current levels.
Return on equity (%)	Profit for the year over total equity	Will remain managed around current levels.

The year ahead

The focus for the future will be on maintaining and enhancing the Bank's financial strength. To this end, National Treasury has approved a global guarantee of R15 billion on the balance sheet of the Bank in support of additional future demands.

As a development finance institution, with increased support from its shareholder, the Bank is optimally positioned in terms of its financial strength to deliver successfully on the increased demands placed on the organisation. Maintaining agility during the current challenging economic climate is key to this success, locally as well as internationally.

Treasury

Mr Ernest Dietrich

Group Executive: Treasury

Market conditions

The signs of stress in the global financial markets that emerged at the end of the previous year quickly deteriorated into a full-blown global financial crisis during the year under review. Declines in asset prices, heightened market volatility and worsening economic conditions dominated for much of the period.

Governments in many of the world's largest economies came to the rescue of major financial institutions, effectively nationalising these entities as the credit and liquidity crunch took its toll. Funding conditions in some markets would have ground to a halt had the fiscal and monetary authorities not intervened.

While the South African financial system remained relatively stable given the limited direct international exposure of its financial institutions, there was no escaping the global tidal wave of increased risk aversion among market participants. Risk premiums escalated rapidly, and investors' high preference for liquidity resulted in an increase in their cash holdings. The gap between funders with top-tier credit ratings and those just a notch below widened.

Turmoil in the international financial markets spilled over into the real economy and put an end to the multi-year boom in commodity prices. This led to a significant slowdown in South Africa's commodity exports. While real GDP growth for the 2008 calendar year came in at 3,1%, this masks the -1,8% contraction in the final quarter, which reflected a slowdown across most sectors of the economy.

The South African Reserve Bank's repo rate declined by 200 basis points to 9,5% in 2008/09. The rate remained high for most of the reporting period, with the first rate cut occurring in December 2008. The inflation outlook changed notably during the course of the year, as the emphasis moved from concerns over high food and administered price increases to growing fears of a recession. Whereas CPI inflation averaged 8,3% in the previous financial year, it increased to 10,4% in 2008/09, rising further above the Reserve Bank's 3%-6% target band. On a trade-weighted basis, the rand lost 5% in 2008/09 – a reasonable performance given that it had fallen by around 25% at the height of the global financial crisis in September-October 2008.

The local South African yield curve shifted up at the start of the financial year, before moving progressively lower as inflation expectations softened. The yield on the R157 and R186 benchmark government bonds dropped by 106 and 43 basis points, respectively. Yields see-sawed in a wide range, moving well above 10% at the end of June 2008, and then dropping to around 7% in December 2008.

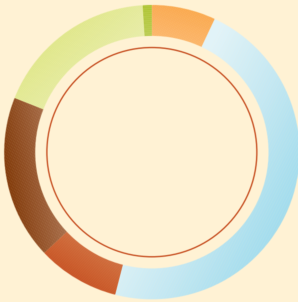
Funding and liquidity

During the year under review, the Bank raised gross debt equivalent to R8,2 billion, some R4,1 billion more than anticipated at the start of 2008/09. Funding was raised through a combination of bond market issuance by tapping the Bank's existing listed bonds under the Bond Exchangelisted domestic medium-term note (DMTN) programme, money market issuance, and drawdowns on committed foreign currency credit lines, denominated in euro and US dollar. US dollar funding went towards the Bank's US dollar-denominated loans in the rest of the SADC region, with euro loans swapped to rand for on-lending within South Africa.

A severe lack of global market liquidity, coupled with the steep increase in the South African sovereign spread, meant that outside of the Bank's traditional supranational and bilateral DFI credit facilities, foreign funding plans have had to be shelved due to the exorbitant cost. Driven by increased demands for development finance to support the country's ongoing infrastructure programmes, and exacerbated by tightened commercial bank lending criteria following the meltdown in the global financial markets, this substantial increase in the borrowing requirements occurred amidst tight domestic bond market liquidity conditions.

Deteriorating market conditions and the lack of bond market liquidity resulted in an increase in credit spreads across the entire risk spectrum, something the Bank, despite its premium AAA domestic credit rating, was not immune to. The result was an increase in the Bank's bond spreads relative to their corresponding government benchmarks, from 90bp at the end of the 2007/08 financial year to 170bp at the end of 2008/09. At the same time, swap spreads narrowed considerably over the course of the financial year, from 72bp in the maturity corresponding to the Bank's most actively tapped bond (the DV22) to -13bp by financial year-end, resulting in substantially higher long-term floating rate funding costs. Nevertheless, despite the adverse market conditions and cost pressures, liquidity was maintained at conservative levels, with monthly average liquidity amounting to R4,4 billion (2007/08: R4,4 billion). As at financial year-end total liquidity amounted to R4,8 billion (2007/08: R4,7 billion), invested primarily in government bonds, cash, commercial paper and, to a lesser extent, corporate bonds.

The table below shows the Bank's outstanding domestic bond issues at the end of 2008/09, while the chart depicts the distribution of the Bank's debt portfolio by source.



Distribution of funding sources, as at end of 2008/09

Domestic bonds in issue, as at end of 2008/09

Bond	Issue date	Maturity date	Years to maturity	Authorised amount (ZAR billion)	Issue size (ZAR billion)	Coupon rate rate (%)
DV07	18 May 1990	30 Sep 2010	1,5	2,0	2,0	14,50
DV13	25 Aug 2008	25 Aug 2013	4,4	1,0	1,0	10,06
DV21	31 May 2000	15 Jun 2016	7,2	4,0	1,0	15,00
DV22	07 Feb 2008	07 Feb 2020	10,9	5,0	3,3	9,45
DV23	21 Feb 2003	27 Feb 2023	13,9	6,0	2,1	10,00

Capital adequacy

Despite a significant increase in net borrowings (R7 billion) during 2008/09, the Bank remains exceptionally well capitalised, with its debt-to-equity ratio as at March 2009 standing at 131,3% (2007/08: 107,6%), well below its conservative regulatory maximum of 250%. Similarly, at 42,7% (2007/08: 47,5%) the Bank's unweighted capital adequacy ratio remains well above the regulatory minimum of 28,6%. The DBSA therefore remains well positioned to sustain the increased growth of recent years.

Credit ratings

The Bank retained its sovereign equivalent investment grade credit ratings during the year under review, the only negative being the revision in outlook from stable to negative by Standard & Poor's. However, this revision was made in line with the revision of the sovereign outlook rather than on the basis of any perceived deterioration in the Bank's standalone credit profile or prospects. The current ratings are shown in the table below.

	Moody's	Standard & Poor's	Fitch
Foreign currency			
Long term	A2	BBB+	Not rated
Short term	Not rated	A-2	Not rated
Domestic currency			
Long term	Not rated	A+	AAA(zaf)
Short term	Not rated	A-1	F1+(zaf)
Outlook	Positive	Negative*	Stable

Revised during 2008/09 in line with sovereign outlook.

Governance and management overview

Mr Bernard Mhango
Group Corporate Secretary

Corporate Governance

Governance principles

The Board of Directors assessed the governance landscape of the Bank comprehensively during the year under review and is satisfied that it has discharged its responsibilities satisfactorily with regard to the recommendations of the King II Report and the Protocol on Corporate Governance in the Public Sector. The Directors are committed to full compliance with the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice. The Bank endeavours to maintain the highest standards of integrity and ethical conduct and to keep abreast of new developments in the field of governance, and to this end has continued to monitor progress with the King III Report on Corporate Governance and the recent Companies Act, No. 71 of 2008. During 2008/09, the Board performed its activities and discharged its responsibilities in accordance with the approved annual programme.

Shareholder linkages

The DBSA is a state-owned entity with the South African government as its sole shareholder. The Minister of Finance, in his capacity as Governor and shareholder representative, determines the Bank's mandate and holds the Board of Directors accountable for managing the organisation to deliver on this mandate. The Bank is regulated in terms of the Public Finance Management Act (PFMA) and Treasury Regulations, and is classified as a Schedule 2 public entity under the Act. In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in February 2008. This serves as an agreement between the Bank and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed.

The Board reports performance and related matters to the shareholder by way of annual and interim reports. Regular meetings are held between the Chairperson, the Chief Executive Officer and the Governor.

Strategic objectives and performance management

On the basis of the Corporate Plan, the Board sets the strategic objectives and determines performance criteria for the Bank. Management is charged with the detailed planning and implementation of those objectives, within appropriate risk parameters.

As reported elsewhere, the DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators in line with the new development agenda and the results of this evaluation are shown in the Directors' report from page 93. The Finance Committee of the Board evaluated the performance of the organisation, while its Human Resources Committee provided oversight in the assessment of the performance of the Managing Director and the executive management team.

Governance structures

Board of Directors

The constitution and business of the Board of Directors are governed by the DBSA Act and its Regulations, and the relevant provisions in the PFMA and the Companies Act. The constitution of the DBSA Board has not changed during the year under review. The Board was cognisant of the prevailing economic conditions and reviewed its own composition to ensure that it had the right skills profile to steer the organisation through the challenging operating environment. The shareholder, acting on the recommendation of the Human Resources Committee, extended the terms of office of four Board members whose tenure had expired on 31 July 2008 to ensure continuity and retention of key skills.

The Board currently consists of 16 members, of whom 15 are non-executive and 13 are independent. The Chief Executive Officer is the sole executive Director. The tenure of the chairman Mr Jay Naidoo, who is an independent non-executive Director, was extended for a period of three years. Representatives from the Department of Provincial and Local Government (DPLG), National Treasury and the Office of the Presidency serve on the Board as shareholder representative Directors. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and non-executive Directors.

The current composition of the Board and brief résumés of the Board members can be found on pages 6 to 9.

Directors' appointment and induction

The appointment of Directors to the DBSA Board is regulated by the DBSA Act, in terms of which the shareholder is charged with appointing the Directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources Committee of the Board invites nominations for appointments, produces shortlists and makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

The Board is committed to the advancement of new and existing Directors and accordingly organises periodic induction and orientation sessions for their benefit, in addition to training courses related to the business of the Bank. In the interest of exposing Directors to different development models in other emerging countries, the Board undertook a study tour to Brazil, where they visited public and private sector institutions involved in development work. Among other activities, the delegation had an interactive session with officials of the Brazilian National Development Bank (BNDES), the DBSA's counterpart development finance institution in that country.

Board Charter

The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. The Board Charter was reviewed extensively during the past financial year and the revised Charter readdresses issues such as the procedure for appointing Board members, performance assessment, and retirement and succession planning at Board level. The Board regards the Charter as a living document that will be updated periodically to align with changes introduced by the draft King III Report on Corporate Governance and the Companies Act of 2008.

Board Committees

The Board has five committees, namely the Audit, Finance, Board Credit and Investment, Knowledge Strategy, and Human Resources committees. The DBSA Act gives the Board a mandate to appoint subcommittees necessary for carrying out its fiduciary responsibilities. Establishing and delegating some of the technical work to specialist subcommittees does not relieve the Board of its legal responsibilities, however, and the Board has therefore sought to strengthen its monitoring mechanisms. Reporting by the chairpersons of the various subcommittees at Board meetings has been enhanced so that feedback on their work can be provided timeously. The subcommittees also table any resolutions taken at their meetings for ratification by the subsequent Board meeting.

In line with principles of the King II Report, all Board committees have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the committees' overall effectiveness and performance. The Board committees are discussed individually below and the Bank's committee decision-making structure is depicted on page 74.

Audit Committee

The functions of the Audit Committee are regulated by the PFMA and codified in the King II Report. The terms of reference of the Committee will be amended to accommodate any new roles introduced by the Companies Act and the King III Report. Currently the Audit Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, compliance with laws and regulations, risk management processes, and ethics management. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

The Audit Committee has five members. The Chief Executive is the only executive Director; all the remaining members are non-executive independent Directors, including the chair, Dr Len Konar. The Bank's executive management and external auditors are invited members of the Committee.

The Committee is supported by four management committees: Risk and Compliance, Asset and Liability Management, Ethics and Governance, and Financial Management.

Finance Committee

The Finance Committee is also chaired by Dr Konar and has five members. The Committee is supported by the Financial Management and Asset and Liability Management committees. The Finance Committee oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank's overall financial health and sustainability. The Committee provides strategic direction on the Bank's asset and liability management activities, within the defined risk appetite, so as to strengthen the Bank's financial position in pursuance of its development mandate. The Committee also reviews performance targets recommended by management.

Board Credit and Investment Committee

During the year under review, the Board has continually reviewed the mandate of the Investment Committee to ensure that it responds to the prevailing economic conditions. The Committee was renamed the Board Credit and Investment Committee to reflect its function accurately. The Committee's terms of reference were also amended and its delegation of authority to management broadened to include the approval of municipal (public sector) proposals. The change is subject to agreement being reached between the Committee and management on an appropriate reporting and monitoring framework, and the new framework will only be implemented once it has been finalised in 2009/10. The purpose of the change in delegation is to allow the Committee to focus on providing oversight in monitoring the quality of the portfolio. The Committee has seven members and is chaired by Mrs Wendy Lucas-Bull, an independent non-executive Director. In addition to credit and investment approvals, the Committee reviews the Bank's credit strategy; credit risk management programme; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board.

Knowledge Strategy Committee

This Committee consists of five Directors and three co-opted members. It is chaired by Dr Lulu Gwagwa, a non-executive Director, and is supported by the Corporate Knowledge Management Committee. The Committee oversees the implementation of the knowledge management strategy approved in 2001 to ensure that knowledge management products are integrated within the Bank. It serves as a sounding board for key corporate knowledge publications and research products. To assist it in this function, the Committee has appointed a review board made up of specialists in the different sectors to review and provide guidance on the DBSA's flagship publications.

Human Resources Committee

The former Human Resources, Remuneration and Nominations Committee has been renamed the Human Resources Committee. The Committee's mandate is unchanged, however, and it continues to carry out its three main responsibilities, namely overseeing the implementation of the Bank's human capital strategy, approving its remuneration practices and vetting key appointments and nominations, including those of Directors. The Committee has five members, four of whom are independent non-executive Directors. It is chaired by Mr Ivan Mzimela, an independent non-executive Director, and the Chief Executive Officer is an invited member.

DBSA decision-making structure

Evaluation of the Board and its committees

The King II Report on Corporate Governance recommends that Directors be assessed both individually and collectively to gauge their effectiveness in discharging their responsibilities. The DBSA Board conducted an effectiveness evaluation during the year under review. This exercise, involving a self-assessment questionnaire and face-to-face interviews with individual Directors, revealed that the Board is "engaged", is effective in providing strategic guidance and counsel to executive management, and has the right composition and committee structure. To enhance its performance further, the Board has identified areas of improvement and approved an action plan in this regard, which will be implemented and monitored in 2009/10.

Board and committee composition and record of attendance

The DBSA Board met six times during 2008/09. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown below.

Corporate Secretary

All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act. The DBSA has lodged with the National Treasury all such returns as are required of public entities in terms of the PFMA, and gives assurance that such returns are accurate, correct and up to date.

DBSA Board and Committee composition and record of attendance at meetings, 2008/09

	DBSA Board		Audit Committee		Finance Committee		Credit and Investment Committee		Knowledge Strategy Committee		Human Resources Committee	
Number of meetings	6		4		2		13		4		4	
Mr J Naidoo	Chair	4									✓	2
Mr P Baloyi	✓	6	✓	4	✓	2	✓	11	✓	4	✓	4
Mr A Boraine	✓	6							✓	3		
Mrs T Dingaan	✓	6	✓	4	✓	2	✓	13				
Prof. B Figaji	✓	6					✓	5			✓	2
Mr L Fuzile[1]	✓	1										
Mr T Fowler	✓	5										
Ms N Gasa	✓	4							✓	2		
Dr L Gwagwa	✓	4							Chair	3		
Dr D Konar	✓	5	Chair	4	Chair	2					✓	4
Prof. O Latiff	✓	4	✓	4	✓	1	✓	9				
Mrs W Lucas-Bull	✓	5					Chair	12				
Dr C Manning	✓	5					✓	11				
Mr I Mzimela	✓	5									Chair	4
Mrs M Ngqaleni[2]	✓	1										
Ms T Ramano	✓	4	✓	3	✓	1	✓	10				
Prof. E Webster	✓	6							✓	3		
Members co-opted to Board Committees[3]												
Dr R Kfir									✓	1		
Mr O Mlaba									✓	3		
Mr JR Modise[4]			✓	nil	✓	1						
Mr M Silinga									✓	4		

✓ Depicts membership of the Board and relevant Committee.
1. Shareholder representative – redeployed due to changes in portfolio in National Treasury.
2. Shareholder representative – replaced Mr L Fuzile as shareholder representative from February 2009.
3. The DBSA Act allows for the Board to co-opt any person with expert knowledge or expertise to any of its committees.
4. Ceased to be a co-opted member as from 29 November 2008.

Directors' remuneration policy

Under the oversight of the Human Resources Committee, the DBSA undertook a comprehensive benchmarking exercise on remuneration in comparable organisations, and subsequently revised its remuneration policy and guidelines with regard to Directors. This new policy, which was duly approved by the shareholder in March 2009, introduces a combination of an annual retainer and attendance fees for members of both the main Board and its subcommittees.

The remuneration policy of the Bank, as prescribed by the DBSA Act, dictates that Board members be remunerated for the strategic guidance they provide to management both in formal Board and committee meetings and outside them. Members of the Board are also compensated for expenses actually incurred on account of the Bank's business.

Details of all the fees and expenses paid to Board members during the year under review are shown on page 145.

Ethics management

The DBSA attaches the greatest importance to the ethical behaviour of individual employees and the organisation as a whole. In 2006, the Bank conducted its first ethics survey to compile baseline data on organisational ethical practices and related corporate governance policies. A second survey was conducted during 2008/09, and various initiatives implemented over the last 18 months have significantly increased awareness of ethical policies among employees.

The Bank will continue to review its ethics policies, including procedures on conflict of interest, to ensure that it follows best practice and complies with obligations imposed by the PFMA, the DBSA Act, and other relevant legislation.

Apart from declarations in the register, during the year under review the Bank has not undertaken any transactions in which the Directors had a material, financial or significant interest. A list of related-party transactions involving Board members is provided on page 141 to 142.

Internal control environment

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit Committee. The Bank's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

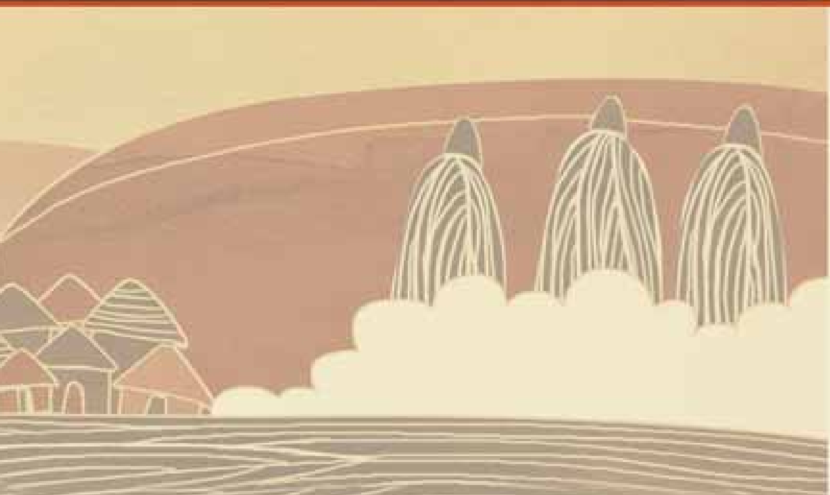
The Internal Audit function conducts periodic reviews of any functional area to provide independent assurance to the Board and management on the effectiveness of the internal control system. The work of Internal Audit is reviewed by members of the Audit Committee, and the Head of Internal Audit has unfettered access to the Chairpersons of the Audit Committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention. During the year, the Internal Audit function performed its work in accordance with the approved Internal Audit Plan.

Fraud prevention and whistle-blowing

In accordance with the requirements of the PFMA, the DBSA has developed a fraud prevention plan, which, among other things, encourages employees to report any suspected corrupt, fraudulent, criminal or unethical practices. The Bank has also endeavoured to create an environment in which it is safe for employees to report impropriety, in accordance with the requirements of the Protected Disclosures Act, No. 26 of 2000.

During April 2008, the Bank undertook a rigorous ethics awareness campaign to introduce its renewed fraud prevention plan, including whistle-blowing procedures. Posters outlining these procedures, and providing details of the toll-free hotline number and assurances that whistle-blowers will be protected, were placed in strategic places throughout the Bank. Internet and intranet links were added to the Bank's website and intranet. Information about the fraud hotline was also sent to the Bank's clients on their account statements. The fraud policies and strategies are being reviewed to cater specifically for the reporting of incidents.

The LGNet and LGRC systems provide municipalities with updated information on a range of critical issues.



Governance and management overview

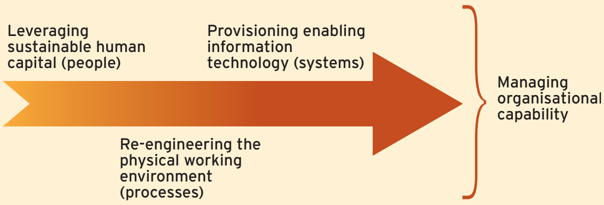
Mrs Loyiso Ndlovu

Group Executive: Human Capital and Technology

Human Capital and Technology

Strategic overview

While the DBSA has defined strategic goals and objectives for its activities, it also has to adapt continuously to changes in the external environment. It is the task of the Human Capital and Technology Division to increase the Bank's competitive advantage by attracting, retaining and building sustained human capability. In managing this organisational capability, the Division employs a three-pronged strategy focusing on people, processes and systems, as reflected in the following diagram.



Operations overview

Leveraging sustainable human capital

The Division continues with the decentralisation process started in 2006/07. The principle of divisional empowerment was further embedded by locating the management of critical human capital matters, such as remuneration and recruitment, within the divisions themselves. In the process, the relevant delegations of authority have been refined, deepening accountability to the Group Executive Management. The approach will improve decision-making on human capital at all levels.

As we strive to increase the delivery capacity of the Bank, it has become evident that new ways of attracting talent are required. In this regard, the Bank is re-examining its partnerships with a view to leveraging these relationships to improve our own efficiency. However, building the capability of the productive workforce within the organisation remains paramount, and this will be a strategic focus in the year ahead.

Organisational culture

In the year under review, the creation of a strong organisational culture in the DBSA once again featured prominently on our strategic agenda. The internal culture impacts significantly on the quality of staff the Bank is able to retain, and managing it proactively therefore has a positive effect on business results.

Global research has shown a clear correlation between the levels of engagement among employees and strong organisational performance. Highly engaged employees add far greater value to the organisation and are generally retained for their skills. In 2008/09, the Division once again administered the Q12 survey to measure the engagement levels of DBSA employees, and arrived at an overall rating of 3,63 (up 5% on 2007/08). In particular, the survey indicated that employees' views of the Bank as a learning environment have improved. While much remains to be done, especially around questions of recognition, the raised levels of engagement are to be welcomed.

If it is to support the strategy of the DBSA fully, the organisational culture cannot be approached in isolation. Norms, expectations and behaviours must be absorbed into the minds of employees and located directly in the business. The DBSA risk game has been developed to re-emphasise and foster particular values and behavioural requirements in the Bank. This interactive tool, an example of "culture in action",

The DBSA Game

was introduced at our inaugural leadership conference. The game, which has a role to play in developing leadership and strengthening the organisational culture, will eventually be incorporated at the divisional level.

Talent management

The talent management process derives from the 5E model for human capital development. This model is the overarching framework upon which the Human Capital Division seeks to achieve its objectives. As an aspect of the broader people management strategy, talent management has become a critical part of how the Bank understands and manages its long-term sustainability. The talent management framework supports the Bank's philosophy and allows us to manage the employee life cycle actively. In the course of the year, the Bank has deployed talent in strategic areas of the business and identified the critical skills it requires in an attempt to manage risk. In the year ahead, the focus will be on finalising the succession planning model and identifying the pivotal roles required by the organisation.

The 5E model for human capital development

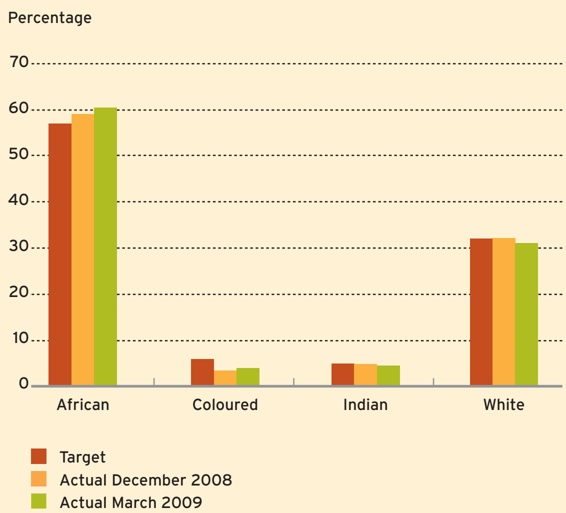
Enable (Engagement)	Extend (Sourcing and acquisition)	Engender (Capacity building co-investment)	Enrich (Development and diversification)	Enact (Configuration and deployment)
The creation of an enabling environment for the DBSA to function through a *culture of engagement*	The growth of our capacity to deliver through *acquisition of talent*	The focused growth of specialised skills through *co-investment*	The recognition of the complexity of the changing skills requirements through *education*	The ability to apply those skills for growth in complexity through *management of talent*

In 2008/09, 63% of DBSA employees received training on various programmes. These training interventions were aimed at deepening the skills we require to deliver on our additional roles of integrator and implementer. As the Bank continues to grow, the existing human capital execution framework will help us to assess and develop our future training requirements accurately.

While building talent is key to closing the skills gap in certain areas, the ability to attract and retain the right people for the right jobs, coupled with the appropriate reward and recognition mechanisms, will remain a strategic focus in the coming year. During 2008/09, remuneration was addressed and a long-term incentive scheme approved in principle. This will be implemented in the coming year. The impact of these interventions and the value added will be measurable over time. On the operational level, our ability to retain and develop talent and at the same time create an equitable working environment is demonstrated by the fact that we achieved the target for management vacancies set for the year (not more than 15%).

Employment equity

The Bank's first employment equity plan was introduced in 2000/01. A new strategy was approved in 2005/06 and sought to expand on the gains already made. In the year under review, the overall target for representation of designated groups was 67%. The Bank generally met its targets for the year and exceeded them in some areas. However, more vigorous action is needed to increase exposure to certain categories of people and to increase the visible commitment to people with disabilities. The figure below shows the employment equity targets and achievements for the year.



Employment equity status, 2008/09

Labour relations

As a state-owned entity, the DBSA is bound by the provisions of the Labour Relations Act, No. 66 of 1995, and as such has a recognition agreement with the internal union, SACCAWU. During 2007/08, the Bank and the union could not reach agreement on salary increases. SACCAWU declared a dispute on several matters and management implemented the increases unilaterally.

During February 2009, SACCAWU members held a strike with regard to outstanding matters of concern. Subsequently, agreement was reached on the annual increases and these have been implemented. The union has indicated that it will continue raising concerns about incentives through the appropriate channels, and the Bank is committed to resolving the outstanding matters.

In the past year, the Bank has placed an emphasis on the effective management of its people; and on supporting the drive by Group Risk Assurance to inculcate an awareness of governance and risk matters. As a result, the number of labour relations cases rose during the course of the year. This trend should stabilise as awareness grows within the organisation.

Re-engineering the physical working environment

The Bank's main building was extensively refurbished as part of a space planning project to make optimal use of the existing facilities before embarking on any further developments. The reconfiguration increased the occupancy from 650 to 960, some of which has already been absorbed by the growth in staff numbers. In anticipation of future growth, a number of new facilities are planned over the medium term.

As the Bank begins to expand its facilities, the availability of energy supply will be an issue. In line with the organisation's commitment to sustainability, all new developments will be designed to be carbon neutral and as energy efficient as possible. During the year, the Bank's carbon footprint was measured as a baseline for future developments, and an energy audit was conducted to assess current consumption. The air-conditioning system, which proved to be the largest consumer of energy in the old building, will be reassessed in the new financial year. Energy security is also a concern: in this regard, the Bank's standby generator capacity was supplemented in 2008/09, and will be upgraded further in the year ahead. During the recent refurbishment, various quick wins were made on the energy front by installing solar water heating and energy efficient globes.

In a few years' time, the DBSA will have new neighbours on Headway Hill in the form of the Pan-African Parliament. This large-scale development will affect the supply of all municipal services in the area. The Division is working with the national Department of Public Works on the infrastructure upgrades that will be needed to secure access and services for all parties.

A new visitors' entrance and reception area is under construction. The Vulindlela Academy offices will be expanded in 2009/10, while a new office wing is planned for 2009–12. The new buildings will use a combination of solar technologies, ranging from photovoltaic systems to concentrating solar power steam turbines.

Model of the new visitors' entrance and reception area.

Provisioning enabling information technology

The past year has seen a major shift in strategy regarding the information technology architecture of the DBSA.

The changing business environment indicated a need for a more robust management information system that takes the future growth of the organisation into account. A strategic decision was made to move away from the middleware approach to an enterprise-wide system, and after extensive analysis the platform chosen was SAP. The system, which will be introduced over two years, will become the basis upon which all planning and management of the enterprise is done. This is a long-term investment, which will ultimately ensure that the Bank's information is accessible, accurate, flexible, relevant, reliable and secure. In the year under review, the task was to find a suitable implementation partner and finalise the blueprint for the system. In the coming year, the implementation of some key modules will begin, while elements of human resources and risk will be dealt with in 2010/11. In addition, the introduction of a new Enterprise Resource Planning system (ERP) system requires a thorough examination of the Bank's internal processes, and this will become critical as we move towards implementation during the course of the year.

The year ahead

The Bank will continue to focus on extending, enriching and enabling human capital. The structure of the Human Capital Division will be reviewed and aligned in order to divisionalise human capital management further within the business. The talent pool evaluation will continue, and the findings of this exercise will strongly influence the effort to integrate succession planning, critical role analysis, and ultimately the development of talent to manage the leadership growth the Bank requires. The training plan will be aligned to the human capital execution framework to strengthen our primary disciplines. The remuneration system will be re-examined, and the Integrated Rewards and Recognition system introduced in 2002 will be refined to deepen all human capital management practices. On the technology front, the implementation of the new SAP modules will continue as part of the long-term strategy. Finally, as far as the expansion of the facilities is concerned, work will begin on the new visitors' entrance and reception area and the new office wing.

Risk management

Mrs Leonie van Lelyveld
Chief Risk Officer

Group Risk Assurance

The global risk landscape and the evolution of risk management in DBSA

During the year, we have seen a significant shift in the global risk landscape as the US subprime mortgage crises, which surfaced in mid-2007, escalated into a global financial crisis and economic slump. The crisis has eroded confidence in financial systems and institutions, exposing weaknesses in governance systems, among other things. It has also highlighted the extent to which globalisation has interconnected the world, and therefore how important it is that institutions understand the interrelationship of the risks at play in their operating environments.

The impact of the crisis on South Africa and the region has been less pronounced than in the developed economies, as detailed elsewhere in this report. However, the risk landscape has not been unaffected.

As its operating environment changes, the Bank is continually challenged to broaden its development activities and deepen its development impact in pursuit of its mandate. Especially during economic downturns, development finance institutions like the DBSA are expected to play a counter-cyclical role. In recent years, the Bank has expanded its role as a financier, partner and advisor to become an implementer and integrator as well. This has affected its risk profile, necessitating a concerted effort to bolster risk management capability.

Effective risk management is critical to ensuring that the Bank remains financially sustainable and able to achieve the desired development objectives and outcomes, that is, to fulfil its development mandate. The Bank has therefore built a strong risk management culture and capability. Since the Group Risk Assurance Division was established in 2006, significant resources have gone towards developing and implementing best practice risk policies, processes, systems, models and tools, and towards managing existing and emerging risks actively and rigorously.

Overview of the enterprise-wide risk management framework

The Development Bank's enterprise-wide approach to risk management involves:

- Maintaining formal risk governance processes
- Assigning accountability for the management of all risks across the entire institution
- Pursuing comprehensive risk assessment, measurement, monitoring, reporting and assurance

The enterprise-wide risk management framework provides a platform for appropriate processes, accountabilities and assurance covering all aspects of the Bank's risk management. Recruiting, developing and retaining appropriately skilled risk professionals is integral to the process.

The framework is based on a three-tiered allocation of primary responsibilities for ensuring effective risk management across the Bank. The Board of Directors is accountable for managing risk in the organisation with the support of a number of subcommittees (as described in the Corporate governance section). The Board's Audit Committee is mandated to oversee the implementation of the Bank's risk management framework.

The Board and its committees are assisted by the Group Risk Assurance Division, which was created as a centre of excellence in this area. In conjunction with the Internal Audit and External Audit functions, the Division provides assurance to the Board on the effectiveness of risk management. The Division consists of three focused business clusters: Credit Risk (incorporating Workout and Recovery), Operational Risk and Group Compliance, and Legal Services. To achieve the best possible coordination between the risk assurance functions, Internal Audit works closely with the Division, while retaining its independent reporting lines to the Chief Executive Officer and the Board, through the Audit Committee.

The accountability for reducing vulnerability to risks should be entrenched at all levels of the organisation. Accordingly, each Division and constituent business unit is responsible for managing risks arising in its areas of operation. To assist them in this, expertise is deployed in the different risk disciplines via a shared services model, and risk management tools developed by the Group Risk Assurance Division are adopted.

The risk management framework is summarised in the following diagram:

Enterprise-wide risk management governance framework

Risk Governance

BOARD OF DIRECTORS

The Board of Directors is accountable for the management of risk in the DBSA.

BOARD SUBCOMMITTEES

The Board's Audit Committee is mandated to oversee the implementation of the Bank's enterprise-wide risk management framework.
The Board and its subcommittees are assisted by the Group Risk Assurance Division in the execution of this mandate.

- Board Credit and Investment
- Finance
- Audit
- Knowledge Strategy
- Human Capital

Chief Executive Officer

Risk and Compliance Committee / Risk Exco / Asset and Liability Committee / Corporate Credit Committee

Risk Assurance

Group Risk Assurance

Chief Risk Officer

Divisional Executive

Credit Risk Assessment and Analytics

- Addresses the Bank's credit risk exposure
- Formulates the Bank's credit policy, develops models for the assessment and monitoring of credit risk
- Monitors the overall risk profile of the Bank's investment portfolio and operational risk within the credit process
- Assists the Bank to obtain and maintain credit ratings and minimise the cost of funding

Workout and Recovery

- Reports on defaulting borrowers in the DBSA's client base
- Assists with the rehabilitation of defaulters
- In seeking to turn around the non-performing loan book, it puts in place mechanisms to assist clients in rejuvenating their business so that they are able to honour their repayment commitments to the Bank

Group Legal Services

- Provides value adding and professional legal advisory services to all of the Bank's processes, functions and operations
- This is to ensure that business decisions are informed by sound legal principles and that all legal risk concerns are addressed

Divisional Executive

Operational Risk

- Develops and implements tools to ensure the effective management of operational risks
- Minimises the Bank's exposure to operational risk by identifying, assessing, mitigating, monitoring and reporting all operational risk exposures
- Responsible for Business Continuity Planning and Management
- Oversees the overall risk profile of the Bank's operational risk exposure

Group Compliance

- Ensures that the Bank's operational activities comply with legislative requirements and regulations
- Responsible for setting up systems of internal control to monitor and report on the level of compliance with regulatory or legal requirements
- Sets compliance standards and ensures that these are adopted within the Bank

Internal/External Audit

Divisional Executive

Internal Audit

- Responsible for assisting management in making improvements to the system of internal controls, which contributes towards achieving the overall business objectives
- Provides reasonable assurance as to whether or not risks within the DBSA are being managed

External Audit

- Provides an independent opinion on the Bank's Financial Statements and whether they conform to generally accepted accounting principles and fairly represent the financial position of the Bank

Risk Control

Business review meetings and management committees

Business Operations Management and staff

Executive Management

The executive management has the duty to plan, organise and monitor the implementation of risk management enterprise wide and at divisional levels, including communicating expectations and setting standards for risk management

Business Management

Management has the duty as a standing arrangement at unit level and on an ad hoc basis at a project level to identify, assess and respond to risk within their areas of responsibility and competence and within the scope of changes under their management including supervising staff and incentivising ethical behaviour, and monitoring and reporting on risk management performance and results

Dedicated divisonalised risk management capacity

The divisional Head of Risk will execute risk policy set by the GRA cluster

Facilitation of risk management duties

- Provide support to management in the maintenance of risk registers by way of facilitating the identification, assessment and treatment of risks
- Recommend and communicate risk policies to enforce uniformity in the treatment of significant risks across units
- Review and provide independent opinions on the quality of risk assessments
- Measure and report on the aggregated risk exposures across each business unit

Coordination of risk management capability enhancement

- Encourage a risk aware culture and establish a common risk language
- Benchmark and recommend the systematic enhancement of risk management practices
- Drive the building of risk management competencies and skills and enabling infrastructure

The risk management capabilities of the DBSA are continually reviewed and enhanced, with emphasis on:

- *Monitoring and reporting:* Key measures are refined and new measures developed that make it possible to ascertain the overall risk status of each business area or process. Reporting on enterprise-wide risks has been facilitated by creating mechanisms and enhancing capacity to gather, monitor and report on the different risk exposures within the DBSA group on a consolidated basis.
- *Governance, policies and procedures:* The Bank continues to develop and refine appropriate risk governance structures, policies and procedures to facilitate effective risk management across the DBSA group.
- *Business capacity to manage risk:* Dedicated risk management capacity is deployed in each area of the business to ensure that risk can be identified and managed at source. Specific interventions are designed to create a broad appreciation of the issues and a detailed understanding of specific topics in the risk management discipline.
- *Enabling infrastructure:* Various models and systems for collecting, assessing and analysing risk data are designed, tested, validated, implemented and maintained.

The Bank categorises its risk exposures broadly into credit, operational and market risk, with operational risk including strategic, legal and reputational risk. An overview of each of these risks is provided below.

Credit risk management

Credit risk governance

The Board of Directors has delegated the operational responsibility for managing credit risk to its Credit and Investment Committee, supported by a management-level Corporate Credit Committee. The governance framework for the management of credit risk has remained consistent with the previous year, while further enhancements were made in the role and function of these committees, as well as the supporting functions within the Group Risk Assurance Division (as described in the Governance section and the notes to the financial statements).

Risk within the loan portfolio

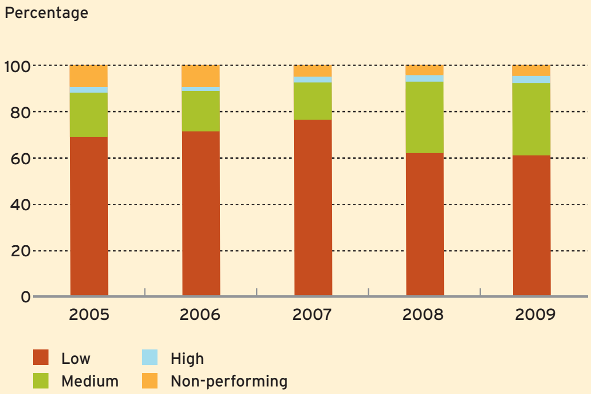
In the context of the global economic crisis and the tough economic environment, increased volatility is to be expected and may adversely affect the probabilities of default within the Bank's loan portfolio.

In order to deal effectively with any potential delayed effects of the economic downturn, increasing emphasis has been placed on strengthening credit risk management capabilities to monitor and manage the credit risk exposures more proactively. The credit risk management tools are being modernised, management reporting was deepened and intensified, the significant portfolios were subjected to scenario analysis and stress testing, and more rigour was brought to identifying and managing early signs of distress within the portfolio. With regard to the latter, the Workout

The DBSA was a member of an international team advising ZESCO on the development of two power stations in Zambia.

and Recovery function's capacity to deal with non-municipal clients was strengthened and this function was more closely integrated with credit and business monitoring activities.

As at year-end, the risk profile of the loan book has remained stable and there have been no significant migrations in terms of the mix of the book as depicted in the graph below.



Risk classification of total loan book, 2004/05 to 2008/09

The loan portfolio has shown strong growth from a base of R18,1 billion to R29,6 billion in a period of two and a half years. Non-performing loans have remained stable at 5% by value of the total book, but improved to 10,2% by number of loan book accounts.

Credit performance of total loan book, 2004/05 to 2008/09

Credit risk is defined and details on how it is managed are provided in the notes to the financial statements, as part of financial risk management disclosures. Note 45 from page 146 specifically outlines the framework and governance, calculation and application of internal ratings, and mitigation of credit risk within the Bank.

Operational risk management

By the Bank's definition, "operational risk" is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and it includes legal, reputational and strategic risks.

During the year, the framework for managing legal risks was formalised in a comprehensive Legal Risk Management Strategy, which creates a common understanding of the definition, management and control of legal risk for the Bank.

In previous years, the Bank undertook a formal risk assessment to identify and quantify operational risks on an annual basis. During the year under review, a comprehensive approach involving all business units in the Bank was adopted. The risks that each business unit and division are exposed to were identified and quantified, and the most significant corporate-level risks the Bank is exposed to were assessed by executive management from a strategic perspective. At the end of the process, a consolidated set of top risks at a corporate level was prepared and presented to the Board for consideration. These top risks form the basis for engagement on the Bank's risk profile, including its continuous assessment and monitoring.

Business continuity management remains a critical part of operational risk management. During 2008/09, efforts were focused on reviewing and updating the business continuity management policy, strategy and procedures, as well as cascading them from corporate to unit level. In the year ahead, we will focus on testing and implementing specific arrangements and disciplines to ensure that the Bank can continue operating in the event of a crisis or disaster.

Market risk

The increased volatility in global markets and consequent tightening of available credit facilities affected the DBSA's access to traditional funding sources, as well as the cost of funding. The Bank therefore had to think innovatively about diversifying its funding sources, while intensifying the monitoring and management of its liquidity. During the year under review, market risk exposures have been maintained within approved limits.

The Bank continues to house independent oversight of market risk management within the Group Risk Assurance Division. This function is responsible for:

- Developing and reviewing market risk policies in conjunction with the Treasury Division
- Interacting regularly with the Treasury Division to monitor compliance with market risk policies and limits
- Providing independent analysis and commentary on new limits and market risk measurement methodologies proposed by the Treasury Division
- Formulating and developing methods to quantify market risk and future capital allocations for market risk

A detailed analysis of the market risk exposures forms part of the financial risk management disclosures in note 45 to the annual financial statements (pages 146 to 156).

Regulatory compliance risk management

The Bank is not regulated under the Banks Act and is therefore not formally obliged to comply with Basel II, as are registered banks. However, as a leveraged financial institution, prudence requires the Bank to adopt best risk management practices to:

- Ensure a more precise assessment, measurement and management of risk and capital requirements based on transaction- and counterparty-specific information
- Provide a common metric for comparing credit, market and operational risk
- Allow for the aggregation of exposures across risk types and lines of business
- Align its processes with Basel II regulatory requirements, especially as developments in this area enhance the framework for dealing with the fundamental weaknesses revealed by the global economic crisis related to regulation, supervision, risk and capital management

The Bank has identified some 78 pieces of legislation it is required to adhere to as a state-owned enterprise. Dedicated attention is required to ensure that all these regulatory requirements are integrated into the policies and procedures of the Bank, and that compliance is monitored and reported on regularly.

Management is responsible for managing compliance risk in each of the divisions and business units.

The Group Compliance Unit was reconstituted within the Group Risk Assurance Division at the beginning of 2008/09 to assist management in discharging this duty. The Unit is responsible for setting compliance policies and standards, monitoring them continually, and providing facilitation and expert advice on meeting legislative and other regulatory requirements affecting the Bank at a corporate level.

Risk monitoring and reporting

To facilitate the constant monitoring of key risk exposures, a process of identifying key risk indicators commenced during the year. The Bank also formalised the process of reporting on key risk exposures by developing a reporting framework and quality assurance mechanisms. This ensures that consolidated, accurate risk reports, which present an overview of the status of the risks associated with the Bank, are provided to the Board and its subcommittees on a quarterly basis.

The year ahead

In 2006, a decision was taken to strengthen the DBSA's risk management capability. Since then the focus has been on establishing new and upgrading existing risk management capacity, policies, processes, systems, models and tools. During 2009/10, the Group Risk Assurance Division aims to leverage this expanded capacity to ensure that the Bank achieves its objectives despite the uncertainties in the operating environment.

The Division will continue to facilitate the embedding of risk management throughout the Bank; to act as custodian of risk management policies and procedures, ensuring that they are reviewed and updated in line with evolving requirements; and to introduce and develop risk management methodologies, systems and models in line with international best practice.

In the year ahead, the risk management capability will be strengthened and refined, so that the Bank is able to measure capital adequacy more precisely, to ensure that it holds sufficient capital to meet unexpected losses, and to price loan transactions appropriately.

The Division will continue to monitor and report on the Bank's management of risk and provide assurances in this regard to the Board of Directors, enabling them to meet their overall responsibility for establishing and maintaining effective systems of risk management and internal controls.

The DBSA's Sustainable Communities programme works to catalyse community-based social and economic development while ensuring the sustainable use of resources.

Annual financial statements

Development Bank of Southern Africa

Directors' responsibility for financial reporting

for the year ended 31 March 2009

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.
- International Financial Reporting Standards have been adhered to.

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 auditors review the financial and internal control systems, accounting policies, reporting and disclosure.

Based on the information received from management, 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 93 to 156 were approved by the Board of Directors on 18 June 2009 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Paul Cambo Baloyi
Managing Director

DKonar

Deenadayalen Konar
Chairman of the Audit Committee

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2009.

The Audit Committee members and attendance are reflected on page 75 in the corporate governance statement.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

Section 51(1)(a)(ii) of the PFMA states the following:

(a) The Accounting Authority must ensure that the public entity has and maintains:

- (i) effective, efficient and transparent systems of financial and risk management and internal control;
- (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77, and
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The Audit Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The quality of in-year management and monthly and quarterly reports submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board of Directors and the management of the Bank during the year under review.

Evaluation of financial statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the independent external auditors and the Accounting Authority
- Reviewed the independent external auditors' management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

DKonar

Deenadayalen Konar
Chairman of the Audit Committee

Independent auditors' report to the Minister of Finance

Report on the financial statements

We have audited the financial statements of the Development Bank of Southern Africa Limited, which comprise the balance sheet at 31 March 2009, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies, other explanatory notes and the Directors' Report as set out on pages 93 to 156, excluding the performance information on pages 94 to 96.

Accounting Authority's responsibility for the financial statements

The Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and the Companies Act of South Africa, sections 284 to 303. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and by the Companies Act of South Africa, sections 284 to 303, as specified in the Development Bank of Southern Africa Act.

Report on other legal and regulatory requirements

Reporting on performance information

We have reviewed the performance information as set out on pages 94 to 96.

Responsibilities of the Accounting Authority

The Accounting Authority has additional responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Auditor's responsibility

We conducted our review engagement in accordance with section 13 of the Public Audit Act, 2004 read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

In terms of the foregoing, our review consists of making enquiries of company personnel and applying other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Review findings

Based on our review, nothing has come to our attention that causes us to believe that the reporting of performance information against predetermined objectives are not fairly stated as required by the Public Finance Management Act.

KPMG Inc.
Registered Auditor

Per S van den Boogaard
Chartered Accountant (SA)
Registered Auditor
Director
18 June 2009

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

Gobodo Inc.
Registered Auditor

Per L Govender
Chartered Accountant (SA)
Registered Auditor
Director
18 June 2009

1st Floor, Block B Empire Park
55 Empire Road
Parktown
Johannesburg

Directors' report
for the year ended 31 March 2009

The Directors have pleasure in presenting this report as part of the annual financial statements of the Development Bank of Southern Africa (DBSA), for the year ended 31 March 2009.

Nature of business

The DBSA is a development finance institution wholly owned by the South African government. The Bank aims to deepen its development impact in South Africa and the rest of the Southern African Development Community (SADC) by expanding access to development finance whilst effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its roles to serve now as financier, advisor, partner, implementer and integrator to the benefit of its clients.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 98 to 156. The key financial indicators for the year under review are:

- Net interest income margin increased by 10,7% (2007/08: 16,4%) and realised operating income of R2,58 billion (2007/08: R2,23 billion).
- Cost-to-income ratio increased from 33,8% to 37,6%.
- The Bank earned a profit from operations of R1,43 billion in the year under review (2007/08: R1,27 billion).
- During the year under review, the Bank disbursed development loans and equity investments amounting to R9,3 billion (2007/08: R6,2 billion).
- The quality of the loan book remains within acceptable parameters, with non-performing loans as 5,4% of the total loan book (2007/08: 5,2%), while the provision for loan impairment is R753,4 million (2007/08: R588,7 million).
- Long-term debt-to-equity ratio increased to 131,3% (2007/08: 107,6%).

High-level performance overview

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this effect, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table below compares the planned and related actual performance for 2008/09, on the high-level corporate strategic objectives.

The Bank achieved satisfactory results during the 2008/09 financial year, meeting a large majority of its strategic objectives. This is indicative of the Bank's commitment to delivering on its vision of an "integrated region progressively free of poverty and dependence".

Performance information

Balanced Scorecard perspective: Development impact

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity	Provide assistance for clients' social and economic infrastructure projects	DBSA Development Fund		
		• Grants disbursed	R180 million	R117 million
		• Municipal Infrastructure Grant Fund: total value implemented into projects as a result of DBSA intervention	R3,8 billion	R4,8 billion
		• Funds crowded in	R500 million	R472 million
		• Sustainable Communities milestones achieved	48% project milestones to be completed	56% project milestones completed
		• % of contractual commitments in the financial year converted to disbursements	58%	75%
		Disbursements: Total value of lending and investment activities	R5,1 billion	R9,3 billion
		Commitments: Co-funding ratio on lending and investment activities (DBSA: co-funding)	1:1,3	1:3,3
		Share of total commitments to identified market segments (sector specific)	48%	73%
Build human and institutional capacity	Provide development grants; project management and project implementation expertise; planning, financial management and asset management expertise; training, mentoring, coaching and skills transfers to enhance our clients' institutional capacity	DBSA Development Fund		
		• Number of external learners trained	3 300	5 259
		• Number of people trained on the job	475	1 762

Balanced Scorecard perspective: Sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development finance scene, in the areas of development expertise, development effectiveness and sustainability; effective corporate governance; and financial sustainability	Quality of the implemented research agenda focusing on: • Infrastructure Barometer • Water and food security • Regional integration	Rating of 3,7 out of 5	Rating of 4,4 out of 5
Engender internal financial sustainability	Deliver high levels of client service	Client and partner satisfaction with the value, quality and relevance of expertise offered by the DBSA	Rating of 3,6 out of 5	Rating of 4 out of 5
	Secure financial sustainability by managing income and the direct cost thereof	Sustainable earnings (defined as earnings before adjustments for foreign exchange, revaluations, technical assistance grants and grants to the DBSA Development Fund)	R900 million	R871 million
		Cost-to-income ratio	40%	37,6%
	Maintain financial health	Corporate credit rating	Maintain rating	Rating maintained
	Apply integrated risk management to mitigate business risks	Non-performing book debt as a % of total book debt	Below 6%	5,4%

Performance information (continued)

Balanced Scorecard perspective: Organisational capability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development finance scene, in the areas of development expertise, development effectiveness and sustainability, effective corporate governance and financial sustainability	Market perception of the DBSA's image in the development finance scene	Rating of 4,2 out of 5	Rating of 4,3 out of 5
Engender internal financial sustainability	Maintain appropriate levels of competent, motivated and empowered staff to achieve strategic objectives	Staff training	90% of staff trained	63% of staff trained
	Optimise and leverage knowledge and intellectual capital to add value to clients, partners and stakeholders	Staff satisfaction with internal knowledge management	Satisfaction level of 3,9 out of 5	Satisfaction level of 3,9 out of 5
		% of acceptable vacancy levels	15%	12%

Dividend

No dividend has been declared for the current and previous financial year.

Share capital

No changes were introduced to the authorised and issued share capital of the Bank.

Going concern

The Directors have no reason to believe that the DBSA will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

Borrowing power

The borrowing power of the Bank is limited to 2,5 times the permanent capital and accumulated reserves.

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear on page 97.

Non-executive Directors are subject to retirement by rotation and will hold office for a period of three years, but are eligible for reappointment. The Chief Executive Officer may be appointed for a period not exceeding five years.

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 40 and 44 respectively of the financial statements.

Details of the Directors' service contracts are as follows:

Name	Position	Period	
		From	To
Mr J Naidoo	Chairperson	1 August 2008	31 July 2011
Mr P Baloyi	Chief Executive Officer and Managing Director	1 July 2006	31 July 2011
Mr A Boraine	Non-executive Director	1 August 2008	31 July 2011
Mrs T Dingaan	Non-executive Director	1 August 2007	31 July 2010
Prof. B Figaji	Non-executive Director	1 August 2007	31 July 2009
Mr T Fowler	Non-executive Director	1 August 2007	31 July 2010
Mr L Fuzile[1]	Non-executive Director	1 August 2006	31 January 2009
Ms N Gasa	Non-executive Director	1 August 2006	31 July 2009
Dr L Gwagwa	Non-executive Director	1 August 2007	31 July 2010
Dr D Konar	Non-executive Director	1 August 2007	31 July 2009
Prof. O Latiff	Non-executive Director	1 August 2007	31 July 2010
Mrs W Lucas-Bull	Non-executive Director	1 August 2008	31 July 2011
Dr C Manning	Non-executive Director	1 August 2008	31 July 2011
Mr I Mzimela	Non-executive Director	1 August 2007	31 July 2010
Ms T Ramano	Non-executive Director	1 August 2007	31 July 2010
Prof. E Webster	Non-executive Director	1 August 2007	31 July 2010
Mrs M Ngqaleni	Non-executive Director	1 February 2009	31 January 2012

1. Resigned 31 January 2009.

Secretariat: Mr Bernard Mhango

Business and registered address

The Bank's business and registered address details appear on page 157.

Events subsequent to balance sheet date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in the annual financial statements, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank.

Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Bank sustained material losses.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Bank sustained material losses.

III. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business, none of which was material.

IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the DBSA: no such financial assistance was received.

Balance sheet
at 31 March 2009

in thousands of rand	Notes	2009	2008
Assets			
Cash and cash equivalents	17	**2 475 095**	2 313 803
Other receivables	18	**120 498**	114 930
Investment securities	19	**2 555 283**	2 902 469
Investments under resale agreements	20	**1 361 561**	1 089 008
Derivative assets held for risk management	21.1	**1 403 762**	1 086 651
Post-retirement medical benefits investment	22	**63 246**	72 002
Home ownership scheme loans	23	**16 697**	19 208
Equity investments	24	**2 547 778**	2 041 427
Development loans	25	**29 448 757**	23 288 329
Property and equipment	26	**370 769**	316 424
Intangible assets	27	**18 192**	2 046
Total assets		**40 381 638**	33 246 297
Liabilities			
Other payables	28	**510 481**	486 629
Liability for funeral benefits	29.1	**3 630**	3 509
Liability for post-retirement medical benefits	29.2	**226 648**	195 769
Medium- to long-term funding debt securities	30	**14 886 856**	9 199 167
Medium- to long-term funding lines of credit	31	**5 938 264**	5 499 019
Funding under repurchase agreements	32	**1 160 144**	1 862 054
Derivative liabilities held for risk management	21.2	**420 112**	220 277
Total liabilities		**23 146 135**	17 466 424
Equity			
Share capital	33	**200 000**	200 000
Retained earnings		**12 117 311**	10 904 976
Permanent government funding	34	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	35	**198 401**	196 558
Hedging reserve	36	**17 529**	9 914
Reserve for general loan risks	37	**935 083**	721 102
Fair value reserve	38	**(25 165)**	(45 021)
Total equity		**17 235 503**	15 779 873
Total liabilities and equity		**40 381 638**	33 246 297

Income statement
for the year ended 31 March 2009

in thousands of rand	Notes	2009	2008
Interest income	5	**3 373 663**	2 853 603
Interest expense	6	**(1 696 255)**	(1 338 115)
Net interest income		**1 677 408**	1 515 488
Net fee income	7	**84 144**	48 973
Net foreign exchange gain	8	**223 914**	37 515
Net gain from financial assets and liabilities	9	**573 452**	545 997
Other operating income	10	**17 329**	78 922
		898 839	711 407
Operating income		**2 576 247**	2 226 895
Grants		**(82 468)**	(46 295)
Net impairment loss on financial assets	11	**(238 249)**	(331 192)
Personnel expenses	12	**(424 545)**	(376 045)
Other expenses	13	**(237 943)**	(173 821)
Depreciation and amortisation	15	**(6 921)**	(5 777)
Profit from operations		**1 586 121**	1 293 765
Grant to Development Fund		**(120 000)**	–
Capacity development and deployment	16	**(39 805)**	(27 876)
Profit for the year		**1 426 316**	1 265 889

Statement of changes in equity

for the year ended 31 March 2009

in thousands of rand	Share capital	Permanent government funding	Revaluation reserve on land and buildings	Hedging reserve	Reserve for general loan risks	Fair value reserve	Total reserves	Retained earnings	Total capital and reserves at the end of the year
Balance at 1 April 2007	**200 000**	**3 792 344**	**191 079**	**13 251**	**613 420**	**(18 632)**	**4 591 462**	**9 746 769**	**14 538 231**
Changes in equity									
Fair value movements of cash flow hedges	–	–	–	(3 337)	–	–	(3 337)	–	(3 337)
Fair value adjustment of available-for-sale financial market instruments	–	–	–	–	–	(26 389)	(26 389)	–	(26 389)
Net income (expenses) recognised directly in equity	–	–	–	(3 337)	–	(26 389)	(29 726)	–	(29 726)
Profit for the year	–	–	–	–	–	–	–	1 265 889	1 265 889
Total recognised income and expenses for the year	–	–	–	(3 337)	–	(26 389)	(29 726)	1 265 889	1 236 163
Transfer to revaluation reserve on land and buildings	–	–	5 479	–	–	–	5 479	–	5 479
Transfer to reserve for general loan risks	–	–	–	–	107 682	–	107 682	(107 682)	–
Total changes	–	–	5 479	(3 337)	107 682	(26 389)	83 435	1 158 207	1 241 642
Balance at 1 April 2008	**200 000**	**3 792 344**	**196 558**	**9 914**	**721 102**	**(45 021)**	**4 674 897**	**10 904 976**	**15 779 873**
Changes in equity									
Fair value movements of cash flow hedges	–	–	–	7 615	–	–	7 615	–	7 615
Fair value adjustment of available-for-sale financial market instruments	–	–	–	–	–	19 856	19 856	–	19 856
Net income (expenses) recognised directly in equity	–	–	–	7 615	–	19 856	27 471	–	27 471
Profit for the year	–	–	–	–	–	–	–	1 426 316	1 426 316
Total recognised income and expenses for the year	–	–	–	7 615	–	19 856	27 471	1 426 316	1 453 787
Transfer to revaluation reserve on land and buildings	–	–	1 843	–	–	–	1 843	–	1 843
Transfer to reserve for general loan risks	–	–	–	–	213 981	–	213 981	(213 981)	–
Total changes	–	–	1 843	7 615	213 981	19 856	243 295	1 212 335	1 455 630
Balance at 31 March 2009	**200 000**	**3 792 344**	**198 401**	**17 529**	**935 083**	**(25 165)**	**4 918 192**	**12 117 311**	**17 235 503**
Notes	33	34	35	36	37	38			

Cash flow statement

for the year ended 31 March 2009

in thousands of rand	Notes	2009	2008
Cash flows from operating activities			
Profit for the year		**1 426 316**	1 265 889
Adjustments for:			
Depreciation and amortisation		**6 921**	5 777
Grants paid		**82 468**	46 295
Dividends received		**(9 887)**	(61 431)
Realised capital gain		**–**	(13 967)
Net foreign exchange gain		**(223 914)**	(33 798)
Net gain from financial assets and liabilities		**(573 452)**	(519 676)
Net impairment loss on financial assets		**238 249**	331 192
Net interest income		**(1 677 408)**	(1 515 488)
		(730 707)	(495 207)
Other receivables		**12 676**	34 917
Home ownership scheme loans		**2 511**	1 995
Other payables		**(60 789)**	(46 829)
Change in liability for funeral benefits and post-retirement medical benefits		**31 000**	23 703
		(745 309)	(481 421)
Interest and dividends received		**3 140 295**	3 218 473
Interest paid		**(1 611 614)**	(1 302 119)
Net cash from operating activities		**783 372**	1 434 933
Cash flows from development activities			
Development loan disbursements		**(8 792 436)**	(5 375 403)
Development loan principal repayments		**3 068 376**	2 014 262
Increase in equity investment		**(308 931)**	(367 653)
Grants paid		**(82 468)**	(46 295)
Net cash used in development activities		**(6 115 459)**	(3 775 089)
Cash flows from investing activities			
Purchase of property and equipment		**(57 160)**	(29 844)
Purchase of intangible assets		**(18 409)**	(906)
Movement in financial market assets		**498 773**	146 303
Net cash from investing activities		**423 204**	115 553
Cash flows from financing activities			
Financial market liabilities repaid		**(1 991 880)**	(243 476)
Financial market liabilities raised		**6 898 418**	3 754 617
Net cash from financing activities		**4 906 538**	3 511 141
Net (decrease)/increase in cash and cash equivalents		**(2 345)**	1 286 538
Effect of exchange rate movement on cash balances		**163 637**	136 908
Movement in cash and cash equivalent after exchange rate effect		**161 292**	1 423 446
Cash and cash equivalents at the beginning of the year		**2 313 803**	890 357
Cash and cash equivalents at the end of the year	17	**2 475 095**	2 313 803

Accounting policies
for the year ended 31 March 2009

1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 18 June 2009.

1.1 Reporting entity

The Development Bank of Southern Africa Limited ("the Bank") is a development finance institution domiciled in South Africa.

1.2 Basis of preparation

1.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Land and buildings are measured at fair value.
- Post-retirement medical benefit and funeral benefit obligations are measured at actuarial values.
- Equity investments are measured at fair value.

The methods used to measure fair values are discussed further in note 1.11.

1.2.2 Functional and presentation currency

These financial statements are presented in South African rands, which is the Bank's functional currency. All financial information presented in rands has been rounded to the nearest thousand, unless otherwise stated.

1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

- Note 1.3.5 – Hedge accounting
- Note 1.5.3 – Depreciation and the useful lives of property and equipment
- Notes 19, 20, 21, 30, 31 and 32 – Valuation of financial instruments
- Note 24 – Valuation of equity investments
- Note 25 – Measurement of the recoverable amounts of development loans
- Note 26 – Valuation of land and buildings
- Note 29 – Measurement of funeral benefit obligations and post-retirement medical benefit

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (refer to note 45).

1.3 Financial instruments

1.3.1 Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition and re-evaluates this classification at every reporting date.

All financial assets are initially recognised at fair value plus transaction costs, except those measured at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include data from observable markets.

All financial assets are initially recognised on the trade date at which the Bank commits to buy or sell the instruments, except for loans, advances and the regular way purchases and sales transactions that require delivery within the timeframe established by market convention, which are recorded at settlement date.

FInancial assets are initially measured at fair value plus, in the case of all financial assets not measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, the fair values of financial assets are measured as below, excluding transaction costs (refer to note 1.11.3).

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking or if so designated by management. Derivatives are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank, there are no financial assets classified as held-for-trading.

A financial asset is designated as fair value through profit or loss because it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated by the Bank are equity investments and debt securities.

Subsequent to initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised under net gains from financial assets in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. This category does not include those loans and receivables that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Origination transaction costs and origination fees are capitalised to the value of the loan and amortised through interest income. The Bank does not believe that there is a comparable market for its targeted infrastructure programme loans.

This category comprises development loans, cash and cash equivalents, other receivables and collateralised advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment as per note 1.3.8.

Short-term trade receivables and other receivables are measured at original invoice amount less an estimate made for impairment based on a review of all outstanding amounts at year-end.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. Where the Bank sells more than an insignificant amount of held-to-maturity financial assets in a period, the entire category would be tainted and reclassified as available-for-sale and the difference between amortised cost and fair value would be accounted for in equity.

Financial assets classified as held-to-maturity include equity investments and investments in municipal and government bonds.

Subsequent to initial recognition, held-to-maturity financial assets are carried at amortised cost using the effective interest method, less any provision for impairment.

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time and may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. Financial assets that are either designated in this category or not classified in any of the other categories are classified as available-for-sale financial assets. The main classes of financial assets classified as available-for-sale are money market placements and certain debt and equity investments, as well as government and corporate bonds.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses arising from the change in fair value are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest and dividend income received on available-for-sale financial assets are recognised in the income statement.

1.3.2 Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities on initial recognition and re-evaluates this classification at every reporting date.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds, net of transaction costs incurred. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading and those designated at fair value through profit or loss at inception.

A financial liability is classified as held-for-trading if the linked financial asset associated with this liability is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking or if so designated by management. Derivative liabilities are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank there are no financial liabilities classified as held-for-trading.

A financial liability is designated as fair value through profit or loss because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the liability or recognising the gains or losses on it on a different basis, or a portfolio of financial liabilities is linked to a portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main class of financial liabilities designated by the Bank are debt securities.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the income statement.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments and fixed maturities.

Financial liabilities classified as financial liabilities at amortised cost comprise debt securities, lines of credit, funding under repurchase agreements and trade and other payables.

Loans that are payable within twelve months are classified as short term and are included under other payables.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost and any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method.

1.3.3 Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policies, the Bank does not hold or issue derivative financial instruments for trading purposes. All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at fair value. The treatment of changes in their fair value depends on their classification into the following categories:

Qualifying derivatives

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (refer to note 1.3.5).

Non-qualifying derivatives

Derivatives that do not qualify for hedge accounting are accounted for as a component of financial instruments held at fair value through profit or loss with all changes in fair values recognised in profit and loss.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

1.3.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

1.3.5 Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either:

- A hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge)

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge
- The hedge is expected to be highly effective

- The effectiveness of the hedge can be reliably measured
- The hedge is highly effective throughout the reporting period
- For hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss

Hedge accounting requires that the hedging instrument be measured at fair value.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to note 1.11).

The treatment of any resultant gains and losses is set out below.

The Bank utilises various derivative instruments like cross-currency swaps, interest rate swaps and credit default swaps as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, as well as exposures to variability in cash flows attributable to a particular risk associated with a recognised asset or liability.

The Bank applies either fair value or cash flow hedge accounting to transactions that comply with the hedge accounting criteria and are classified as hedging instruments. The hedging instruments are carried at fair value on the balance sheet and are reported as either positive or negative fair values.

Fair value hedge

When a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses relating to the hedged risk on remeasurement of both the hedging instrument and the hedged item are recognised in profit or loss.

If the hedge no longer meets the criteria for fair value hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until disposal of the equity security.

Cash flow hedge

When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, or a highly probable forecast transaction, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

1.3.6 Repurchase and resale 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 in funding under repurchase agreements.

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 in investments under resale agreements.

1.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and there is an intention to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

1.3.8 Impairment of financial instruments

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Available-for-sale financial assets

Where an available-for-sale financial asset remeasured to fair value directly through equity is impaired, and a write down of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the income statement.

Loans and advances, receivables and held-to-maturity investments

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Calculation of recoverable amount

The recoverable amount of the held-to-maturity investments and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Receivables with a short duration are not discounted, as the effect of discounting is not significant.

Reversals of impairment

An impairment loss in respect of a held-to-maturity financial asset or loans and receivables measured at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss as far as the impairment was previously recognised in profit or loss.

Impairment of development loans

Non-performing loans are impaired for losses identified during periodic evaluations of loan advances. The classification of a loan as non-performing is the loss event that triggers impairment testing on an individual loan basis. The impairment to non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between the loss estimates and actual loss experience. Development loans are considered non-performing when two consecutive repayments have not been honoured by the borrower, or when there are other indicators that the loan may be impaired.

The non-performing book is split into two classes, namely municipalities and other. This is done because the characteristics of the classes differ. For municipalities the recovery rate is based on the historical success rate of rescheduled loans. For the other loans each non-performing borrower is individually assessed to determine its recovery rate.

The performing book is impaired in order to provide for latent losses in the portfolio that have not yet been individually identified as impaired. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system (refer to note 1.7.5).

1.3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, callable on demand and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the balance sheet.

1.3.10 Loans to shareholders, directors, managers and employees

These financial assets are initially recognised at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts.

1.4 Impairment of non-financial assets

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Intangible assets that have an indefinite useful life, are not subject to amortisation, or intangible assets that are not yet available for use, are tested annually for impairment at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. Value in use is the present value of projected cash flows covering the remaining useful life of the asset.

1.5 Property and equipment

1.5.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings which are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued on an annual basis.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment and depreciated accordingly.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss. When revalued land and buildings are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

1.5.2 Subsequent costs

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in profit or loss as incurred.

1.5.3 Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Item	Estimated useful life
Buildings	40 years
Furniture and fittings	10 years
Office equipment	5 - 10 years
Motor vehicles	4 - 5 years
Computer equipment	3 years

The current residual values, depreciation methods and useful lives of assets are reviewed at each balance sheet date and adjusted if appropriate.

1.6 Intangible assets

1.6.1 Recognition and measurement

Intangible assets that are acquired by the Bank which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software and the direct costs associated with the customisation and installation thereof, are capitalised and amortised over the estimated useful lives of the assets from the date that they are available for use.

1.6.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

1.6.3 Amortisation

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use.

1.7 Share capital and reserves

1.7.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

1.7.2 Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank.

1.7.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not occurred or not yet affected profit or loss.

1.7.4 Fair value reserve

The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments, excluding impairment losses.

1.7.5 Reserve for general loan risks

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. A risk review process for all clients is conducted twice per annum. The reserve for each risk category is calculated as follows:

- Low risk 3%
- Medium risk 5%
- High risk 7%

Any adjustment to the reserve is recognised as a movement directly between retained earnings and the reserve for general loan risks.

1.7.6 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings.

1.8 Revenue

Revenue is derived substantially from the business of development activities and comprises interest income and interest expense.

1.8.1 Interest income and interest expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis
- Interest on available-for-sale investment securities on an effective interest basis
- The effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income/expense

Interest excludes the effect of interest rate hedges, which are included in the net gain from financial assets and liabilities.

Where non-performing financial assets have been impaired, interest income continues to be recognised to the extent that the asset is not impaired on the original effective interest rate.

1.8.2 Fees and commission

Fees and other income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

1.9 Foreign currency translations

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Bank's financial statements are presented in South African rand, which is the Bank's functional currency.

Foreign exchange gains and losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.10 Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

1.11 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

1.11.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed by an independent quantity surveyor using the income capitalisation approach, which is calculated using an average market-related rental per square metre, discounted by a capitalisation rate.

1.11.2 Post-retirement medical benefits investment

The fair value of the post-retirement medical benefits investment is based on the listed market price.

1.11.3 Financial instruments

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, as reflected in the table under notes 3 and 4.

Equity investments

After intial recognition the Bank measures equity financial assets at fair value through profit or loss as follows:

- Unquoted equity instruments whose fair values cannot be reliably measured are held at cost; if the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exercise motivated by normal business considerations

The Bank uses valuation techniques in measuring equity instruments, including price of recent investments, if available; discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates; price earnings growth (PEG) or option pricing models.

The Bank ensures that these valuation techniques make maximum use of market inputs and rely as little as possible on entity-specific inputs; incorporate all factors that market participants would consider in setting a price; and are consistent with accepted economic methodologies for pricing financial instruments.

Capital market securities

In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at balance sheet date, without any deduction for transaction costs. Where actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

Derivatives

The fair value of forward exchange contracts is determined through discounting the contractual future cash flows at the relevant market curves and netting off at the rand spot exchange rate as at balance sheet date.

The fair value of interest rate and cross-currency swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and foreign exchange rates and the creditworthiness of the respective swap counterparties. The fair value of derivatives that are not exchange traded is estimated using discounted cash flow valuation methods with inputs limited, to the extent possible, to market observable data.

Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Interest bearing loans and borrowings

The fair value of interest bearing loans is determined through discounted cash flow analyses using market-derived discount rates as at balance sheet date.

Interest rates used for determining fair value

The Bank uses market-derived discount curves as at balance sheet date. Future cash flows are based on contractual cash flows, and where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply.

1.12 Provisions

Provisions are recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are recognised for onerous contracts when the expected benefits to be derived by the Bank from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

1.13 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

1.14 Employee benefits

1.14.1 Defined contribution plan

Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

1.14.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of a defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in profit and loss immediately.

1.14.3 Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.14.4 Short-term employee benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14.5 Home ownership scheme

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to the Bank employees at reduced interest rates. The Bank and Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank. The loans are measured at amortised cost less any impairment losses.

1.15 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control. Items are classified as commitments when the Bank commits itself to future transactions with external parties.

1.16 Other operating income

Fees that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee income (appraisal, commitment, guarantee and penalty fees) is recognised as the related services are performed.

Dividends are recognised when the Bank's right to receive payment is established (which is when the dividend is declared). Dividends are incorporated in other income, which is separately disclosed in the notes to the income statement.

1.17 DBSA Development Fund

The DBSA Development Fund is a section 21 company that was incorporated on 21 December 2001. This fund is not consolidated as the requirements of IAS 27 have not been met.

A full set of financial statements has been prepared in the Annual Report for the Development Fund.

1.18 Events after balance sheet date

All adjusting events, both favourable and unfavourable, that occur between balance sheet date and the date when the financial statements are issued have been reported and adjusted for in the financial statements.

Those events that are indicative of conditions that came into existence subsequent to the balance sheet date have not been adjusted for.

1.19 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. These funds are not included in the balance sheet of the Bank.

1.20 Related parties

The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Bank.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Bank.

Other related-party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1. New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2009, and have not been applied in preparing these financial statements:

- IAS 1 (AC 101) – Presentation of financial statements
- IAS 23 (AC 114) – Borrowing costs
- IAS 27 (AC 132) & IFRS 1 (AC 138) amendment – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IAS 27 (AC 132) amendment – Consolidated and Separate Financial Statements
- IAS 32 (AC 125) – Financial instruments: Presentation
- IAS 39 (AC 133) – Eligible hedged items
- IAS 1 (AC 101) amendment – Presentation of financial statements: Puttable financial instruments and obligations arising on liquidation
- IFRS 1 (AC 138) – First Time Adoption of International Financial Reporting Standards
- IFRS 2 (AC 139) amendment – Share based payment: Vesting conditions and cancellations
- IFRS 3 (AC 140) – Business Combinations
- IFRS 5 (AC 142) – Improvements to IFRSs – IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations
- IFRS 7 (AC 144) amendments – Improving Disclosures about Financial Instruments
- IFRS 8 (AC 145) – Operating segments
- IFRIC 13 (AC 446) – Customer loyalty programmes
- IFRIC 15 (AC 448) – Agreements for the Construction of Real Estate
- IFRIC 16 (AC 449) – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 (AC 450) – Distributions of Non-cash Assets to Owners
- AC 504 – IAS 19 (AC 116) – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment
- Various – Improvements to IFRSs (excluding IFRS 5 amendment)

The effect of implementing these standards has not yet been determined.

2. Segment reporting

A segment is a distinguishable component of the Bank that is either providing related products or services (business segment) or is providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is geographical segments based on the Bank's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Enabling services (unallocated items) comprise mainly treasury activities, corporate assets and expenses.

Geographical segments

The Bank's development loan portfolio is managed in South Africa, but the clients and projects are located in different countries. Thus, the Bank's geographical segment is classified into South Africa and SADC countries other than South Africa.

Business segments

The Bank's secondary segment is business and has been determined according to the type of client as follows:

- Private sector intermediary clients
- Public sector clients

2. Segment reporting (continued)

Primary segments	South Africa		SADC (excl South Africa)		*Corporate services		Total	
in thousands of rand	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Interest income	**2 138 180**	1 731 058	**676 319**	586 695	**559 164**	535 850	**3 373 663**	2 853 603
Interest income on development loans	**2 109 159**	1 725 447	**675 007**	586 402	**–**	–	**2 784 166**	2 311 849
Interest income on investments	**29 021**	5 611	**1 312**	293	**559 164**	535 850	**589 497**	541 754
Interest expense	**(1 330 659)**	(1 088 533)	**(334 759)**	(249 582)	**(30 837)**	–	**(1 696 255)**	(1 338 115)
Net interest income	**807 521**	642 525	**341 560**	337 113	**528 327**	535 850	**1 677 408**	1 515 488
Non-interest income	**51 208**	45 607	**40 660**	81 193	**9 605**	1 095	**101 473**	127 895
Net fee income	**43 992**	28 093	**37 989**	23 304	**2 163**	(2 424)	**84 144**	48 973
Dividends	**7 216**	3 542	**2 671**	57 889	**–**	–	**9 887**	61 431
Sundry income	**–**	13 972	**–**	–	**7 442**	3 519	**7 442**	17 491
Other income	**(109 718)**	48 327	**315 428**	604 757	**591 656**	(69 572)	**797 366**	583 512
Net foreign exchange gain/(loss)	**(5 008)**	–	**153 393**	95 821	**75 529**	(58 306)	**223 914**	37 515
Net gain/(loss) from financial assets and liabilities	**(104 710)**	48 327	**162 035**	508 936	**516 127**	(11 266)	**573 452**	545 997
Operating income	**749 011**	736 459	**697 648**	1 023 063	**1 129 588**	467 373	**2 576 247**	2 226 895
Grants	**(59 515)**	(43 585)	**(11 614)**	(45)	**(11 339)**	(2 665)	**(82 468)**	(46 295)
Expenses	**(181 411)**	(311 851)	**(199 860)**	(160 075)	**(526 387)**	(414 909)	**(907 658)**	(886 835)
Operating expenses	**(124 711)**	(115 843)	**(26 380)**	(25 363)	**(511 397)**	(408 660)	**(662 488)**	(549 866)
Depreciation and amortisation	**–**	–	**–**	–	**(6 921)**	(5 777)	**(6 921)**	(5 777)
Net impairment loss on financial assets	**(56 700)**	(196 008)	**(173 480)**	(134 712)	**(8 069)**	(472)	**(238 249)**	(331 192)
Profit from operations	**508 085**	381 023	**486 174**	862 943	**591 862**	49 799	**1 586 121**	1 293 765
Grant to Development Fund	**–**	–	**–**	–	**(120 000)**	–	**(120 000)**	–
Capacity, development and deployment	**–**	–	**–**	–	**(39 805)**	(27 876)	**(39 805)**	(27 876)
Profit for the year	**508 085**	381 023	**486 174**	862 943	**432 057**	21 923	**1 426 316**	1 265 889
Capital expenditure	**–**	–	**–**	–	**75 569**	34 981	**75 569**	34 981
Total assets	**23 371 016**	17 566 069	**8 968 213**	7 763 687	**8 042 409**	7 916 541	**40 381 638**	33 246 297
Total liabilities	**14 761 574**	13 650 649	**5 006 862**	3 129 868	**3 377 699**	685 907	**23 146 135**	17 466 424
Key ratios by segment								
Cost-to-income %	**15**	17	**7**	6	**96**	77	**38**	34
Debt to assets %	**63**	78	**56**	40	**42**	9	**57**	53
Net interest income margin %	**38**	37	**51**	57	**94**	100	**50**	53
Return on assets %	**2**	2	**5**	11	**5**	0,3	**4**	4

** Corporate services include Treasury, Human Capital and Technology, Finance, Research and Information, Office of the CEO, Group Risk Assurance and Group Strategy and Communication.*

Secondary segments

in thousands of rand	Private sector intermediary 2009	Private sector intermediary 2008	Public sector 2009	Public sector 2008	*Corporate services 2009	*Corporate services 2008	Total 2009	Total 2008
Interest income	**755 792**	536 006	**2 058 707**	1 781 747	**559 164**	535 850	**3 373 663**	2 853 603
Interest income on development loans	**725 459**	530 102	**2 058 707**	1 781 747	**–**	–	**2 784 166**	2 311 849
Interest income on investments	**30 333**	5 904	**–**	–	**559 164**	535 850	**589 497**	541 754
Interest expense	**(510 601)**	(382 871)	**(1 154 817)**	(955 244)	**(30 837)**	–	**(1 696 255)**	(1 338 115)
Net interest income	**245 191**	153 135	**903 890**	826 503	**528 327**	535 850	**1 677 408**	1 515 488
Non-interest income	**28 166**	98 715	**63 702**	28 085	**9 605**	1 095	**101 473**	127 895
Net fee income	**25 135**	33 887	**56 846**	17 510	**2 163**	(2 424)	**84 144**	48 973
Dividends	**3 031**	61 431	**6 856**	–	**–**	–	**9 887**	61 431
Sundry income	**–**	3 397	**–**	10 575	**7 442**	3 519	**7 442**	17 491
Other income	**63 069**	640 347	**142 641**	12 737	**591 656**	(69 572)	**797 366**	583 512
Net foreign exchange gain/(loss)	**45 493**	92 268	**102 892**	3 553	**75 529**	(58 306)	**223 914**	37 515
Net gain/(loss) from financial assets and liabilities	**17 576**	548 079	**39 749**	9 184	**516 127**	(11 266)	**573 452**	545 997
Operating income	**336 426**	892 197	**1 110 233**	867 325	**1 129 588**	467 373	**2 576 247**	2 226 895
Grants	**(21 808)**	–	**(49 321)**	(43 630)	**(11 339)**	(2 665)	**(82 468)**	(46 295)
Expenses	**(221 451)**	(307 928)	**(159 820)**	(163 998)	**(526 387)**	(414 909)	**(907 658)**	(886 835)
Operating expenses	**(46 323)**	(25 363)	**(104 768)**	(115 843)	**(511 397)**	(408 660)	**(662 488)**	(549 866)
Depreciation and amortisation	**–**	–	**–**	–	**(6 921)**	(5 777)	**(6 921)**	(5 777)
Impairment on development loans	**(175 128)**	(282 565)	**(55 052)**	(48 155)	**(8 069)**	(472)	**(238 249)**	(331 192)
Profit from operations	**93 167**	584 269	**901 092**	659 697	**591 862**	49 799	**1 586 121**	1 293 765
Grant to Development Fund	**–**	–	**–**	–	**(120 000)**	–	**(120 000)**	–
Capacity, development and deployment	**–**	–	**–**	–	**(39 805)**	(27 876)	**(39 805)**	(27 876)
Profit for the year	**93 167**	584 269	**901 092**	659 697	**432 057**	21 923	**1 426 316**	1 265 889
Capital expenditure	**–**	–	**–**	–	**75 569**	34 981	**75 569**	34 981
Total assets	**9 914 891**	6 962 920	**22 424 338**	18 366 836	**8 042 409**	7 916 541	**40 381 638**	33 246 297
Total liabilities	**6 060 809**	4 801 361	**13 707 627**	11 979 156	**3 377 699**	685 907	**23 146 135**	17 466 424
Key ratios by segment								
Cost-to-income %	**17**	10	**11**	14	**96**	77	**38**	34
Debt to assets %	**61**	69	**61**	65	**42**	9	**57**	53
Net interest income margin %	**32**	29	**44**	46	**94**	100	**50**	53
Return on assets %	**1**	8	**4**	4	**5**	0,3	**4**	4

** Corporate services include Treasury, Human Capital and Technology, Finance, Research and Information, Office of the CEO, Group Risk Assurance and Group Strategy and Communication.*

3. Financial assets by category

The table below sets out the Bank's classification of financial assets, and their fair values.

in thousands of rand	Notes	Loans and receivables	Designated at fair value through profit or loss*	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
2009							
Cash and cash equivalents	17	2 475 095	–	–	–	2 475 095	2 475 095
Other receivables	18	120 498	–	–	–	120 498	120 498
Investment securities	19	–	1 641 945	249 968	663 370	2 555 283	2 584 235
Investments under resale agreements	20	1 361 561	–	–	–	1 361 561	1 361 561
Derivative assets held for risk management	21.1	–	1 403 762	–	–	1 403 762	1 403 762
Home ownership scheme loans	23	16 697	–	–	–	16 697	16 697
Equity investments	24	–	2 132 202	415 576	–	2 547 778	2 547 778
Development loans	25	29 448 757	–	–	–	29 448 757	30 227 542
		33 422 608	**5 177 909**	**665 544**	**663 370**	**39 929 431**	**40 737 168**
2008							
Cash and cash equivalents	17	2 313 803	–	–	–	2 313 803	2 313 803
Other receivables	18	114 930	–	–	–	114 930	114 930
Investment securities	19	–	1 707 890	515 030	679 549	2 902 469	2 917 205
Investments under resale agreements	20	1 089 008	–	–	–	1 089 008	1 089 008
Derivative assets held for risk management	21.1	–	1 086 651	–	–	1 086 651	1 086 651
Home ownership scheme loans	23	19 208	–	–	–	19 208	19 208
Equity investments	24	–	1 567 352	474 075	–	2 041 427	2 041 427
Development loans	25	23 288 329	–	–	–	23 288 329	22 875 437
		26 825 278	**4 361 893**	**989 105**	**679 549**	**32 855 825**	**32 457 669**

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

4. Financial liabilities by category

The table below sets out the Bank's classification of financial liabilities, and their fair values.

in thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss*	Total carrying amount	Fair value
2009					
Other payables	28	510 481	–	510 481	510 481
Medium- to long-term funding debt securities	30	9 378 107	5 508 749	14 886 856	14 200 039
Medium- to long-term funding lines of credit	31	5 938 264	–	5 938 264	5 915 264
Funding under repurchase agreements	32	1 160 144	–	1 160 144	1 160 144
Derivative liabilities held for risk management	21.2	–	420 112	420 112	420 112
		16 986 996	**5 928 861**	**22 915 857**	**22 206 040**
2008					
Other payables	28	486 629	–	486 629	486 629
Medium- to long-term funding debt securities	30	5 688 811	3 510 356	9 199 167	10 495 994
Medium- to long-term funding lines of credit	31	5 191 245	307 774	5 499 019	5 373 079
Funding under repurchase agreements	32	1 862 054	–	1 862 054	1 862 054
Derivative liabilities held for risk management	21.2	–	220 277	220 277	220 277
		13 228 739	**4 038 407**	**17 267 146**	**18 438 033**

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

in thousands of rand	2009	2008
5. Interest income		
Interest income received on:		
Cash and cash equivalents	**165 027**	164 303
Investment securities	**278 238**	300 401
Repurchase agreements	**113 508**	68 544
Development loans (refer to note 5.1)	**2 784 166**	2 311 849
Equity investments	**30 312**	5 902
Home ownership scheme	**2 412**	2 590
Other interest received	**–**	14
Total interest income	**3 373 663**	2 853 603

5.1 Development loans

	2009	2008
Performing	**2 658 996**	2 242 117
Non-performing	**125 170**	69 732
	2 784 166	2 311 849

5.2 Client classification for development loans

	2009	2008
Development finance institutions	**36 747**	29 260
Educational institutions	**57 028**	42 490
Local government	**1 300 711**	1 085 538
National and provincial government	**41 121**	42 901
Private sector intermediaries	**725 459**	530 102
Public utilities	**623 100**	581 558
	2 784 166	2 311 849

6. Interest expense

	2009	2008
Medium- to long-term funding debt securities	**1 337 962**	927 822
Medium- to long-term funding lines of credit	**218 601**	243 890
Resale agreements	**139 692**	166 403
Total interest expense	**1 696 255**	1 338 115
Net interest income	**1 677 408**	1 515 488

The only component of interest income and expense reported above that relates to financial assets or liabilities carried at fair value through profit or loss is the interest income and expense on designated items, which include investment securities, medium- to long-term debt securities and medium- to long-term lines of credit.

Included within interest income on investment securities for the year ended 31 March 2009 is R52 million (2008: R69 million) relating to investment securities held-to-maturity.

Included within interest income on investment securities for the year ended 31 March 2009 is R211 million (2008: R199 million) relating to investment securities designated held at fair value through profit or loss.

in thousands of rand	2009	2008
Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2009 is R446 million (2008: R394 million) relating to debt securities designated held at fair value through profit or loss.		
Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2009 is R892 million (2008: R534 million) relating to debt securities held at amortised cost.		
Included within interest expense on medium- to long-term funding lines of credit for the year ended 31 March 2009 is R137 million (2008: R139 million) relating to credit lines held at fair value through profit loss.		

7. Net fee income

	2009	2008
Fee income		
Guarantee fees	**8 172**	8 542
Management fees	**28 712**	11 180
Commitment fees on funding	**13 789**	8 466
Upfront fees	**38 886**	18 313
Appraisal fees	**676**	50
Other	**2 813**	15 114
Total fee and commission income	**93 048**	61 665
Fee expense		
Guarantee fees	**6 508**	7 161
Brokerage fees	**234**	293
Commitment fees on funding	**1 400**	1 367
Appraisal fees	**762**	3 871
Total fee and commission expense	**8 904**	12 692
Net fee income	**84 144**	48 973

8. Net foreign exchange gain

	2009	2008
Unrealised		
Foreign exchange gain: Development loans and sundry	**400 722**	331 040
Foreign exchange loss: Hedging derivatives – development loans (FEC)	**(92 377)**	(182 396)
Foreign exchange gain: Cash and cash equivalents (CFCs)	**163 637**	136 908
Foreign exchange gain: Equity investments	**148 253**	95 773
Foreign exchange loss: Funding	**(399 398)**	(859 106)
Foreign exchange (loss)/gain: Hedging derivatives – funding	**(97 573)**	508 912
	123 264	31 131
Realised		
Foreign exchange gain: Development loans	**40 181**	2 667
Foreign exchange gain: Funding and hedging	**60 469**	3 717
	100 650	6 384
	223 914	37 515

in thousands of rand	2009	2008
9. Net gain from financial assets and liabilities		
Net gain/(loss) on derivatives held for risk management		
Interest rate		
Unrealised	**238 289**	(307 582)
Realised	**52 680**	75 680
	290 969	(231 902)
Foreign exchange		
Unrealised	**61 200**	(6 558)
Realised	**(10 976)**	(39 591)
	50 224	(46 149)
Investment securities designated at fair value through profit or loss:		
Government bonds		
– Unrealised	**61 786**	(111 352)
– Realised	**21 581**	3 187
Corporate bonds – unrealised	**3 049**	–
Municipal bonds – unrealised	**31 755**	–
	118 171	(108 165)
Available-for-sale investments		
Government bonds – realised	**–**	(5 274)
Corporate bonds – realised	**–**	(5 508)
	–	(10 782)
Debt securities designated at fair value through profit or loss – unrealised	**78 295**	181 271
Equity investments designated at fair value through profit or loss – unrealised	**52 941**	554 113
Post retirement medical benefits investment designated at fair value through profit or loss – unrealised	**(8 756)**	(2 173)
Qualifying hedged funding designated at fair value through profit or loss – unrealised	**(14 135)**	204 460
Equity investments held-to-maturity	**5 743**	5 324
Total net gain from financial assets and liabilities	**573 452**	545 997
10. Other operating income		
Non-interest income:		
Dividend income	**9 887**	61 431
Sundry income	**7 442**	17 491
	17 329	78 922
11. Net impairment loss on financial assets		
Other receivables write-off	**47**	–
Impairment on development loans	**229 981**	323 792
Impairment on equity investments: held-to-maturity	**9 518**	6 921
Impairment on other receivables	**(1 297)**	479
	238 249	331 192

in thousands of rand	2009	2008

12. Personnel expenses

Post-retirement medical benefits liability movement (refer to note 29.2)	**35 835**	27 688
Other personnel expenses	**388 710**	348 357
	424 545	376 045

Included in other personnel expenses are Directors' emoluments and Executive management remuneration as detailed below:

Directors' emoluments	**6 688**	5 500
Executive management remuneration	**21 387**	18 129
	28 075	23 629

Full details are provided in the Schedule of Directors' emoluments (refer to note 44).

13. Other expenses

Auditors' remuneration	**10 607**	6 508
Technical services	**43 732**	22 811
Communication costs	**5 497**	7 064
Information technology	**49 411**	38 179
Legal expenses	**11 585**	2 322
Public relations activities	**36 329**	33 246
Subsistence and travel	**42 657**	28 166
Assets acquired below R1 000 expensed	**2 667**	1 215
Other	**35 458**	34 310
	237 943	173 821

14. Auditors' remuneration

Audit fees	**7 912**	5 587
Fees for other services	**2 695**	921
	10 607	6 508

15. Depreciation and amortisation

Revalued buildings	**699**	148
Furniture and fittings	**862**	643
Motor vehicles	**315**	177
Office equipment	**1 547**	421
Computer equipment	**1 235**	1 812
Intangible assets	**2 263**	2 576
	6 921	5 777

in thousands of rand	2009	2008
16. Capacity development and deployment		
Other income	**(8 030)**	(5 309)
Personnel expenses	**24 876**	22 318
Other expenses	**22 959**	10 867
	39 805	27 876

Capacity development and deployment expenditure is disclosed separately in order to fairly present the direct financial contribution of the Bank towards capacity building and development activities. This will enhance the stakeholders' understanding of the Bank's role in balancing financial sustainability and the need to contribute towards capacity building.

Comparatives have been reclassified for fairer presentation.

17. Cash and cash equivalents

in thousands of rand	2009	2008
Fixed deposits	**98**	47 000
Call deposits	**1 378 750**	1 289 990
Cash at bank	**1 096 247**	976 813
	2 475 095	2 313 803

The average annual interest rate earned on fixed and call deposits detailed above was 9,80% (2008: 8,64%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 45.

18. Other receivables

in thousands of rand	2009	2008
Other trade receivables	**60 208**	32 757
Accrued interest income	**60 570**	48 016
Staff loans	**523**	453
Prepayments	**2 275**	38 079
Impairment loss	**(3 078)**	(4 375)
	120 498	114 930

The Bank's exposure to credit and currency risks related to other receivables is disclosed in note 45.

Impairment reconciliation

in thousands of rand	2009	2008
Balance at 1 April	**(4 375)**	(3 896)
Decrease/(increase) in provision	**1 297**	(479)
Balance at 31 March	**(3 078)**	(4 375)

in thousands of rand	2009	2008

19. Investment securities

Investment securities consist of the following:		
Investment securities at fair value through profit or loss	**1 641 945**	1 707 890
Held-to-maturity investment securities	**249 968**	515 030
Available-for-sale investment securities	**663 370**	679 549
	2 555 283	2 902 469
Investment securities at fair value through profit or loss		
Government bonds	**1 009 371**	1 707 890
Municipal bonds	**465 755**	–
Corporate bonds	**166 819**	–
	1 641 945	1 707 890

Investment securities have upon initial recognition been designated at fair value through profit or loss when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.

Held-to-maturity investment securities		
Government bonds	**–**	265 059
Municipal bonds	**249 968**	249 971
	249 968	515 030
Available-for-sale investment securities		
Government bonds	**271 233**	263 299
Corporate bonds	**135 292**	212 358
Money market instruments	**256 845**	203 892
	663 370	679 549

20. Investments under resale agreements

Investments under resale agreements	**1 361 561**	1 089 008

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The assets that are received as collateral include government and corporate bonds. The Bank does not retain the risks and rewards associated with the transferred assets, hence such assets are not recognised, whereas corresponding financial asset considerations are recognised in investments under resale agreements.

At 31 March 2009, the fair value of assets received as collateral was R1,4 billion (2008: R1,1 billion).

in thousands of rand	2009	2008
21. Derivative assets and liabilities held for risk management		
21.1 Derivative assets held for risk management		
Instrument type:		
Interest rate	**532 034**	326 959
Foreign exchange	**871 728**	759 692
	1 403 762	1 086 651
21.2 Derivative liabilities held for risk management		
Instrument type:		
Interest rate	**38 352**	71 565
Foreign exchange	**381 760**	148 712
	420 112	220 277
21.3 Net derivatives held for risk management		
Fair value hedges of interest rate risk	**493 681**	255 394
Cash flow hedges of foreign exchange risk	**371 844**	407 016
Economic hedges	**118 125**	203 964
	983 650	866 374

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate rand funding and investments. Interest rate swaps are matched to fixed rate notes or loans.

Cash flow hedges of foreign currency debt securities issued

The Bank uses cross-currency interest rate swaps to hedge both the foreign currency and interest rate risks arising from the euro and US dollar funding raised to finance operational activities. All cash flow hedges were effective for the year under review (refer to note 21.4).

Economic hedges

This category consists of forward foreign exchange contracts, interest rate swaps and cross-currency swaps that are designated as derivative components of the held at fair value through profit or loss classification. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

21.4 Timing of cash flows for designated cash flow hedges

in thousands of rand

Class	Currency	Description	Principal cash <1 month	Principal cash 1–3 months	Principal cash 3–12 months	Principal cash 1–2 years	Principal cash 2–3 years	Principal cash 3–4 years	Principal cash 4–5 years	Principal cash >5 years
*CCS: Lines of credit	EUR	Principal	23 124	48 959	112 150	192 103	196 690	169 797	169 797	1 238 553
		Interest	3 741	16 505	31 836	46 851	41 504	36 298	31 916	169 802
			26 865	**65 464**	**143 986**	**238 954**	**238 194**	**206 095**	**201 713**	**1 408 355**
*CCS: Lines of credit	USD	Principal	–	–	6 773	6 594	6 417	6 237	6 058	–
		Interest	–	–	–	–	–	–	–	–
			–	**–**	**6 773**	**6 594**	**6 417**	**6 237**	**6 058**	**–**
*CCS: Lines of credit	ZAR	Principal	(10 508)	(36 544)	(77 047)	(129 767)	(132 549)	(114 314)	(114 153)	(812 445)
		Interest	(3 971)	(35 723)	(56 977)	(82 642)	(74 861)	(66 315)	(58 242)	(297 990)
			(14 479)	**(72 267)**	**(134 024)**	**(212 409)**	**(207 410)**	**(180 629)**	**(172 395)**	**(1 110 435)**

**CCS: cross-currency swaps*

in thousands of rand	2009	2008

22. Post-retirement medical benefits investment

Market value of plan assets	**63 246**	72 002

This asset represents the market value of the Bank's contribution to Medipref Management Ltd to fund the post-retirement medical benefits for eligible employees and pensioners.

Details of the post-retirement medical benefit liability are contained in note 29.2. This investment does not meet the definition of a "Plan Asset" and is therefore not offset against the liability.

23. Home ownership scheme loans

Home ownership scheme loans	**16 697**	19 208

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 Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank.

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

At 31 March 2009, the effective interest rate was 11,5% per year (2008: 14,5%).

24. Equity investments

Equity investments at fair value through profit or loss	**2 132 202**	1 567 352
Equity investments held-to-maturity	**415 576**	474 075
	2 547 778	2 041 427

Equity investments represent strategic investments by the Bank and are long term in nature. As the Bank has more than five investments, a register is maintained in terms of paragraph 27 of Schedule 4 of the South African Companies Act. The register is available for inspection at the registered office of the Development Bank of Southern Africa Limited.

24.1 Equity investments at fair value through profit or loss

Cost		
Balance at 1 April	**777 149**	503 709
Acquisitions	**515 550**	411 317
Capital return	**(58 415)**	(137 877)
Balance at 31 March	**1 234 284**	777 149

in thousands of rand	2009	2008
24. Equity investments (continued)		
Fair value adjustment and impairment losses		
Balance at 1 April	**689 036**	186 395
Current year fair value adjustment	**52 941**	568 622
Realised gain	**(82 900)**	(65 981)
Balance at 31 March	**659 077**	689 036
Foreign exchange adjustments		
Balance at 1 April	**101 167**	46 643
Current year fair value adjustment	**145 508**	94 077
Realised gain	**(7 834)**	(39 553)
Balance at 31 March	**238 841**	101 167
Fair value at the end of the year	**2 132 202**	1 567 352

Equity investment valuations are based on the underlying value of the net assets within the investment vehicles concerned. These valuations are calculated based on the financial statements provided by the directors of the investee companies.

The discounted cash flow technique has been used on direct equity investments. The discount rates used range from 16% to 23% and were determined using the Capital Asset Pricing Model. Fundamental and growth rates were used depending on the life cycle of the investment and its dividends and free cash flow profile. The risk free rate used in establishing the discount rate is the long-term interest rate. The growth rates were assumed to be for a period of five years and were adjusted to an amount lower than the GDP growth rates after five years.

A marketability discount range of 10%–20% is deducted in arriving at the fair value of each equity instrument. Marketability discounts are determined from the perspective of market participants after taking a number of factors into account, including but not limited to:

- The proximity and certainty of the realisation of the underlying investment
- The extent of management's influence over the realisation of the investment
- The liquidity of the equity instrument under consideration

All direct equity investments are not listed, and therefore the discounted cash flow valuation technique was used.

Fair values of third party Private Equity Funds (PEFs) are obtainable from the independent fund managers on a quarterly basis.

in thousands of rand	2009	2008

24.2 Equity investments held-to-maturity

	2009	2008
Amortised cost		
Balance at 1 April	**474 075**	288 738
Acquisition	**–**	387 300
Amortised interest on effective interest method	**5 743**	5 325
Cumulative foreign exchange adjustment	**2 746**	1 695
Repayments	**(57 470)**	(202 062)
Impairment loss	**(9 518)**	(25 000)
Reversal of impairment loss recognised in income	**–**	18 079
Balance at 31 March	**415 576**	474 075

These equity investments have fixed or determinable payments and fixed maturity, and the Bank has the positive intent to hold them to maturity. The Bank has not, during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

25. Development loans

25.1 Analysis of development loans

	2009	2008
Balance at 1 April	**23 877 071**	20 636 571
Movements during the year	**6 325 121**	3 240 500
Gross development loans	**30 202 192**	23 877 071
Impairment against development loans (refer to note 25.9)	**(753 435)**	(588 742)
Net development loans at 31 March	**29 448 757**	23 288 329
Movements during the year		
Loans disbursed	**8 792 436**	5 375 403
Interest accrued – income statement	**2 784 166**	2 311 849
Interest accrued – impairment	**57 502**	44 235
Development loans written off	**(122 791)**	(218 820)
Foreign exchange adjustment	**440 042**	338 872
Gross repayments	**(5 626 234)**	(4 611 039)
	6 325 121	3 240 500

25.2 Maturity analysis of development loans

	2009	2008
2009	**–**	2 864 366
2010	**3 471 232**	1 966 844
2011	**2 521 704**	2 082 752
2012	**2 245 508**	1 618 037
2013	**2 842 016**	2 017 858
2014–2018	**11 564 477**	8 285 759
2019–2023	**5 315 654**	3 906 141
2024 and thereafter	**2 241 601**	1 135 314
	30 202 192	23 877 071

in thousands of rand	2009	2008
25.3 Sectoral analysis		
Commercial infrastructure	**5 374 552**	2 903 944
Communication and transport infrastructure	**3 833 063**	1 485 195
Energy	**4 344 942**	5 056 439
Human resources development	**760 959**	727 669
Institutional infrastructure	**25 220**	20 612
Residential facilities	**2 188 378**	2 538 557
Roads and drainage	**4 974 773**	2 506 531
Sanitation	**1 079 254**	1 053 891
Social infrastructure	**2 987 599**	2 542 761
Water	**4 633 452**	5 041 472
	30 202 192	23 877 071
25.4 Geographical analysis		
Eastern Cape	**988 837**	981 899
Free State	**658 531**	648 038
Gauteng	**7 423 032**	4 001 731
KwaZulu-Natal	**7 345 880**	6 206 533
Limpopo	**716 837**	579 382
Mpumalanga	**1 336 151**	1 200 395
North West	**624 814**	563 553
Northern Cape	**382 671**	323 038
Western Cape	**2 822 762**	2 458 878
Multi-regional – South Africa	**181 864**	186 773
SADC (excluding South Africa) and multinationals*	**7 720 813**	6 726 851
	30 202 192	23 877 071
SADC (excluding South Africa) and multinationals*		
Angola	**295 480**	254 056
Botswana	**83 952**	270 705
Lesotho	**323 049**	378 091
Malawi	**265 020**	259 557
Mauritius	**327 349**	206 915
Mozambique	**1 360 642**	1 423 999
Namibia	**532 015**	552 055
Swaziland	**242 586**	238 517
Tanzania	**712 848**	362 480
Zambia	**2 022 872**	1 063 279
Multinationals	**1 555 000**	1 717 197
	7 720 813	6 726 851
**Amount in US$ included in the above SADC loans*	**493 194**	388 010
25.5 Client classification		
Development finance institutions	**636 654**	564 253
Educational institutions	**616 613**	585 211
Local government	**12 978 714**	10 883 639
National and provincial government	**280 788**	294 003
Private sector intermediaries	**9 259 696**	5 424 837
Public utilities	**6 429 727**	6 125 128
	30 202 192	23 877 071

in thousands of rand	2009	2008
25.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**17 275 215**	15 315 536
Variable interest rate loans	**12 926 977**	8 561 535
	30 202 192	23 877 071
25.7 Non-performing loans (included in total development loans)		
25.7.1 Sectoral analysis		
Commercial infrastructure	**1 015 827**	749 021
Communication and transport infrastructure	**3 376**	53 434
Energy	**204 381**	156 057
Human resources development	**4 730**	8 064
Institutional infrastructure	**11 837**	742
Residential facilities	**17 528**	18 028
Roads and drainage	**39 638**	22 709
Sanitation	**89 986**	91 515
Social infrastructure	**115 930**	56 588
Water	**118 031**	80 294
	1 621 264	1 236 452
25.7.2 Geographical analysis		
Eastern Cape	**48 377**	134 858
Free State	**162 280**	90 152
Gauteng	**103 133**	156 682
KwaZulu-Natal	**6 795**	1 897
Limpopo	**132 502**	98 309
Mpumalanga	**71 501**	68 880
North West	**278 614**	255 998
Northern Cape	**40 537**	35 544
Western Cape	**67 306**	74 650
SADC (excluding South Africa)	**710 219**	319 482
	1 621 264	1 236 452
SADC (excluding South Africa)		
Lesotho	**1 575**	1 890
Malawi	**118 473**	109 024
Mauritius	**274 752**	149 148
Mozambique	**35 397**	28 716
Swaziland	**97 751**	30 704
Zambia	**182 271**	–
	710 219	319 482
25.7.3 Client classification		
Development finance institutions	**122 609**	–
Educational institutions	**1 678**	6 970
Local government	**254 651**	262 555
Private sector intermediaries	**958 142**	705 379
Public utilities	**284 184**	261 548
	1 621 264	1 236 452

in thousands of rand	2009	2008

25.8 Client concentration of total development loans

One client as percentage of total loan portfolio (%)	**15,3**	15,6
Seven clients as percentage of total loan portfolio (%)	**35,5**	40,5

25.9 Impairment against development loans

Balance at 1 April	**588 742**	439 535
Impairment of current year interest	**57 502**	44 235
Loans written off during the year	**(122 791)**	(218 820)
Impairment charge	**229 982**	323 792
Non-performing book	**219 421**	262 635
Performing book	**10 561**	61 157
Balance at 31 March	**753 435**	588 742

26. Property and equipment

	2009			2008		
	Cost/ valuation	Accumulated depreciation and impairment losses	Carrying value	Cost/ valuation	Accumulated depreciation and impairment losses	Carrying value
Revalued land	60 000	–	60 000	26 000	–	26 000
Revalued buildings	287 000	(2 421)	284 579	277 000	(1 722)	275 278
Furniture and fittings	13 116	(3 542)	9 574	9 518	(2 680)	6 838
Motor vehicles	1 645	(777)	868	1 500	(462)	1 038
Office equipment	10 392	(2 970)	7 422	6 768	(1 423)	5 345
Computer equipment	19 242	(10 916)	8 326	11 606	(9 681)	1 925
Total	**391 395**	**(20 626)**	**370 769**	**332 392**	**(15 968)**	**316 424**

Reconciliation of property and equipment – 2009

	Opening balance	Additions	Revaluations	Depreciation	Closing balance
Revalued land	26 000	–	34 000	–	60 000
Revalued buildings	275 278	42 157	(32 157)	(699)	284 579
Furniture and fittings	6 838	3 598	–	(862)	9 574
Motor vehicles	1 038	145	–	(315)	868
Office equipment	5 345	3 624	–	(1 547)	7 422
Computer equipment	1 925	7 636	–	(1 235)	8 326
Net carrying amount	**316 424**	**57 160**	**1 843**	**(4 658)**	**370 769**

26. Property and equipment (continued)

Reconciliation of property and equipment – 2008

	Opening balance	Additions	Assets written off	Revaluations	Depreciation	Closing balance
Revalued land	20 000	–	–	6 000	–	26 000
Revalued buildings	255 000	20 947	–	(521)	(148)	275 278
Furniture and fittings	1 530	5 946	5	–	(643)	6 838
Motor vehicles	135	1 080	–	–	(177)	1 038
Office equipment	1 086	4 684	(4)	–	(421)	5 345
Computer equipment	2 245	1 418	74	–	(1 812)	1 925
Net carrying amount	**279 996**	**34 075**	**75**	**5 479**	**(3 201)**	**316 424**

Valuations

Land

The land constitutes Portion 465 (of Portion 442) of the farm Randjesfontein 405 measuring 25,066 hectares, donated by the South African government in 1985.

The land was valued at a fair value of R60,0 million by De Leeuw Group, independent quantity surveyors, on 31 March 2009, using the income capitalisation approach (March 2008: R26,0 million). The land is carried at the revalued amount, in accordance with the Bank's revaluation accounting policy for land.

Buildings

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R42,2 million were effected during the 2009 financial year (2008: R20,9 million).

The buildings were valued at a fair value of R287,0 million by De Leeuw Group, independent quantity surveyors, on 31 March 2009, using the income capitalisation approach (March 2008: R277 million). The historical book value of the existing buildings is R146,3 million (2008: R104,8 million).

27. Intangible assets

	2009			2008		
	Cost	Accumulated amortisation and impairment losses	Carrying value	Cost	Accumulated amortisation and impairment losses	Carrying value
Computer software	26 213	(8 021)	18 192	7 804	(5 758)	2 046

Reconciliation of intangible assets – 2009

	Opening balance	Additions	Amortisation	Closing balance
Computer software	2 046	18 409	(2 263)	18 192

Reconciliation of intangible assets – 2008

	Opening balance	Additions	Amortisation	Closing balance
Computer software	3 716	906	(2 576)	2 046

in thousands of rand	2009	2008

28. Other payables

Sundry payables	**219 460**	179 824
DBSA Development Fund	**5 366**	95 947
Sundry accruals	**4 273**	14 117
Accrued interest	**281 382**	196 741
	510 481	486 629

The Bank's exposure to currency and liquidity risk related to other payables is disclosed in note 45.

29. Employee benefits

29.1 Liability for funeral benefits

This benefit is for all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of the employee or retired employee. The obligation was actuarially valued on 31 March 2009.

The principal assumptions in determining the funeral benefits obligation are as follows:

Discount rate (before taxation) (%)	9,25	7,75
Inflation rate (%)	5,25	4,75

The projected unit credit method has been used to determine the actuarial valuation.

Movement in liability for funeral benefits recognised in the balance sheet

Balance at 1 April	**3 509**	3 371
Increase in the liability	**253**	250
Company contributions	**(132)**	(112)
Balance at 31 March	**3 630**	3 509

29.2 Liability for post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. Under the plan, the Bank pays 100% of the medical aid contributions of pensioners who qualify.

Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement.

The investment in Medipref, as specified in note 22, has been set aside to fund this obligation.

The amount recognised in the balance sheet in respect of the Bank's post-retirement medical benefit is detailed below:

Present value of unfunded obligation

Present value of unfunded obligation at 1 April	**195 769**	172 204
Interest cost	**16 991**	13 147
Current service cost (Includes interest to year-end)	**9 187**	5 972
Expected employer benefit payments	**(4 956)**	(4 123)
Past service cost	**–**	10 439
Actuarial loss/(gain) for the year	**9 657**	(1 870)
Present value of unfunded obligation at 31 March	**226 648**	195 769

in thousands of rand	2009	2008
29. Employee benefits (continued)		
The amount recognised as an expense in the profit or loss in respect of the defined benefit plan is as follows:		
Interest cost	**16 991**	13 147
Current service cost	**9 187**	5 972
Past service cost	**–**	10 439
Actuarial loss/(gain) for the year	**9 657**	(1 870)
Total charge for the year (included in personnel expenses in the income statement)	**35 835**	27 688
Market value of post retirement medical benefits investment		
Market value at 1 April	**72 002**	74 175
Decrease in market value for the year	**(8 756)**	(2 173)
Market value at 31 March	**63 246**	72 002
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	9,00	8,75
Medical aid inflation rate (%)	7,75	7,50

The projected unit credit method has been used to determine the actuarial valuation.

Sensitivity analysis

The valuation results set out above are based on a number of assumptions. The value of the liability could be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

The liability was recalculated to show the effect of a one percentage point decrease or increase in the rate of medical aid inflation.

	Central assumption	Health care cost inflation % point decrease	Health care cost inflation % point increase
Medical aid inflation rate (%)	7,75	(1,00)	1,00
Accrued liability 31 March 2009 (R 000)	226 648	192 252	270 328
% change	–	(15,20)	19,30
Current service cost and interest cost 2009/10 (R 000)	30 015	24 807	36 791
% change	–	(17,40)	22,60
Sensitivity results from previous valuation:			
Medical aid inflation rate 2008 (%)	7,50	(1,00)	1,00
Current service and interest cost 2008/09 (R 000)	26 178	21 512	32 284
% change	–	(17,80)	23,30

The obligation for the three years prior to March 2008 is as follows: R 000

March 2007	172 204
March 2006	130 902
March 2005	96 452

in thousands of rand	2009	2008

29.3 Defined contribution plan

Total amount expensed during the year (including group life assurance and income continuity benefits)	**41 265**	36 208

The Development Bank of Southern Africa Provident Fund (The 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 Funds Act, No. 24 of 1956, is a defined contribution plan for permanent employees of the Bank.

The number of employees covered by the plan: 684 (2008: 632)

30. Medium- to long-term funding debt securities

	2009	2008
Debt securities at fair value through profit or loss	**5 508 749**	3 510 356
Debt securities held at amortised cost	**9 378 107**	5 688 811
	14 886 856	9 199 167

Debt securities designated at fair value through profit or loss consists of DV bonds and private placements listed and unlisted.

Debt securities carried at amortised cost consists of Eurorand, Money Market Issuance (bridging bonds) and DV bonds.

Other debt is held at amortised cost.

31. Medium- to long-term funding lines of credit

	2009	2008
Other funding at fair value through profit or loss	**–**	307 774
Other funding held at amortised cost	**5 938 264**	5 191 245
	5 938 264	5 499 019

Other funding held at fair value through profit or loss represents the hedged funding that forms part of effective qualifying hedge relationships.

in thousands of rand	2009	2008

32. Funding under repurchase agreements

Funding under repurchase agreements	**1 160 144**	1 862 054

Refer to note 20, investments under resale agreements.

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The stock thus transferred includes government bonds and the Bank's own stock. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets, and continues to recognise this stock within investment and debt securities, whilst the corresponding financial liability considerations are recognised in funding under repurchase agreements.

At 31 March 2009, the fair value of these financial assets was R1,2 billion (2008: R1,9 billion).

33. Share capital

Authorised		
500 000 ordinary shares (2008: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares (2008: 20 000) at a par value of R10 000 each	**200 000**	200 000
All issued capital is fully paid for.		
Callable capital		
480 000 ordinary shares (2008: 480 000) at a par value of R10 000 each	**4 800 000**	4 800 000

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 shareholders in respect of any monies to be paid to the Bank.

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

in thousands of rand	2009	2008

34. Permanent government funding

Received to date	3 792 344	3 792 344

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.

There are no repayment terms and this funding is interest free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

35. Revaluation reserve on land and buildings

Balance at 31 March	198 401	196 558

This reserve represents the valuation surplus recognised on the revaluation of the land and buildings.

36. Hedging reserve

Balance at 1 April	9 914	13 251
Fair value adjustments of cash flow hedges	7 615	(3 337)
Balance at 31 March	17 529	9 914

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not yet occurred.

37. Reserve for general loan risks

Balance at 1 April	721 102	613 420
Transfer to general loan reserve	213 981	107 682
Balance at 31 March	935 083	721 102

The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.7.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.

38. Fair value reserve

Balance at 1 April	(45 021)	(18 632)
Fair value adjustments of available-for-sale financial instruments	19 856	(26 389)
Balance at 31 March	(25 165)	(45 021)

The reserve comprises all fair value adjustments for available-for-sale financial market instruments.

in thousands of rand	2009	2008
39. Contingencies		
39.1 Employee loans		
Loan balances secured	**258**	266
The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.		
39.2 Guarantees		
39.2.1 The Bank has approved and issued guarantees on behalf of borrowers amounting to	**467 255**	501 450
It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the balance sheet as a liability.		
The total book debt to the credit provider is	**457 255**	481 450

39.2.2 The Bank has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

40. Related parties

The DBSA is one of 21 schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that fall within the national sphere of government.

In addition, the Bank has a related party relationship with the Development Fund, Directors and Executive Management. Unless specifically disclosed, these transactions are concluded on an arm's length basis and the Bank is able to transact with any entity.

The South African government, through the Ministry of Finance, is the parent of the Bank and exercises ultimate control.

40.1 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at year-end.

40.2 Major public entities

40.2.1 National public entities

The total book debt for loans extended to national public entities amounts to R3 440 822 980 (2008: R2 082 328 149). None of these loans are non-performing.

40.2.2 Development Fund

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market rate of 4% of operating costs of the Fund. At year-end, the net balance owed to the DBSA Development Fund was R6,5 million (2008: R92 million).

The transaction costs for management fee income were R14,5 million (2008: R5,8 million).

The grant paid to the DBSA Development Fund was R120 million (2008: nil).

40.3 Related party transactions, with key management personnel, funded by the DBSA for 2008/09

Name of Director	Name of project	Borrower	Amount	Declared at meeting	Interest rate	Nature of interest
Prof. Brian Figaji	One & Only V&A Hotel	One & Only Cape Town (Pty) Ltd	R40 million	Board Credit and Investment Committee - 5/02/2009	Prime plus 100bp	Holds a 0,3% shareholding in the broad-based empowerment vehicle
Mrs Wendy Lucas-Bull	Coronation Peotona Fund	Coronation Peotona Fund	R100 million	Board Credit and Investment Committee - 5/02/2009	Required IRR 30%	Holds 15% shareholding in Peotona Group Holdings (Pty) Ltd, which in turn has a 25% share of the fund manager
Dr Lulu Gwagwa	On Digital Media (ODM)	On Digital Media	R200 million	Corporate Credit Committee - 13/08/2008 Board Credit and Investment Committee - 15/10/2008	JIBAR plus 350bp	Shareholder of Lereko Investment Holdings, which is a shareholder of Lereko Media. Lereko Media owns 30% of On Digital Media.
DBSA Nominee Directors						
Mr Emile du Toit	One & Only V&A Hotel	One & Only Cape Town (Pty) Ltd	R40 million	Board Credit and Investment Committee - 5/02/2009	Prime plus 100bp	DBSA Nominee Director

Note: All transactions were approved at arm's length and the normal DBSA terms and conditions applied.
None of these transactions had any disbursements at 31 March 2009.

40. Related parties (continued)

40.4 Related party transactions, with key management personnel, funded by the DBSA for 2007/08

Name of Director	Name of project	Borrower	Amount	Declared at meeting	Interest rate	Nature of interest
Dr Lulu Gwagwa	Facility for Inner City Student Accommodation	Lereko Metier Capital Growth Fund	R169,5 million	Corporate Credit Committee - 28/02/2008 and Board Investment Committee - 25/03/2008	Fixed - to be determined two days before each disbursement, based on the amortising swap rate for a 10-year maturity, plus a spread of 220bp	Chief Operating Officer and 8% shareholder of Lereko Investment Holdings
	Independent Power Producers (IPP) Equity Loan Facilities*	AES-Khanya Consortium: Krisani LoveLife Trust Investments 4 (Pty) Ltd Mbane Peaking Power (Pty) Ltd Tiso Energy (Pty) Ltd	R835 million	Corporate Credit Committee - 14/03/2008 and Board Investment Committee - 25/03/2008	3 month JIBAR plus 295bp	Shareholder - 10%
Mr Jay Naidoo	Independent Power Producers (IPP) Equity Loan Facilities*	AES-Khanya Consortium: Krisani LoveLife Trust Investments 4 (Pty) Ltd Mbane Peaking Power (Pty) Ltd Tiso Energy (Pty) Ltd	R835 million	Corporate Credit Committee - 14/03/2008 and Board Investment Committee - 25/03/2008	3 month JIBAR plus 295bp	Trustee of LoveLife Trust
DBSA Nominee Directors						
Mr Emile du Toit	Savannah Resources (Pty) Ltd	Savannah Resources (Pty) Ltd	R200 million preference shares	Corporate Credit Committee - 05/10/2007 and Board Investment Committee - 11/10/2007	3 month JIBAR plus 185bp (nacq) (12,39%)	DBSA Nominee Director
Mr Admassu Tadesse	Proparco Equity Investment	Proparco	€25 million	Corporate Credit Committee - 30/01/2008 and Board Investment Committee - 07/02/2008	n/a	DBSA Nominee Director

Notes: All transactions were approved at arm's length and the normal DBSA terms and conditions applied.
None of these transactions had any disbursements at 31 March 2008.
** This transaction was approved but subsequently not concluded.*

in thousands of rand	2009	2008

41. Commitments

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

• Loan commitments	**8 472 651**	4 658 454
• Grants	**62 204**	72 359
• Capital commitments	**180 897**	91 387
	8 715 752	4 822 200

41.1 Loan commitments

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

41.2 Grants

Grant commitments signed but not yet disbursed are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

41.3 Capital commitments

Capital expenditure is in respect of property and equipment authorised but not contracted for.

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

42. Funds administered on behalf of third parties

Balance at 1 April	**381 397**	244 942
Funds received	**3 324 749**	620 227
Funds disbursed	**(3 236 929)**	(483 772)
Balance at 31 March	**469 217**	381 397

43. Taxation

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

44. Schedule of Directors' emoluments

Executive members' remuneration

	Basic salaries/ fees R	Medical aid, group life and provident fund contribution R	Other allowances and benefits R	**Total 2009 R**	Total 2008 R
Chief Executive Officer and Managing Director					
Mr P Baloyi	2 045 997	170 003	84 000	**2 300 000**	1 902 575
Executive managers					
Mr S Asamoah[1]	–	–	–	**–**	539 994
Mr P de la Rey	1 148 262	173 738	164 800	**1 486 800**	846 907
Mr E Dietrich	991 950	228 282	97 557	**1 317 789**	1 117 351
Dr SJ Khoza	1 214 544	250 243	185 406	**1 650 193**	1 520 681
Mr G Mantashe[2]	–	–	–	**–**	1 000 746
Mr L Mashaba	1 186 198	221 118	207 038	**1 614 354**	1 404 783
Mr R Naidoo[3]	1 070 833	–	–	**1 070 833**	–
Mrs L Ndlovu	975 062	181 272	82 867	**1 239 201**	1 218 998
Mrs J Nhlapo[4]	–	–	–	**–**	70 779
Mr A Tadesse[5]	1 252 670	–	–	**1 252 670**	1 146 432
Mrs L van Lelyveld	1 130 975	180 101	60 646	**1 371 722**	1 148 904
Mr H Weilert[6]	1 614 363	–	–	**1 614 363**	1 208 918
Total	12 630 854	1 404 757	882 314	**14 917 925**	13 127 068

Performance incentives

Chief Executive Officer and Managing Director		
Mr P Baloyi	**2 000 000**	1 500 000
Executive managers		
Mr P de la Rey	**990 000**	800 000
Mr E Dietrich	**1 060 000**	930 000
Dr SJ Khoza	**950 000**	900 000
Mr L Mashaba	**1 100 000**	1 000 000
Mr R Naidoo[3]	**800 000**	–
Mrs L Ndlovu	**850 000**	850 000
Mr A Tadesse[5]	**950 000**	900 000
Mrs L van Lelyveld	**1 100 000**	1 000 000
Mr H Weilert[6]	**968 618**	525 000
Total	**10 768 618**	8 405 000

Notes:
1. *Amount paid to third party from 1 October 2007 to 15 December 2007 (pound based).*
2. *Resigned 31 January 2008.*
3. *Appointed 1 May 2008.*
4. *Resigned 31 July 2007.*
5. *Amount paid to third party from 1 September 2006 (pound based).*
6. *Amount paid to third party from 1 October 2007.*

Remuneration of non-executive Directors and co-opted members of the Board

	Fees for services as Directors	Subsistence and travel	Fees for other services	**Total 2009**	Total 2008
	R	R	R	**R**	R
Non-executive Directors					
Mr J Naidoo (Chairperson)	313 000	954	–	**313 954**	330 360
Mr A Boraine	67 500	54 787	–	**122 287**	108 502
Mrs T Dingaan	215 500	2 094	–	**217 594**	90 684
Prof. B Figaji	97 500	–	–	**97 500**	90 000
Ms N Gasa	45 000	1 264	–	**46 264**	37 920
Dr L Gwagwa	172 500	1 120	16 000	**189 620**	180 504
Dr D Konar	352 500	1 830	–	**354 330**	345 720
Prof. O Latiff	163 000	–	–	**163 000**	75 000
Mrs W Lucas-Bull	247 500	2 934	–	**250 434**	241 080
Dr C Manning	128 000	2 904	–	**130 904**	113 760
Mr I Mzimela	187 500	875	11 000	**199 375**	107 920
Ms T Ramano	163 000	3 200	–	**166 200**	68 040
Prof. E Webster	67 500	1 734	–	**69 234**	45 360
Co-opted members					
Dr I Abedian	–	–	–	**–**	135 360
Ms T Chikane	–	–	–	**–**	15 000
Dr R Kfir	7 500	–	–	**7 500**	22 500
Mr JB Magwaza	–	–	–	**–**	22 500
Mr O Mlaba	22 500	–	–	**22 500**	7 500
Mr JR Modise	7 500	–	–	**7 500**	22 680
Mr S Nondwangu	–	–	–	**–**	7 500
Mr M Silinga	30 000	–	–	**30 000**	30 000
	2 287 500	73 696	27 000	**2 388 196**	2 097 890

45. Financial risk management

45.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury Division and is governed by the asset and liability management (ALM) policy, incorporating interest rate, currency and liquidity risk parameters. As with all risk management policies of the Bank, the ALM policy resides under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset/Liability Committee (ALCO). ALCO, under the oversight of the Finance Committee of the Board, is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) Division.

45.1.1 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their effect on interest rate sensitive assets and liabilities. At the same time movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities repricing at any one time, and to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The Treasury Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative repricing gap-to-total earning assets ratio and in the longer term, with respect to the duration of the Bank's net assets. As at 31 March 2009, the 12-month cumulative repricing gap amounted to 13,8% of total earning assets, well within the approved limit of 22,5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks both up and down, of at least 100 basis points.

The repricing profile as at financial year-end is encapsulated in the table below. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R37 million (2008: R11 million).

45.1.1.1 Valuation of DV bonds

During FY2009 swap spreads (i.e. the spread between the swap curve and government bond yield curve) dropped substantially whilst the Bank's issued bonds' spreads increased markedly relative to their respective government bond benchmarks. This resulted in a material discrepancy between the Bank's historical valuation off the swap curve and the bond exchange mark to market valuations. As a result valuation estimates were adjusted to be consistent with daily bond exchange mark to market prices. In the absence of the change in estimate the Bank's DV bonds would have been overstated by R602 million. The extent on future impact cannot be determined prospectively and would be dependent on swap spread levels as well as the shape of the swap curve from time to time.

45.1.1.2 Hedging of interest rate risk exposure

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2009, the Bank had interest rate swaps with a total notional contract amount of R4,5 billion (2008: R3,9 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer note 21). The net fair value of swaps as at 31 March 2009 was R494 million (2008: R256 million), comprising assets of R532 million (2008: R327 million) and liabilities of R38 million (2008: R71 million). These amounts are recognised as fair value derivatives.

45.1.1.3 Interest rate sensitivity analysis

in millions of rand	Currency	Repricing gap <1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
Cash and cash equivalents	ZAR	2 225,04	–	–	–	–	–	–	–	2 225,04
	EUR	0,19	–	–	–	–	–	–	–	0,19
	USD	332,76	–	–	–	–	–	–	–	332,76
Money market instruments	ZAR	–	–	150,00	–	–	–	–	–	150,00
Repurchase assets	ZAR	1 361,56	–	–	–	–	–	–	–	1 361,56
Investment: government bonds	ZAR	–	–	–	–	–	–	–	1 042,70	1 042,70
Investment: municipal bonds	ZAR	–	–	–	50,00	–	–	33,33	600,67	684,00
Investment: corporate bonds	ZAR	–	–	10,00	40,00	–	30,00	–	210,00	290,00
Development loans	EUR	–	–	1,51	2,27	2,65	1,52	1,52	9,47	18,94
	TZS	–	–	–	–	228,63	–	–	–	228,63
	USD	46,50	1 398,46	3 015,38	22,49	22,49	22,49	–	–	4 527,81
	ZAR	470,58	4 533,61	3 312,64	1 172,85	942,03	1 221,63	1 253,87	10 645,94	23 553,15
	ZMK	–	23,22	–	–	–	–	–	–	23,22
Cross-currency swaps: development loans	TZS	–	–	–	–	(228,63)	–	–	–	(228,63)
	USD	(311,04)	(210,35)	(126,74)	(288,51)	(209,68)	(207,49)	(140,47)	(75,20)	(1 569,48)
	ZAR	250,21	975,00	95,91	223,56	45,65	44,84	20,23	74,45	1 729,85
	ZMK	–	(23,22)	–	–	–	–	–	–	(23,22)
Total financial market assets		**4 375,80**	**6 696,72**	**6 458,70**	**1 222,66**	**803,14**	**1 112,99**	**1 168,48**	**12 508,03**	**34 346,52**
Cross-currency swaps: lines of credit	EUR	23,12	48,96	112,15	192,10	196,69	169,80	169,80	1 238,55	2 151,17
	USD	–	–	6,77	6,59	6,42	6,24	6,06	–	32,08
	ZAR	(63,05)	(616,43)	(34,86)	(71,91)	(71,75)	(71,59)	(71,43)	(426,30)	(1 427,32)
Funding: bonds	ZAR	–	–	–	(1 895,25)	–	–	(1 000,00)	(8 431,00)	(11 326,25)
Funding: lines of credit	EUR	(23,12)	(48,96)	(112,15)	(192,10)	(196,69)	(169,80)	(169,80)	(1 238,55)	(2 151,17)
	USD	–	(1000,50)	(2 133,15)	(5,88)	(5,88)	(5,88)	(5,88)	–	(3 157,17)
	ZAR	–	(100,00)	(312,30)	(200,00)	–	–	–	–	(612,30)
Interest rate swaps: funding bonds	ZAR	(215,00)	(2 550,00)	(1000,00)	–	–	–	1 200,00	2 565,00	–
Interest rate swaps: lines of credit	ZAR	–	(100,00)	–	100,00	–	–	–	–	–
Funding: money market debt	ZAR	(327,00)	(1 305,00)	(1 909,00)	–	–	–	–	–	(3 541,00)
Repurchase liability	ZAR	(1 160,14)	–	–	–	–	–	–	–	(1 160,14)
Total financial market liabilities		**(1 765,19)**	**(5 671,93)**	**(5 382,54)**	**(2 066,45)**	**(71,21)**	**(71,23)**	**128,75**	**(6 292,30)**	**(21 192,10)**
Repricing gap		**2 610,61**	**1 024,79**	**1 076,16**	**(843,79)**	**731,93**	**1 041,76**	**1 297,23**	**6 215,73**	**13 154,42**
Cumulative repricing gap		**–**	**3 635,40**	**4 711,56**	**3 867,77**	**4 599,70**	**5 641,46**	**6 938,69**	**13 154,42**	**–**

These are principal amounts only, and therefore exclude interest.
Spot exchange rates used: EUR/USD 1,323 USD/ZAR 9,518 USD/ZMK 1 327,00 USD/TZS 5 600,00

45.1.2 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the Bank arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

As at 31 March 2009, the net open foreign currency position on the Bank's interest-bearing assets and liabilities amounted to assets of USD 17 million (2008: USD 11 million) and EUR 1,5 million (2008: EUR 1,7 million). In addition, foreign currency equity investments amounted to a net asset position of USD 39 million (2008: USD 29 million) and EUR 26 million (2008: EUR 779 000), respectively.

45.1.2.1 Hedging of foreign currency risk exposure

The Bank uses cross-currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. The principal terms of these swaps and FECs are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. As at 31 March 2009, the Bank had cross-currency swaps and FECs with a notional amount of R3,9 billion (2008: R2,7 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at balance sheet date.

45.1.2.2 Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/(loss) based on current net open position/currency exposures.

in thousands

	Currency	
	EUR	USD
Cash: customer foreign currency	15	34 134
Development loans	1 503	475 709
Equity investments	25 779	78 751
Derivatives: funding	170 832	(78 730)
Derivatives: development loans	–	(82 795)
Derivatives: equity investments	–	(40 000)
EUR funding	(170 832)	–
USD funding	–	(331 705)
Net open positions	**27 297**	**55 364**

Foreign currency exchange rate (FX) sensitivity analysis

in thousands

FX sensitivity combined R	ZAR sensitivity (%)	EUR potential impact	EUR/ZAR	USD potential impact	USD/ZAR
–	–	12,59231	–	9,51800	–
(130 603)	-15,00	(51,559)	10,70347	(79,044)	8,09030
(87 069)	-10,00	(34,373)	11,33308	(52,696)	8,56620
(43 534)	-5,00	(17,186)	11,96270	(26,348)	9,04210
–	–	–	12,59231	–	9,51800
(43 534)	5,00	17,186	13,22193	26,348	9,99390
(87 069)	10,00	34,373	13,85155	52,696	10,46980
(130 603)	15,00	51,559	14,48116	79,044	10,94570

**Spot exchange rate used: EUR/USD 1,323 USD/ZAR 9,518*

45.1.3 Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBSA this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors and operational expenditure. In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels based on 12-month projected net cash requirements.

In order to balance the prudential requirement for sufficient levels of liquidity against the potentially adverse impact of negative carry cost from time to time, the liquidity portfolio consists of two pools, viz, the Operational Liquidity Pool, which is aimed at ensuring sufficient cash to meet the Bank's near-term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, bankers acceptances as well as liquid debt issues from government, parastatals and other approved issuers. It also includes bonds designated as "held-to-maturity" if the remaining maturity is less than three months. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity gross of funds raised on the bond repo market averaged R4,4 billion (2008: R4,4 billion), with a year-end figure of R4,8 billion (2008: 4,7 billion). This includes cash and cash equivalents of R2,7 billion, corporate and municipal bonds of R770 million, and government bonds amounting to R1,3 billion.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2009 was approximately R780 million.

in millions of rand

		Liquidity gap								
	Currency	<1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
Cash and cash equivalents	ZAR	2 225,04	–	–	–	–	–	–	–	2 225,04
	EUR	0,19	–	–	–	–	–	–	–	0,19
	USD	332,76	–	–	–	–	–	–	–	332,76
Money market instruments	ZAR	–	–	150,00	–	–	–	–	–	150,00
Repurchase assets	ZAR	1 361,56	–	–	–	–	–	–	–	1 361,56
Investment: government bonds	ZAR	–	–	–	–	–	–	–	1 042,70	1 042,70
Investment: municipal bonds	ZAR	–	–	–	50,00	–	–	33,33	600,67	684,00
Investment: corporate bonds	ZAR	–	–	10,00	40,00	–	30,00	–	210,00	290,00
Development loans	EUR	–	–	1,51	2,27	2,65	1,52	1,52	9,47	18,94
	TZS	–	–	–	32,66	65,32	65,32	65,32	–	228,62
	USD	46,50	32,38	392,07	661,81	692,32	915,34	802,79	984,59	4 527,80
	ZAR	16,13	346,20	1 303,30	1 753,74	1 421,81	1 803,58	2 142,44	14 765,95	23 553,15
	ZMK	–	3,87	3,87	7,74	7,74	–	–	–	23,22
Cross-currency swaps: development loans	TZS	–	–	–	–	(76,21)	(76,21)	(76,21)	–	(228,63)
	USD	(169,70)	5,29	(49,82)	(371,50)	(340,51)	(325,34)	(195,10)	(122,79)	(1 569,47)
	ZAR	140,50	–	45,14	346,31	417,09	397,99	273,85	108,97	1 729,85
	ZMK	–	(3,87)	(3,87)	(7,74)	(7,74)	–	–	–	(23,22)
Total financial market assets		**3 952,98**	**383,87**	**1 852,20**	**2 515,29**	**2 182,47**	**2 812,20**	**3 047,94**	**17 599,56**	**34 346,51**
Cross-currency swaps: lines of credit	EUR	23,12	48,96	112,15	192,10	196,69	169,80	169,80	1 238,55	2 151,17
	USD	–	–	6,77	6,59	6,42	6,24	6,06	–	32,08
	ZAR	(10,51)	(36,54)	(77,05)	(129,77)	(132,55)	(114,31)	(114,15)	(812,45)	(1 427,33)
Funding: bonds	ZAR	–	–	–	(1 895,25)	–	–	(1 000,00)	(8 431,00)	(11 326,25)
Funding: lines of credit	EUR	(23,12)	(48,96)	(112,15)	(192,10)	(196,69)	(169,80)	(169,80)	(1 238,55)	(2 151,17)
	USD	–	(11,20)	(434,21)	(445,40)	(446,15)	(401,64)	(353,21)	(1 065,35)	(3 157,16)
	ZAR	–	(100,00)	(41,90)	(249,24)	(49,24)	(49,24)	(49,24)	(73,43)	(612,29)
Interest rate swaps: funding bonds	ZAR	–	–	–	–	–	–	–	–	–
Interest rate swaps: lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: money market debt	ZAR	(327,00)	(1 305,00)	(1 909,00)	–	–	–	–	–	(3 541,00)
Repurchase liability	ZAR	(1 160,14)	–	–	–	–	–	–	–	(1 160,14)
Total financial market liabilities		**(1 497,65)**	**(1 452,74)**	**(2 455,39)**	**(2 713,07)**	**(621,52)**	**(558,95)**	**(1 510,54)**	**(10 382,23)**	**(21 192,09)**
Liquidity gap		**2 455,33**	**(1 068,87)**	**(603,19)**	**(197,78)**	**1 560,95**	**2 253,25**	**1 537,40**	**7 217,33**	**13 154,42**
Cumulative liquidity gap		**–**	**1 386,46**	**783,27**	**585,49**	**2 146,44**	**4 399,69**	**5 937,09**	**13 154,42**	**–**

These are principal amounts only, and therefore exclude interest.

Spot exchange rates used: EUR/USD 1,323 USD/ZAR 9,518 USD/ZMK 1 327,00 USD/TZS 5 600,00

45.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from its development finance loans. However, credit risk may also arise where the downgrading of a client's rating causes the fair value of the Bank's investment in that entity's financial instrument to fall.

- Credit risk may also be manifested as country risk where difficulties may arise in the SADC country in which an exposure or counterparty is domiciled, thus impeding or reducing the value of assets.
- Settlement risk is another form of credit risk: this is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

The Bank meets its credit risk management objectives through its framework and governance, its measurement, reporting and system of internal ratings, its mechanism for credit risk mitigation and its country risk methodology.

Framework and governance

Credit risk is the Bank's most dominant risk and is managed in accordance with the Bank's comprehensive enterprise risk management framework and credit policies.

The Bank's credit policy sets out the principles under which the Bank is prepared to assume credit risk. In managing credit risk, the Bank applies the five-step risk management process and internal control framework. Specific credit risk management objectives are:

- To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio
- To control and plan the taking of credit risk, ensuring it is coherently priced across the business and avoiding undesirable concentrations
- To support the Bank's mandate of sustainable infrastructure growth with decision-making based on sound risk management principles and a proactive approach to identifying and measuring new risks
- To ensure a robust framework for the creation, use and ongoing monitoring of the Bank's credit risk measurement models
- To ensure that the Bank's balance sheet reflects the value of the assets in accordance with accounting principles

Group Credit Risk is responsible for assisting the Chief Risk Officer in the design, implementation, monitoring and the measuring enhancement of the credit risk management system across divisions and it is also tasked with:

- Recommending and communicating credit risk strategies and policies
- Developing and deploying credit management tools and methodologies
- Evaluating and proposing enhancements to credit risk management practices and standards
- Measuring and reporting on aggregate credit risk exposures and management performance

Credit risk analysts are deployed at divisional levels to enable responsible risk taking and effective risk management. For both business operations, Credit Risk assumes a divisionalised structure for the two main business areas i.e. South Africa Operations and International Division. The Credit Analyst responsibilities include:

- Performing credit checks on privately owned companies and international finance operations as part of the credit review
- Presenting an objective view of the quality of all credits under consideration and making recommendations to the various credit committees
- Monitoring credit exposure limits
- Monitoring the asset quality of the performing assets on a continuous basis

The credit committees have clearly defined mandates, members and delegated authorities that are regularly reviewed. The credit committee responsibilities include oversight of governance; risk appetite; model performance, development and validation; counterparty and portfolio risk limits and approvals; country, industry, market and maturity concentration risk; risk mitigation; impairments; stress testing and risk usage; and the optimisation of economic capital.

The Board of Directors is responsible for the governance of credit risk management. The Board:

- Defines the strategy and policy for the management of credit risk
- Has oversight of the overall risk management capabilities and performance
- Is accountable for challenging and disclosing results

Application of internal rating

The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital. The Bank has developed an internal rating model for the municipal asset class which has been validated and calibrated by Moody's KMV. A discounted cash flow model has also been developed for the Bank by Krall Demmel Baumgarten (KDB) and will be fully implemented by April 2009. These are bespoke models adopted for the Bank's specialised lending and development impact considerations.

The principal objective for the implementation of these models is to produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio. The key blocks in this quantitative assessment are:

- Probability of default (PD)
- Exposure in the event of default (EAD)
- Loss given default (LGD)

These parameters, together with expert judgement, are used in a wide range of credit risk measurement and management activities.

- Credit approval: PDs are used to direct applications to different credit sanctioning levels, so that credit risk are reviewed at appropriate levels.
- Credit grading: The Bank employs a 17-point scale of default probabilities, which is in line with both Moody's and Standard and Poor's.
- Risk–reward and pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios in the private sector to allow for risk-adjusted pricing and development impact.
- Risk management information: Group Credit Risk generates risk reports to inform senior management on issues such as portfolio performance and risk appetite.

Calculations of internal ratings

To calculate probability of default, the DBSA assesses the credit quality of borrowers (municipalities and private sector clients) and assigns them an internal risk rating.

In the Bank's risk terminology, loss given default (LGD) estimates the likely credit economic loss on default claims. The part that is not recovered, the actual loss, together with the economic cost associated with the recovery process is expressed as a percentage of EAD.

Credit risk mitigation

The DBSA uses a wide range of techniques to reduce credit risk on its lending. Collateral and guarantees are widely used by the Bank for credit risk mitigations. The amount and type of credit risk mitigation depends on the asset quality of each transaction. The Bank ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The main types of collateral taken comprise mortgage bonds over residential, commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

Country risk

DBSA country risk arises from its lending operations in other SADC countries. The Bank is in the process of implementing the methodology of IHS Global Insight for country risk classification and risk pricing. The methodology takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual SADC countries.

The risk profiles of the respective countries form the basis for the Bank's country exposure limit structure aimed at managing concentration risk at the country level. Country ratings are reviewed annually as well as when there is a report of a major risk within a SADC country, and the limits are adjusted accordingly. In addition, aggregate investment in other SADC countries is limited to one-third of the Bank's maximum total investment portfolio.

45.2.1 Credit risk exposure

45.2.1.1 Maximum exposure

(a) Development loans:

in thousands of rand		2009			2008		
		Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
Non-performing book							
	Municipalities	254 652	82 243	172 409	262 555	72 702	189 853
	Other	1 366 612	533 689	832 923	973 897	389 097	584 800
		1 621 264	**615 932**	**1 005 332**	**1 236 452**	**461 799**	**774 653**
Performing book							
Low risk	Municipal	11 116 296	3 977	11 112 319	9 277 078	4 932	9 272 146
	Other	7 318 883	25 698	7 293 185	5 562 972	40 010	5 522 962
Medium risk	Municipal	1 509 790	5 199	1 504 591	1 238 882	3 204	1 235 678
	Other	7 804 958	57 440	7 747 518	6 023 582	50 503	5 973 079
High risk	Municipal	99 238	339	98 899	105 124	8	105 116
	Other	731 763	44 850	686 913	432 981	28 286	404 695
		28 580 928	**137 503**	**28 443 425**	**22 640 619**	**126 943**	**22 513 676**
Total book debt		**30 202 192**	**753 435**	**29 448 757**	**23 877 071**	**588 742**	**23 288 329**
Rescheduled loans included in performing book		117 845	402	117 443	144 528	329	144 199

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

45.2.1 Credit risk exposure (continued)

(b) Other receivables:

in thousands of rand		2009 Gross amount	2009 Allowance for impairment	2009 Carrying amount	2008 Gross amount	2008 Allowance for impairment	2008 Carrying amount
Debtors 90 days and over	Fees and sales invoiced	2 314	152	2 162	3 233	2 476	757
	Special programmes/ projects/miscellaneous	9 046	2 926	6 120	1 528	1 528	–
		11 360	**3 078**	**8 282**	**4 761**	**4 004**	**757**
Debtors current to 90 days							
Low risk	Fees and sales invoiced	25 388	–	25 388	22 213	–	22 213
Current - 30 days	Travel advances	124	–	124	120	–	120
	Special programmes/ projects/miscellaneous	9 326	–	9 326	320	–	320
Medium risk	Fees and sales invoiced	5 673	–	5 673	2 143	–	2 143
30 days - 60 days	Special programmes/ projects/miscellaneous	4 014	–	4 014	(16)	–	(16)
High risk	Fees and sales invoiced	158	–	158	376	–	376
60 days - 90 days	Special programmes/ projects/miscellaneous	515	–	515	179	–	179
		45 198	**–**	**45 198**	**25 335**	**–**	**25 335**
Staff and study loans		398	–	398	453	371	82
Municipal deposits		977	–	977	111	–	111
Prepaid expenses		2 275	–	2 275	2 097	–	2 097
		3 650	**–**	**3 650**	**2 661**	**371**	**2 290**
Total book debt		**60 208**	**3 078**	**57 130**	**32 757**	**4 375**	**28 382**

45.2.1 Credit risk exposure (continued)

(c) Commitments

(Loans signed, but not yet fully disbursed)

in thousands of rand		2009	2008
Low risk	Municipal	**2 126 854**	2 639 872
	Other	**2 623 978**	577 855
Medium risk	Municipal	**401 132**	58 566
	Other	**3 001 303**	1 275 794
High risk	Municipal	**37 561**	1 825
	Other	**281 823**	104 542
Total fixed commitments		**8 472 651**	4 658 454
(d) Guarantees		**467 255**	501 450

45.2.1.2 Loans that are past due or individually impaired

(a) Loans past due but not individually impaired:

in thousands of rand	2009					2008				
	Total	3 months	3 to 6 months	6 to 12 months	>12 months	Total	3 months	3 to 6 months	6 to 12 months	>12 months
Overdue amounts	150 666	141 314	5 681	3 308	363	105 651	97 322	4 468	3 384	477
Not yet due	5 151 423					2 859 513				
Total	**5 302 089**					2 965 164				

The fair value of collateral held in respect of the above amounted to R1 226 million (2008: R670 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

45.2.1 Credit risk exposure (continued)

(b) Individually impaired loans (non-performing book)

	2009			2008		
Recovery rate	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
0% to 10%	111 373	107 633	3 740	91 666	91 666	–
11% to 40%	352 958	248 588	104 370	130 787	92 997	37 790
41% to 60%	291 774	93 440	198 334	290 099	144 263	145 836
61% to 100%	865 159	166 271	698 888	723 900	132 873	591 027
	1 621 264	**615 932**	**1 005 332**	1 236 452	461 799	774 653

The fair value of collateral held in respect of the above amounted to R453 million (2008: R434 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments, insurance policies and promissory notes.

45.2.1.3 Financial counterparty exposure

	Credit exposure	
Risk category	**2009 Utilised amount**	2008 Utilised amount
Bonds	**767 866**	480 955
Derivatives	**983 651**	951 429
Cash and money market	**2 707 996**	2 527 918
Repurchase agreements	**30 624**	36 294

45.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in section 17 of the Development Bank of Southern Africa Act, No. 13 of 1997.

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities
- To maintain an adequate credit rating to ensure the Bank has continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions

The Bank monitors and manages its capital adequacy within the leverage regulatory constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28,6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt consists of financial market liabilities (as shown on the balance sheet). Capital comprises share capital, permanent government funding, retained earnings, and reserve for general loan risks, and fair value reserve. As at 31 March 2009, the debt to equity ratio stood at 131,3% (2008: 107,8%), with the capital ratio at 42,1% (2008: 46,8%).

DBSA

Development Bank
of Southern Africa

Company registration number	1600157FN
Registered office	Headway Hill 1258 Lever Road Midrand South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Telephone	+27 11 313 3911
Fax	+27 11 313 3086
Home page	www.dbsa.org

Annual Report team

Project sponsor

Pieter de la Rey

Core team

Donovan Govender, Lyn Sumners, Vuyo Tetyana, Janine Thorne

Financial team

Saleh Coovadia, Rewai Gandidzanwa, Lanushar Moodley, Zakeer Nanabhay, Mduduzi Ndlovu, Isaac Ngoasheng, Janet Perch

Contributors

Stefan Bölling, Colleen Hughes, Theo Jansen van Vuuren, Ntokozo Langa, Marlene Lewis, Bernard Mhango, Veli Nhlapo, Rina Roothman, Booye Rousseau, Thomas Scott, Patrick Sekgoka, Leo Sibanda, Ilonka van Diggelen, Dries van Niekerk, Susan Visser

Assisted by

Johan Conradie, Theresa de Villiers, Keneiloe Kgoroeadira, Mabana Makhakhe, Rita McClarys, Nelly Rampete, Fikile Shamase, Khathutshelo Tshipala

Language editor

Ivan Vladislavić

Photography

Guy Stubbs Photographer (Pty) Ltd

Dumaza Nkomo, Simron Tigerls, Irma Weenink (DBSA)

Layout and reproduction

Colour Curve, Johannesburg, South Africa

Printing

Hot Dot Print, Johannesburg, South Africa

DBSA Development Fund Annual Report 2008/09

DBSA

Development Fund

Vision

The DBSA Development Fund's vision is to be a leading catalyst in capacity building in order to maximise the impact of development finance in South Africa.

Mission

The mission of the DBSA Development Fund is to promote and facilitate capacity building within municipalities, communities and local economies for effective and sustainable service delivery and economic development in order to improve the quality of life.

Products and services

The Fund will achieve its mission by delivering the following products and services:

- **Grant funding:** The Fund provides grants to projects that build sustainable capacity in people, processes and systems at municipal or community level, and through these initiatives seeks to unlock or crowd in other sources of funding.
- **Expertise:** The Fund's core programme, Siyenza Manje, mobilises and deploys engineering, planning and financial experts to implement technical and non-technical infrastructure projects. Expertise is also deployed through the Sustainable Communities programme, the Local Economic Development Initiative and the Agencies Unit in order to develop and implement replicable development projects.
- **Development facilitation:** The Fund promotes technical support and sharing of knowledge through leveraging and deploying both internal and external resources in development facilitation activities and sustainable community development.
- **Local economic development initiatives:** The Fund stimulates local and regional economies by supporting catalytic projects and by developing and implementing economic turnaround strategies.

Guiding principles

The Fund pursues the following guiding principles during implementation:

- **Additionality:** To add value to the funding, experience and expertise provided by other development agencies
- **Forming strategic alliances:** To provide support in partnership with other stakeholders who have a common interest with the Fund
- **Focusing on development impact:** To ensure, by measuring and quantifying impact, that programmes or projects improve the quality of life of communities
- **Sustainability:** To ensure that programmes or projects have a lasting effect on institutions, the environment and the economy, and that they benefit future generations
- **Empowerment:** To ensure that programmes or projects bring communities into the mainstream economy, and that skills are transferred to recipients and beneficiaries

Contents

Abbreviations

AFD	Agence Française de Développement
BEE	black economic empowerment
BSC	Balanced Scorecard
COGTA	Department of Cooperative Governance and Traditional Affairs
DBSA	Development Bank of Southern Africa Limited
DPLG	Department of Provincial and Local Government
€	euro
FET	Further Education and Training
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
HESA	Higher Education South Africa
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
IDIP	Infrastructure Delivery Improvement Programme
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LED	local economic development
LEDi	Local Economic Development Initiative
LGSETA	Local Government Sector Education and Training Authority
LOGOLA	Local Government Leadership Academy
MIG	Municipal Infrastructure Grant
NAFCOC	National African Federated Chamber of Commerce and Industry
PALAMA	Public Administration, Leadership and Management Academy
R	South African rand
SADC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SAICE	South African Institution of Civil Engineering
SALGA	South African Local Government Association
SIDA	Swedish International Development Cooperation Agency
US$	United States dollar

Financial year

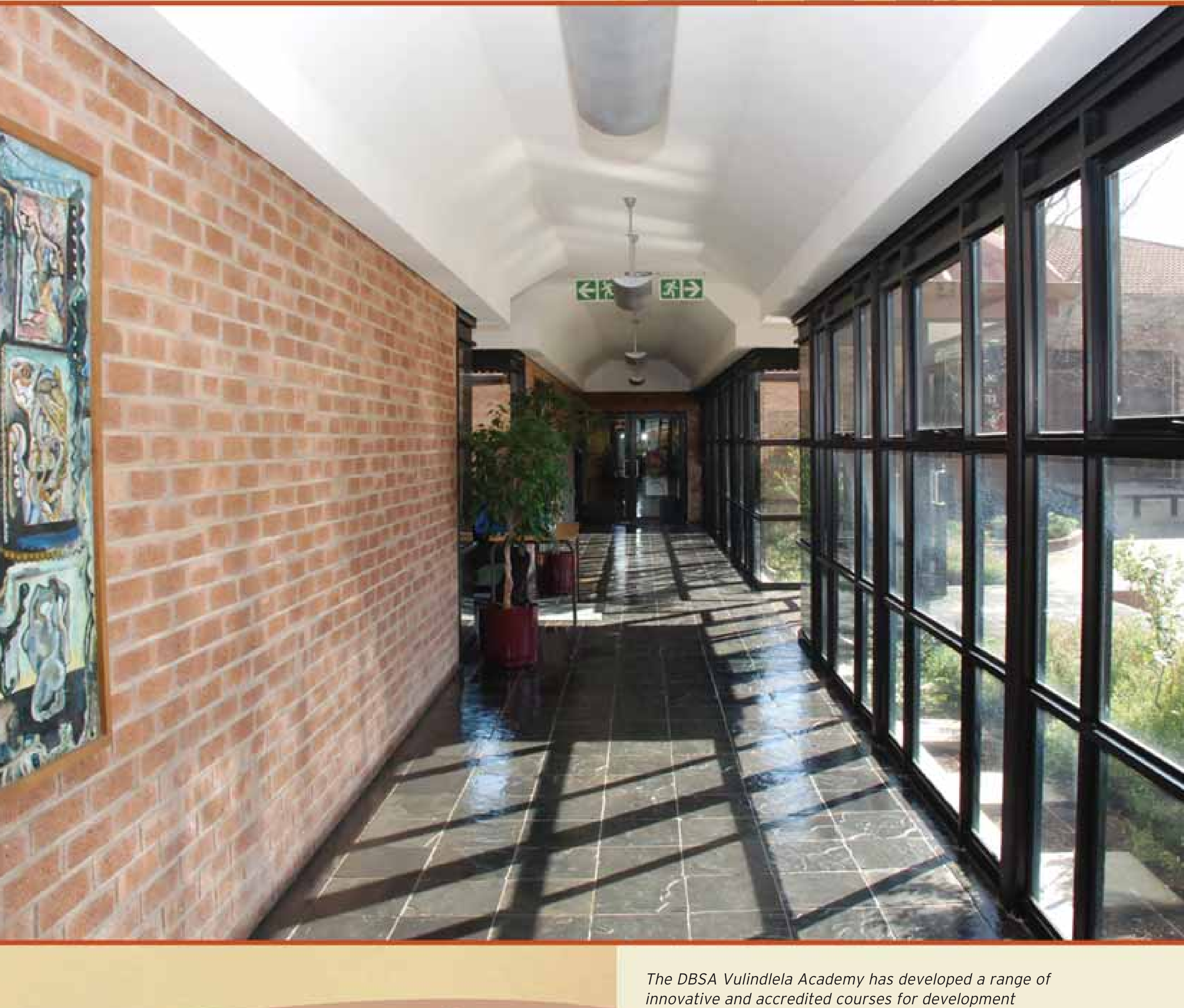
The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2008/09, are to the financial year ended 31 March.

Business and financial overview

Financial results	2009 R million	2008 R million	2007 R million
Income			
Grants received from the DBSA	**120,0**	–	–
Grants received from the National Treasury[1]	**219,3**	85,0	–
Expenditure			
Grants[2]	**101,0**	59,8	67,3
Siyenza Manje costs[3]	**313,3**	121,3	42,2
Other operating expenditure[4]	**19,5**	9,6	12,4
Funding reserve	**10,1**	104,2	209,9
Approvals for the year	**61,8**	49,3	20,4
Grant commitments at year-end	**97,6**	102,3	139,3

Comments on the summary of results

1. A R219,3 million grant is recognised in the income statement; this comprises R190,5 million received from the National Treasury in the current year with the balance brought forward from 2007/08. This is in terms of the accepted accounting standards on government grants, which require that such grants be recognised as income over the period necessary to match them with the costs they are intended to compensate. The interest received on the National Treasury contribution is also included in deferred income in the balance sheet.
2. Grant disbursements increased by 69% over the previous year. The substantial increase was in line with expected disbursements and was driven by a concerted effort to disburse contractual commitments.
3. The increase in Siyenza Manje costs is attributable to the fact that the programme is employing many more experts and young professionals as it begins to reach full implementation.
4. Other operating expenditure increased by 103%, mainly owing to the higher management fees paid to the DBSA for administrative services. These fees are based on a percentage of total operating expenditure incurred by the Fund.



The DBSA Vulindlela Academy has developed a range of innovative and accredited courses for development stakeholders in South Africa and the region.

Chairman's report

Prof. Brian Figaji
Chairman

The DBSA Development Fund is responsible for several of the Bank's capacity building initiatives, including the Siyenza Manje and Sustainable Communities programmes and the Local Economic Development Initiative (LEDi). The Vulindlela Academy and the Agencies Unit also form an integral part of the Fund.

The core business of the Fund is to maximise the impact of development finance at the municipal level. In pursuit of this goal, the Fund provides grant funding to selected municipalities that require support to address human and institutional challenges. However, its main channel of support is the Siyenza Manje programme, implemented in cooperation with the National Treasury, the Department of Cooperative Governance and Traditional Affairs (COGTA) and other government departments. Siyenza Manje mobilises and deploys engineering, planning and financial experts in low-capacity municipalities to provide technical support.

The Siyenza Manje interventions are aimed mainly at three categories of municipalities:

- *Project Consolidate municipalities:* The Department of Provincial and Local Government (DPLG), now COGTA, identified these municipalities as requiring hands-on support under its Project Consolidate initiative.
- *Presidential poverty nodes:* These are municipal areas that were declared poverty nodes as part of government's targeted poverty eradication strategy.
- *Izimbizo municipalities:* These municipalities with high service delivery backlogs and other challenges were visited by the Presidency under the Izimbizo programme.

In the short to medium term, the Siyenza Manje programme aims to address performance constraints that hamper service delivery in these municipalities. It also aims to strengthen the capacity of municipal officials and create a pool of critical skills to support sustainable municipal service delivery in the long term.

The technical and applied research work done by the Fund has led to the introduction and implementation of cutting-edge interventions, which hold critical lessons for both government and private sector stakeholders engaged in the municipal sector.

In 2008/09, as in previous years, technical deployees helped low-capacity municipalities to fast-track the release and expenditure of infrastructure grant funding and provided hands-on support to enhance project management capability. Financial experts provided support on financial management, helping municipalities to comply with the requirements of the Municipal Finance Management Act, No. 56 of 2003, and deal with audit queries from the Auditor General.

This was the third year of implementing the Siyenza Manje programme, and the achievements of the team as reflected in this Annual Report are commendable. Indeed, during this year the Fund achieved most of its Balanced Scorecard (BSC) targets and successfully completed other tasks assigned to it by the Board or executive management.

The Development Fund continued to deepen its engagement with key stakeholders through its various programmes and initiatives. The good relationship it forged with Higher Education South Africa (HESA) presents an opportunity to access the pipeline of graduates in critical skills areas and to review certain curricula so that they align with municipal skills requirements.

The Fund's structured Young Professionals programme continues to grow and to strengthen the work of Siyenza Manje. As recorded in last year's report, a new apprenticeship training initiative was launched under Siyenza Manje's Artisan Programme and piloted in North West province, and it has now reached an advanced stage in 16 low-capacity municipalities in different provinces. This will allow the DBSA to work with the Further Education and Training (FET) sector. The initiative is aimed at overcoming the crippling

"The Siyenza Manje programme aims to address performance constraints that hamper service delivery in low-capacity municipalities."

challenges of poor infrastructure operation and maintenance in municipalities, and the hands-on involvement of the private sector in supervising learners and imparting experience will be encouraged.

The Development Fund's proposed focus on operation and maintenance in the year ahead comes at a time when most municipalities are struggling to finance this crucial function adequately. To provide effective support in this area, the Fund will have to collaborate even more closely with key stakeholders such as the National Treasury, COGTA, the Department of Water and Environmental Affairs (formerly Water Affairs and Forestry) and the South African Local Government Association (SALGA). Multi-stakeholder collaboration has already proved effective in the year under review, for instance in the compilation of comprehensive infrastructure plans.

The Sustainable Communities programme has also made solid progress on a number of pilot projects aimed at refining the development of social compacts, which are a means to mobilise communities and stakeholders around a common vision, principles, development priorities and interventions, including community-based sustainable development plans. Much effort went into formulating the LEDi strategy, and then identifying and appraising the first three projects that will be launched under this exciting new initiative.

My congratulations to the DBSA Development Fund team on the significantly improved results in 2008/09. The Fund unlocked R4,84 billion of the government's municipal infrastructure grants (MIGs) and completed 769 infrastructure projects. In the process, 276 000 households were connected to water and 139 000 households to sanitation facilities.

I am deeply grateful to the Board for their support of the work done by the various business units. With their guidance, both the scope and the development impact of the Fund's activities have grown significantly in this year. The rolling out of the Siyenza Manje programme deserves special mention.

The challenges South Africa faces are huge but also exciting. Although much has already been achieved, we are only just starting to improve the lives of poor communities. It is imperative that we succeed.

Prof. Brian Figaji

Board of Directors

Prof. Brian de Lacy Figaji (64)

Company Director

Chairman of the DBSA Development Fund Board as from: 21 February 2006

Academic qualifications:
DEd, Coventry University (UK) (2002)

DLitt, Hayward, Cal State, (USA) (2001)

MEduc (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)

Other directorships:
Bovidae Investments: Non-executive Director

Cape Lime: Non-executive Director

Development Bank of Southern Africa: Non-executive Director

Dormell: Chairman of the Board (non-executive)

I&J Holdings: Chairman of the Board (non-executive)

Marib Holdings: Chairman of the Board (non-executive)

Nedbank Ltd: Non-executive Director

PetroSA: Non-executive Director

Mr Paul Cambo Baloyi (53)

Chief Executive Officer and Managing Director: DBSA Development Fund

DBSA Development Fund Chief Executive Officer as from: 1 July 2006

Academic qualifications:
Advanced Management Programme, INSEAD (2006)

MBA, University of Manchester (2004)

Senior Executive Programme, Harvard Business School (2001)

Management Development Programme, University of Stellenbosch (1996)

Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

Other directorships:
Block II Waterford (Pty) Ltd: Executive Director and Shareholder

Business Ventures: Non-executive Director

Chrometco Ltd: Non-executive Director

Development Bank of Southern Africa: Chief Executive Officer and Managing Director

Harith Fund Managers: Non-executive Director; DBSA Nominee

Nulane Investment Holdings (Pty) Ltd: Non-executive Director

Pan African Investment Fund: Non-executive Director; DBSA Nominee

Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director

TCX Investment Management Company: Non-executive Director; DBSA Nominee

Mr Elroy Africa (44)

Deputy Director-General: Special Projects, Department of Cooperative Governance and Traditional Affairs

DBSA Development Fund Director as from: 14 February 2008

Academic qualifications:
MSc (Town and Regional Planning), University of Natal (1993)

BA Social Science (African Politics and Industrial Sociology), University of Cape Town (1986)

Mr Andrew Boraine (50)

Chief Executive Officer: Cape Town Partnership

DBSA Development Fund Director as from:
24 November 2005

Academic qualifications:
BA Hons (Economic History), University of Cape Town (1987)

BA (History), University of Cape Town (1983)

Other directorships:
Accelerate Cape Town: Non-executive Director

Cape Town City Hall Redevelopment and Management Company: Non-executive Director

Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)

Development Bank of Southern Africa: Non-executive Director

SA Cities Network: Non-executive Director

St Patrick's Trust: Trustee

Ms Nomboniso Gasa (41)

Independent Gender and Policy Researcher and Analyst

DBSA Development Fund Director as from:
1 August 2003

Academic qualifications:
Certificate in Women's Studies, University of the Western Cape (1996)

BA (Political Science), University of the Western Cape (1990)

Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1989)

Other directorships:
Development Bank of Southern Africa: Non-executive Director

Gender Equality Commission: Chairperson

Human Sciences Research Council: Non-executive Director

Dr Claudia Manning (42)

Executive Director: Sangena Investments

DBSA Development Fund Director as from:
26 February 2009

Academic qualifications:
DPhil, University of Sussex (1996)

MPhil, University of Sussex (1992)

BA Hons (Economic History), University of Natal (1988)

Other directorships:
Development Bank of Southern Africa: Non-executive Director

Roadcrete Africa (Pty) Ltd: Non-executive Director

Stewart Scott International (Pty) Ltd: Non-executive Director

Ms Mampiti Matsabu (47)

Executive Director: Savannah Environmental (Pty) Ltd

DBSA Development Fund Director as from:
26 March 2009

Academic qualifications:
Management Advancement Programme (MAP 47), Wits Business School (2001)

Diploma in Project Management, School of Project Management, Midrand (1999)

MSc (Civil Engineering), Drexel University, Philadelphia (1992)

BSc (Civil Engineering), Howard University, Washington DC (1986)

Other directorships:
LA Crushers (Pty) Ltd: Chairman of the Board (non-executive)

Patlong Investment Holdings (Pty) Ltd: Non-executive Director

Vox Consulting (Pty) Ltd: Non-executive Director

Mr Simphiwe Mehlomakhulu (39)

Executive Chairman: Reatile Resources

DBSA Development Fund Director as from:
26 March 2009

Academic qualifications:
Executive MBA Programme, Stanford University (2004)

MBA, University of the Witwatersrand (1998)

Postgraduate Diploma in Marketing Management, University of South Africa (1995)

BSc (Chemical Engineering), University of Cape Town (1992)

Other directorships:
Clotal Steel (Pty) Ltd: Non-executive Director

Reatile Gaz (Pty) Ltd: Executive Chairman

Board of Directors (continued)

Mr Ivan Mzimela (47)

Executive Chairman: Holland Risk Capital

DBSA Development Fund Director as from:
26 March 2009

Academic qualifications:
Leadership Development Programme for Senior Executives, Ashridge Business School, London (2000)

Leadership for Change, Directors Diploma in Corporate Governance, Wits Business School (1999)

Project Management Certificate, IBM (1998)

Strategic Planning Certificate for Chief Executives, National University of Singapore (1997)

MA (Counselling and Educational Psychology), University of Regina, Canada (1992)

BA Hons (Psychology), University of the North (1985)

BA (Social Work), University of the North (1984)

Other directorships:
Development Bank of Southern Africa: Non-executive Director

Hollard Life Insurance Company: Non-executive Director

Insurance Institute of South Africa: Non-executive Director

Insurance Sector Education and Training Authority: Non-executive Deputy Chairperson

South African Insurance Association: Chairman of the Board (non-executive), Human Resources Committee member

Mrs Malijeng Theresa Ngqaleni (50)

Chief Director: Provincial and Local Government Infrastructure, Intergovernmental Relations Division, National Treasury

DBSA Development Fund Director as from:
15 November 2007

Academic qualifications:
MSc (Ag. Econ), University of Saskatchewan, Canada (1989)

BA (Economics), National University of Lesotho (1983)

Other directorships:
Development Bank of Southern Africa: Non-executive Director

Dr Baldwin Ben Sipho Ngubane (68)

Medical doctor

DBSA Development Fund Director as from:
26 March 2009

Academic qualifications:
Postgraduate Diploma in Economic Principles, University of London (2003)

M Prax Med (Master of Family Medicine and Primary Health), Natal Medical School (1986)

Diploma in Public Health, University of the Witwatersrand (1983)

Diploma in Tropical Medicine, University of the Witwatersrand (1982)

MB ChB, Durban Medical School (1971)

Other directorships:
Blue Horizon Investments 41: Non-executive Director

Prof. Edward Charles Webster (66)

Professor of Sociology: University of the Witwatersrand

DBSA Development Fund Director as from: 18 October 2007

Academic qualifications:
PhD, University of the Witwatersrand (1983)

BPhil, University of York (1972)

MA (Politics, Philosophy and Economics), Oxford University (1971)

University Education Diploma, Rhodes University (1964)

BA Hons (History), Rhodes University (1964)

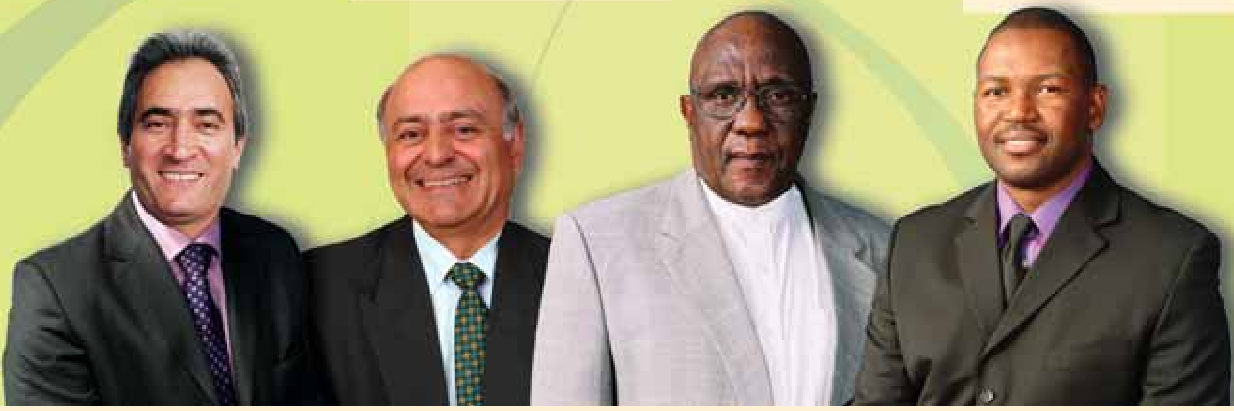
Other directorships:
Chris Hani Institute: Non-executive Board Member

Development Bank of Southern Africa: Non-executive Director

Human Sciences Research Council: Member of Council

Labour Job Creation Trust: Trustee

Board members during the year under review



Dr Iraj Abedian (53)

Chief Executive Officer and Chief Economist: Pan-African Advisory Services

DBSA Development Fund Director between:
21 December 2001 and 31 December 2008

Mr Nick Christodoulou (60)

Chief Executive: Business Development, Sanlam

DBSA Development Fund Director between:
22 August 2002 and 31 December 2008

Mr Johannes Bhekumuzi Magwaza (67)

Company Director

DBSA Development Fund Director between:
26 October 2004 and 9 July 2008

Mr Madoda Vilakazi (45)

Executive Director: Ekapa Mining (Pty) Ltd

DBSA Development Fund Director between:
20 November 2001 and 31 December 2008

DBSA Development Fund Corporate Secretariat
Mr Bernard Mhango, Group Corporate Secretary, PO Box 1234, Halfway House, 1685

Executive management

Dr Paul Kiyingi Kibuuka (48)

Group Executive: Capacity Development and Deployment

DBSA staff member as from:
1 August 1994

Group Executive as from:
1 July 2009

Academic qualifications:
DPhil (Demography), University of Pretoria (1999)

MA (Demography) (cum laude), University of Pretoria (1996)

BA Hons (Demography), University of Pretoria (1994)

BStat, Makerere University, Uganda (1984)

Mr André Johan Bouwer (44)

Chief Operating Officer: Capacity Development and Deployment

DBSA staff member and Divisional Executive as from:
1 March 2008

Academic qualifications:
MEng (Engineering Management), University of Pretoria (1992)

MEng (Transportation), Rand Afrikaans University (1988)

BEng (Civil), Rand Afrikaans University (1986)

Mr Mlulami Hlombe Manjezi (53)

Divisional Executive: Sustainable Communities

DBSA staff member as from:
6 August 1990

Divisional Executive as from:
1 July 2008

Academic qualifications:
MBL, University of South Africa (2004)

Management Development Programme, University of South Africa (1996)

BCom, University of Fort Hare (1979)

Other directorships:
Agricultural and Rural Development Research Institute, University of Fort Hare: Non-executive Director

Mr Reuben Matlala (35)

Divisional Executive: Siyenza Manje (Acting)

DBSA staff member as from:
1 February 1996

Divisional Executive as from:
1 July 2009

Academic qualifications:
BANKSETA International Executive Development Programme, CASS Business School, London (2008)

Masters in Public and Development Management, University of the Witwatersrand (2000)

Diploma in Project Management, Damelin (1998)

Higher Diploma in Development Planning, University of the Witwatersrand (1995)

Higher Education Diploma, University of the North (1994)

BA, University of the North (1993)

Other directorships:
Bolabola Telecommunications (Pty) Ltd: Non-executive Director

HVC Drilling (Pty) Ltd: Non-executive Director

Matlala Brothers Properties cc: Member

Matlala & Mdluli Transport cc: Member

Mphato Investment (Pty) Ltd: Member

Executive management during the year under review

Ms Sinazo Judy Charlotte Sibisi (41)

*Divisional Executive: Local Economic Development Initiative**

DBSA staff member as from:
12 November 2007

Divisional Executive between:
12 November 2007 and 31 May 2009

**Currently Divisional Executive: Planning; Development Planning and Implementation Division*

Mr Heinz Maria Weilert (45)

Group Chief Operating Officer (DBSA)

DBSA staff member and Group Executive as from:
1 October 2007

Organisational structure

DBSA Chief Executive Officer
and Managing Director
Paul Baloyi

Group Executive
Dr Paul Kibuuka[1]

Divisional Chief Operating Officer
André Bouwer[2]

Divisional Executive:
Siyenza Manje
Reuben Matlala[3]

Divisional Executive:
Local Economic
Development Initiative
Vacant[4]

Divisional Executive:
Sustainable
Communities
Mlulami Manjezi

Changes after 31 March 2009:

1. *As from 1 July 2009; previously H Weilert (Acting).*
2. *Resigned with effect from 31 July 2009.*
3. *As from 1 July 2009; previously Dr P Kibuuka.*
4. *Vacant; previously S Sibisi.*

Chief Executive Officer's report

Mr Paul Baloyi

DBSA Chief Executive Officer and Managing Director

At the start of 2009, the DBSA and other development finance institutions found themselves in a challenging global financial environment. All such institutions are required to review their strategic thrusts in order to channel resources towards areas where the most development impact can be achieved. In this context, the DBSA Development Fund once again focused its efforts on tackling human, economic and institutional weaknesses in low-capacity municipalities by deploying scarce skills and collaborating with government departments and other strategic partners. There are growing expectations for the Fund to accelerate service delivery and deepen its development impact. The extent to which it has met these expectations thus far is reflected in the results for 2008/09 presented in this Annual Report.

South Africa still faces serious challenges in infrastructure and institutional development because of inadequate human and institutional capacity at local government level. The strategic space in which the Fund operates requires it to become more effective and efficient in building sustainable human, institutional and economic capacities, especially in low-capacity municipalities.

During 2008/09, the different sections of the DBSA Development Fund continued to roll out operations and deliver hands-on support to low-capacity municipalities in all nine provinces. These activities, carried out in partnership with line and sector departments, are congruent with the Bank's new role as an implementer and integrator in the market. The operations of the various sections of the Fund – the Siyenza Manje and Sustainable Communities programmes, the Vulindlela Academy, the Local Economic Development Initiative, and the Agencies Unit – were better coordinated this year to improve synergies among them. This took place under the guidance of the Development Fund's Board and was intended to align the support functions of the Bank to deliver an integrated service.

The Development Fund's grant funding function continues to strengthen institutional structures and systems within municipalities (for details, see the table of results on page 2). The Fund has made significant progress in using grant funding to support its different programmes, thus improving the capacity for project implementation and unlocking economic potential. Highlights of the year for the various programmes are outlined in the following sections.

The Siyenza Manje programme

The Siyenza Manje programme consolidated its assistance to municipalities in support of the five-year strategic agenda of local government and the DBSA Development Fund's strategic imperatives of deepening and broadening development impact. The programme continued to work in Project Consolidate, Izimbizo and rural municipalities, as well as in poverty nodes, and by implementing a shared services model was able to reach more municipalities without increasing the number of deployees significantly.

In the course of its work, the programme developed several new products, including a pilot study on the operations and maintenance of infrastructure under the Artisan Programme in the North West, the Municipal Pre-deployment Assessment Toolkit, the structured Young Professionals programme, and support for comprehensive infrastructure planning, to name a few.

Siyenza Manje deployees provided support to municipalities in the following broad areas:

- *MIG expenditure:* The Siyenza Manje technical cluster helps municipalities to identify, prioritise, design and register infrastructure projects, and facilitates implementation processes, including contract management. The initial focus was on MIG-funded projects, but it has now expanded to include infrastructure projects with funding from other government departments, and on occasion with funding leveraged from private sources.

"There are growing expectations for the Fund to accelerate service delivery and deepen its development impact."

- *Institutional capacity building:* The financial cluster of the Siyenza Manje programme focuses on aspects of financial management including those related to compliance, such as compiling financial reports that meet the statutory requirements or formulating municipal policies and procedures.
- *Planning interventions:* The programme's planning cluster supports the establishment of the statutory systems required for municipal planning purposes. This includes developing master plans, compiling valuation rolls, and developing or refining spatial development frameworks and land-use management schemes. As some of these tasks require specialist equipment and expertise, the role of the programme is mainly to identify planning needs and check the quality of the work done by service providers.
- *Training interventions:* All Siyenza Manje deployees transfer skills to young professionals and municipal officials while providing specialised, hands-on support. In addition, deployees assess the training needs of municipal officials and refer these to the Vulindlela Academy, which offers accredited courses in a range of areas. In collaboration with the deployees, the Academy also helps officials to collect portfolios of evidence towards certification.

During the year, the Siyenza Manje programme included Gauteng in its purview for the first time, thus extending its coverage to all nine provinces. A growing number of municipalities requested engineering, planning and finance support, and the programme adopted a shared services model to cope with this demand in the face of

limited resources. Closer collaboration with key sector departments, especially through the Siyenza Manje Working Committee, which was established during the year under review, enabled the government to provide active, continuous oversight and guidance on the work of the programme. The Working Committee gave the National Treasury, the DPLG, the Department of Water Affairs and Forestry (DWAF, now the Department of Water and Environmental Affairs) and SALGA an opportunity to play a more active role in monitoring and implementing the Siyenza Manje programme and to address issues affecting delivery identified by the deployees.

During the year under review, the programme placed 527 deployees – 296 experts, 19 professional service providers, 165 young professionals and 47 apprentices – representing a 56% increase over the previous year (338 deployees). This enhanced capacity enabled the programme to support 172 municipalities across all nine provinces (155 municipalities in the previous year).

Technical experts were involved in facilitating 2 778 technical projects at different stages of the project cycle. By year-end, 74% of these projects were in the implementation, completion or close-out stages, an indication of how the deployment of expertise is helping to push municipal development initiatives through the project cycle.

Technical experts completed 769 projects, 48% more than the annual target of 520 set in the BSC. These completed projects resulted in 276 000 households being connected to water and 139 000 to sanitation facilities (84% and 153% above the BSC targets of 150 000 and 55 000, respectively). In addition, the implementation of infrastructure projects in which Siyenza Manje deployees were involved created 18 800 jobs (56% above the target of 12 000).

Regarding the capacity building component of the Siyenza Manje programme, during the year under review 521 municipal officials received on-the-job training in financial skills and 1 087 in technical skills, significantly more than in 2007/08.

As before, the focus has been on deploying engineering, financial and planning experts to municipalities that require their support. The team has continued to provide assistance on implementing infrastructure projects, ensuring effective planning and financial management, and improving the quality of audit opinions from the Auditor General.

In its first three years, Siyenza Manje has focused on expediting the implementation of MIG infrastructure projects and building the institutional strength urgently needed to handle such projects. We envisage that the programme will play a growing role in the operation and maintenance of new and existing infrastructure in the targeted municipalities.

The DBSA Vulindlela Academy

The Vulindlela Academy works to address human and institutional capacity failure in South Africa and the region by focusing on various core skills in the technical, financial, management and planning domains, which are critical to improving service delivery. The Academy offers training programmes in the following areas, among others: municipal governance; municipal and public finance management, including budgeting, strategic planning and integrated development planning; project management; risk management; community leadership development; sustainable development; utilisation of the Local Government Resource Centre and Local Government Network (LGNet); project finance; supply chain management; procurement and local economic development.

The following initiatives were among those successfully implemented in the past year:

- *Local Government Network (LGNet):* The Vulindlela Academy provided training on this knowledge-sharing platform that makes local government information available to all municipalities in South Africa.
- *Japan International Cooperation Agency project:* The JICA training targets all development finance institutions in the region. The training focused on programmes related to infrastructure management.
- *Virtual academy:* In April 2008, the DBSA and AFD signed a memorandum of understanding to create a virtual academy to train a cadre of skilled people in the SADC region. The pan-African capacity building programme was conceptualised during the year.
- *The e-learning platform:* This innovative platform was introduced to expand the outreach of the DBSA Vulindlela Academy's training courses.
- *Partnerships:* This year, the Fund strengthened its collaboration with stakeholders such as SALGA, the Local Government Sector Education and Training Authority (LGSETA), the Public Administration, Leadership and Management Academy (PALAMA), the Local Government Leadership Academy (LOGOLA) and others.

Agencies Unit

The Agencies Unit was established to assist local and international development and funding agencies and act on their behalf in planning, programming and implementing development initiatives. The Unit seeks to attract and manage development agencies that enhance the public sector's capacity to deliver and sustain development, thus deepening the impact of their work; and to develop and test innovative approaches and best practices. The services offered by the Unit range from project management and advisory or research support to financial, treasury, logistical and other forms of assistance. This support is tailored to suit the specific requirements of a particular agency.

During the year under review, the Unit mobilised new and repeat programmes to the value of R90 million. This included:

- Signing a memorandum of understanding with SIDA to execute the Water Demand Management capacity building initiative, which aims to assist water utilities in SADC
- Finalising an agreement with Irish Aid to extend the support of the Infrastructure Delivery Improvement Programme (IDIP)
- Facilitating the establishment of the SADC Fund to support countries in the region in executing project preparation and feasibilities studies
- Renegotiating the continuation of the Municipal Finance Management Technical Assistance Project (MFMTAP) in the Eastern Cape and KwaZulu-Natal
- Establishing a project management unit for the Renewable Energy Market Transformation project, which is aimed at removing market barriers and reducing the implementation costs of renewable energy technologies in South Africa

Sustainable Communities programme

The Sustainable Communities programme aims to promote sustainable development in South African communities. Sustainable development is understood as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It requires the promotion of values that encourage consumption standards which are within the bounds of the ecologically possible and to which all could reasonably aspire. The Sustainable Communities initiative channels resources directly to communities with the goal of empowering and capacitating them to engage in equal partnerships with the government, civil society and business; to formulate their own development agenda; and access the resources needed to implement it.

In the year under review, projects were scoped and planned in the following areas:

- *Agriculture:* Phase 1 of this project in partnership with Unilever focused on developing 62 hectares of paprika peppers in Keiskammahoek. The initial harvest started in February 2009, with the crop delivered to Unilever for inclusion in their Robertsons spice range. Other elements of the first phase of the project involved the production of essential oils for perfumes and soaps, and maize farming by communities in the area.
- *Land restitution:* In both the Tramways and the Richmond projects, beneficiary communities whose land has been restored to them need development assistance and funding. Regarding the Tramways project, an initial loan amount of R6,6 million was approved and disbursed to assist with marketing and presales on the project, which has a total value of R196 million. A further grant of R0,9 million was committed for capacity building, skills development and general support of the community. Regarding the Richmond land claimants, a grant of R0,5 million was approved for socio-economic studies and legal support, and the loan requirements will be finalised in the coming year (the entire project is valued at R3 billion). In partnership with the Department of Housing, the DBSA supports housing developments with a value in excess of R2 billion, the largest being the R1,1 billion King Sabata Dalindyebo integrated housing development.
- *Housing:* The Sustainable Communities programme is supporting integrated housing projects in Grabouw, Phalaborwa, Mthatha and Elliotdale. Plans have been finalised and land identified. In Grabouw, the Fund helped communities design energy-efficient houses that will require less energy to heat or cool. In the year under review, four houses were built and another 30 started, while a further 88 houses are expected to be started and completed in the coming year.
- *Skills development and training:* During the year, the Midrand Training Centre was expanded to accommodate recruits from Diepsloot, Tembisa and Alexandra, while the Grabouw Campus was upgraded and received accreditation. In Midrand, land for the expansion was donated by the Islamic Institute, while in Grabouw it was donated by the Theewaterskloof Municipality.

  The University of Fort Hare provided additional trainees who were deployed in the Keiskammahoek agricultural projects. By March 2009, all the initial trainees had been absorbed into the Eastern Cape Department of Agriculture and were deployed to other projects.

- *Feasibility studies:* The DBSA Development Fund finalised feasibility studies on various sustainable technology projects dealing with water, energy and waste, and these will be implemented in the coming year. They include a 100MW wind project in Cape Town, waste buy-back centres at Phalaborwa and other sites, and water management and sanitation technologies in pilot areas.

Local Economic Development Initiative (LEDi)

The incorporation of the LEDi into the Development Fund took longer than anticipated. This year, the LEDi team formulated a clear strategy, developed risk management frameworks and fine-tuned management systems that will speed up delivery once interventions have been approved.

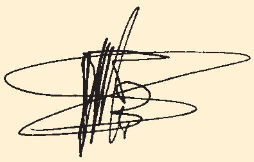
In addition, the LEDi identified and appraised its first three projects. These were approved by the internal structures and will be launched in the coming year. The appraisal required that criteria be developed to determine the needs and potential of particular local economies. These criteria will form the basis for formulating local economic development plans and, more importantly, identifying and scoping catalytic interventions that would enhance local economies. In order to identify the top priority regions of the country, the LEDi analysed access to basic services, the presence of economic opportunities, levels of employment and population trends, and these findings will guide the initiative's future work.

In parallel to the appraisal of its first three projects, the LEDi team worked with key stakeholders in order to determine funding gaps and find ways of filling them in the identified priority areas.

The year ahead

Service delivery challenges in the local government sphere continue to plague the country. The global economic meltdown, which means that fewer resources are available for development activities, has worsened the situation. These factors call for prudent financial management and more stringent prioritisation. Despite these constraints, the Fund will continue to consolidate its efforts to build human, economic and institutional capacity in the coming year.

I would like to express my thanks to the Board of the DBSA Development Fund, and in particular Prof. Brian Figaji, the Chairman, for their continued support and guidance during the past year. The management and staff of the Fund, together with its partners and stakeholders, acknowledge and appreciate their hard work. The Development Fund is likely to grow as our mandate shifts towards sharper relevance and responsiveness, and I am confident that the Divisional Executives and their teams will meet the targets set for them in the next financial year.



Paul Baloyi

The Siyenza Manje programme facilitated the connection of 276 000 households to water and 139 000 to sanitation facilities.

Operations overview

In 2007/08, the DBSA Development Fund began to gear itself for delivering hands-on support to low-capacity municipalities in order to build human and institutional capability. This reconfiguration was finalised during the year under review. The Fund is now responsible for the following units and programmes under the management of three Divisional Executives:

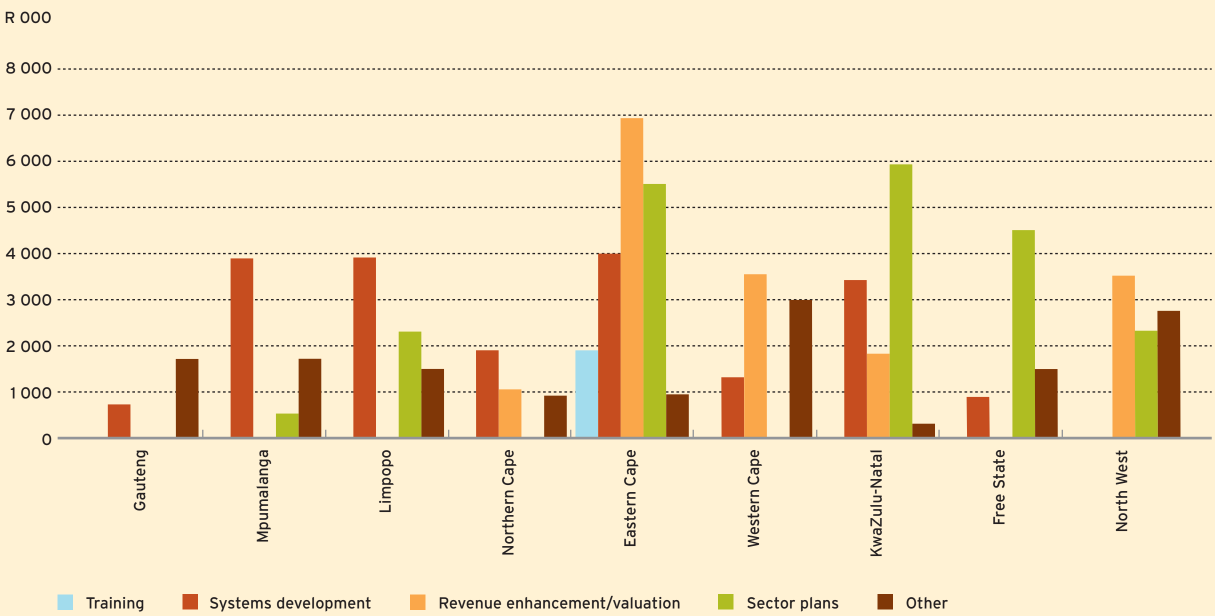
- The Siyenza Manje programme, the Vulindlela Academy and the Agencies Unit
- The Sustainable Communities programme and the Project Management Unit
- The Local Economic Development Initiative (LEDi)

Each of the DBSA Development Fund's components has a clear strategic plan, which has been approved by the Board. In this process, potential projects are weighed against strategic criteria so as to arrive at the optimal project portfolio for meeting the Fund's objectives. In order to optimise the allocation of human and financial resources to projects, internal processes have been set up that view all the Fund's initiatives in the context of the whole portfolio; promote decision-making across the various programmes at Divisional Executive level; and encourage more effective project management disciplines. To ensure synergies between the component programmes and to draw maximum development impact from interventions, programmes are encouraged to work in the same geographical space and leverage each other's resources and expertise.

The Siyenza Manje programme deploys expertise to ensure that resources allocated by the government are spent on improving service delivery, while the Sustainable Communities programme sees to it that interventions are undertaken in a responsible and sustainable way and are aligned to the social and economic needs of communities. Siyenza Manje provides technical experts to help design the projects undertaken by Sustainable Communities.

In addition, the Fund provides financial support for building capacity in the human resources, processes and systems of low-income municipalities. Such grants complement the deployment and social facilitation interventions of the Fund and consolidate their development impact. The figure below shows the breakdown of technical assistance grants in 2008/09 by sector and province.

These grants were aimed at developing financial and infrastructure systems in low-capacity municipalities



Technical assistance grants by sector and province, 2008/09 and supporting initiatives to enhance revenue, such as the compilation of asset registers and valuation rolls in compliance with the Municipal Property Rates Act, No. 6 of 2004. The Fund also supported feasibility studies on projects and the formulation of sector and land-use management plans, and trained municipal officials to use these systems and procedures effectively.

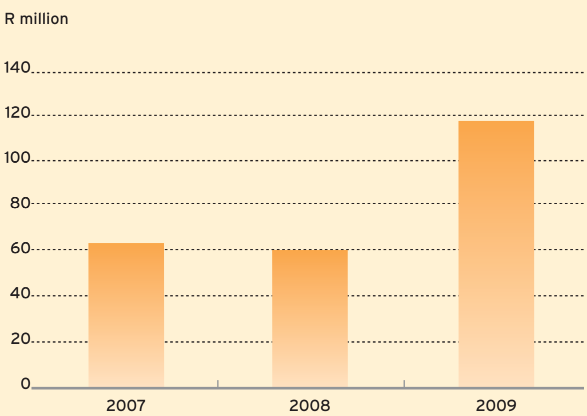
In identifying the first three LEDi initiatives, the principle of maximising synergies within the Fund was paramount, given that success depends on linking the expertise of Siyenza Manje deployees and social facilitation resources. By the same token, the various programmes of the Fund worked closely with the DBSA Vulindlela Academy and the Agencies Unit, which have both been incorporated into the management portfolio to which Siyenza Manje belongs.

The grant funding portfolio

The Development Fund approved R103 million worth of grants in 2008/09 (69% of the target of R180 million). Of this amount, R61 million was from Siyenza Manje while the remainder was from Sustainable Communities.

Since April 2008, R117 million has been disbursed from the old and new grant book. The Fund also committed R97,6 million to old and new approvals, including payments of R10 million to the VUNA Awards initiative and R9,8 million towards the welfare of victims of urban violence. The three-year trend depicted in the figure below indicates that disbursements declined in 2007/08. This was due to the consolidation and alignment of the grant funding portfolio in support of the Siyenza Manje initiative. In 2008/09 disbursements rose as the work of deployees in municipalities bore fruit.

The following sections present the operational detail of the work undertaken by the Fund during the year under review.



Technical assistance grants disbursed, 2006/07 to 2008/09

Siyenza Manje

The Siyenza Manje progamme is the DBSA's flagship intervention programme in the area of municipal support and capacity development. It is sponsored by the Bank and the National Treasury, and mainly targets the following categories of municipalities:

- *Project Consolidate municipalities:* These areas were identified by the DPLG as requiring hands-on support under the Project Consolidate initiative.
- *Presidential poverty nodes:* These areas were declared poverty nodes in terms of the government's targeted poverty eradication strategy.
- *Izimbizo municipalities:* These are municipalities with large delivery backlogs and other challenges, which were visited by the Presidency under the Izimbizo programme.

The short- to medium-term objectives of the Siyenza Manje programme are to deal with performance constraints that impede service delivery, and to strengthen the capacity of officials to create a pipeline of critical skills for sustainable service delivery in the long term. The programme assists the municipalities by deploying technical experts in the fields of planning and engineering, and professional experts in financial management. The technical experts help low-capacity municipalities to fast-track the release and expenditure of infrastructure grant funding, and provide hands-on support to enhance project management capability. The financial experts support local municipalities on financial management, including the resolution of audit queries from the Auditor General, and also help them comply with the Municipal Finance Management Act, No. 56 of 2003.

The Siyenza Manje portfolio

As the figure overleaf shows, interventions under the Siyenza Manje programme are largely of a technical nature, in line with the need to accelerate capital expenditure in assisted municipalities. In 2008/09, deployees facilitated 2 778 technical projects, a 73% increase over the previous year. Technical planning interventions grew in the central region, mainly in North West and Gauteng, where experts were involved in drawing up project specifications and reviewing plans submitted by consultants. In Mpumalanga and Limpopo, road projects increased by 59% and 94% respectively against 2007/08, as the municipalities responded to the thrust in the provincial growth and development strategies to improve overall road infrastructure networks.

The Development Fund's deployment programme helps poor municipalities overcome operational challenges and thus improve service delivery. The Sakhisizwe Local Municipality is a good example. This municipality in the Eastern Cape was on the verge of a section 139 intervention before being turned around with the help of the Fund's deployees, as discussed in the box below.

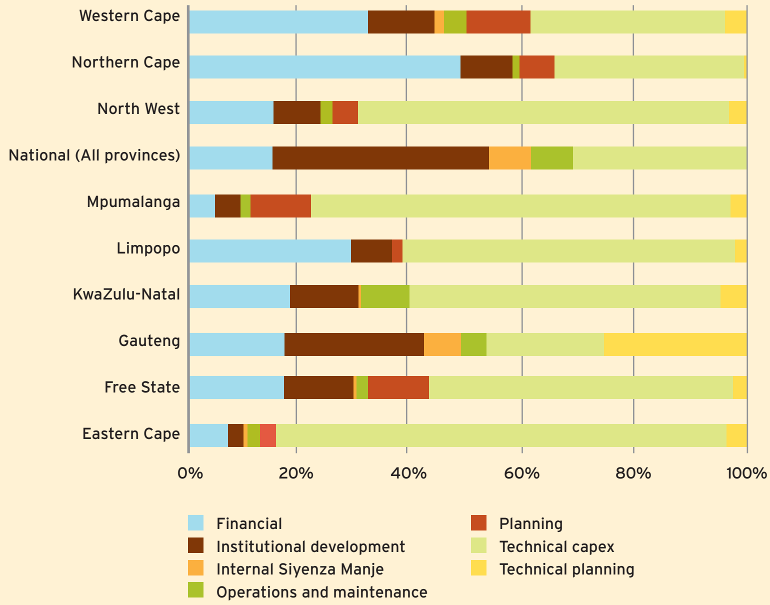
Deployment at Sakhisizwe Local Municipality, Eastern Cape

In July 2007, the Sakhisizwe Municipality reached a financial crisis bordering on a section 139 intervention. Given its severe financial constraints, and the fact that a Project Management Unit had not been fully established, it was very difficult to implement projects, and general service delivery in the municipality was hampered.

Siyenza Manje deployed financial and technical experts to assist the municipality in analysing its priorities and implementing a turnaround strategy. With the support of the financial expert, the municipality managed to recover the VAT refunds owing to it, as well as five years worth of water and sanitation claims from the Chris Hani District Municipality. The monthly claims from the district municipality are now up to date. All creditors have been paid and conditional grants are fully funded. The municipality also has R17 million of operational funds invested on call and has purchased nine new vehicles needed for service delivery.

The municipality converted to GAMAP/GRAP in 2007/08. In August 2008, the annual financial statements for the 2007/08 municipal financial year were completed in line with the National Treasury Guidelines. In June 2008, the audit opinion changed from adverse to a disclaimer, and although there is room for improvement, the overall progress is satisfactory. Staff training is ongoing, and two young professionals have been deployed at the municipality to ensure continuity and sustainability after the deployment period.

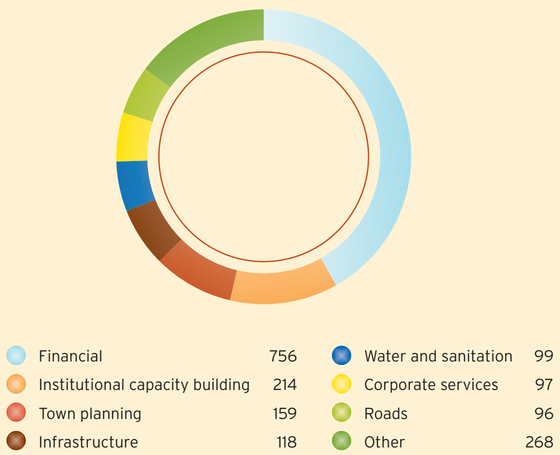
The Project Management Unit has now been established with the assistance of the Siyenza Manje technical expert and the municipality is fully committed on the Medium-Term Expenditure Framework and able to deliver on its mandate. The Siyenza Manje programme also helped the municipality to secure funding for several projects, including the construction of 2 000 RDP houses and a new pump station, and the procurement of spare parts to repair the Elliotdale electrical grid network.



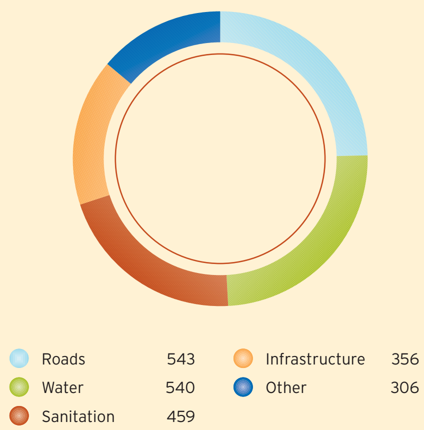
Types of projects per province, 31 March 2009

Technical projects (e.g. water and sanitation, electricity, roads, housing) and bulk infrastructure projects are preceded by feasibility studies, planning and design, procurement activities, policy development and finance reports. Municipal infrastructure assets must also be managed after installation. There is therefore a growing focus on operations and maintenance projects, and the related planning and budgeting processes are receiving attention in all the provinces. Siyenza Manje is in discussion with the Department of Water and Environmental Affairs, Group 5 and Grinaker-LTA on rolling out the Artisan Programme. This programme will strengthen the government's operations and maintenance interventions.

The Siyenza Manje programme continues to focus on water and sanitation (see figure below), in line with the government's drive to eradicate the bucket system and improve access to these services. The figure also shows that the number of projects in the roads sector more than doubled to 543 in the year under review (2007/08: 206 projects). The sector is gaining in prominence even though the targets in this area are set to be achieved by 2013, according to the government's plan of action. Roads are crucial for integrating services and making them accessible, and they are therefore a provincial priority.



National distribution of non-technical projects per sector, 31 March 2009



National distribution of technical projects per sector, 31 March 2009

The lack of proper operations and maintenance in local municipalities has contributed to the deterioration of infrastructure over the years. The acceleration of MIG and capex projects sometimes exacerbates this problem by adding new assets to municipalities that are already strained. The box below describes an innovative programme designed by the Fund to deal with this problem in North West.

Artisan Programme pilot project, North West

Siyenza Manje began implementing the Artisan Programme in partnership with the North West provincial government's Department of Local Government and Housing in March 2008. The main objective of the programme is to create a pool of qualified artisans who can be deployed in municipalities to build their operations and maintenance capacity. This will promote the sustainable use of municipal service delivery infrastructure.

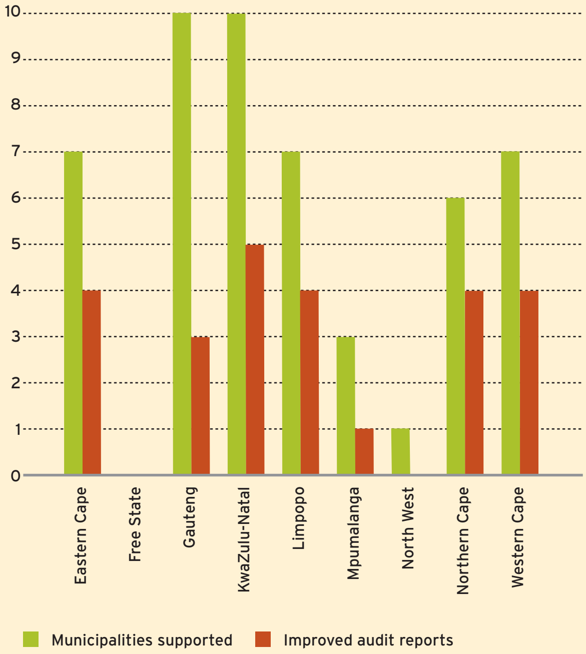
In South Africa generally, and in municipalities particularly, there is a shortage of qualified artisans to operate and maintain infrastructure. While the delivery of new infrastructure has accelerated, it has become clear that infrastructure is often not operated and maintained appropriately.

Most municipalities in North West province that are Water Service Authorities have inherited old, dilapidated water infrastructure and also have capacity constraints. Providing water and sanitation has been set as a priority short-term target, but the goals will not be achieved if the challenges around operating and maintaining infrastructure are not met.

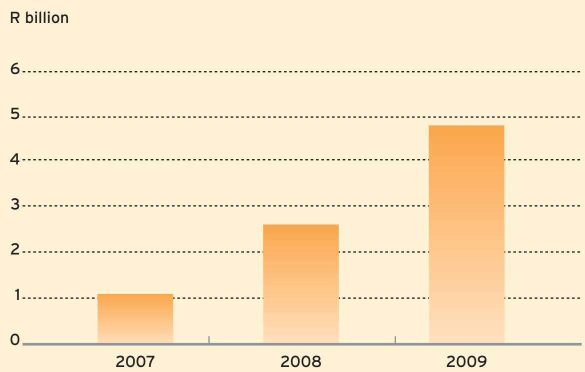
To address these challenges, the provincial departments of Local Government and Housing and of Education conceived the Artisan Programme, a skills placement model that is being implemented in partnership with the Fund. The objective is to place students from the Further Education and Training (FET) colleges into the municipalities, where they can gain work experience and qualify as artisans. These artisans will be retained by the municipalities and perform the functions necessary to preserve infrastructure, as plumbers, motor mechanics, fitters and turners, electricians, bricklayers and water care technicians.

In the pilot phase, the Siyenza Manje municipalities were selected to host the graduates, but the focus was widened to include 16 out of 25 municipalities in North West. The pilot project is progressing well and currently involves 47 apprentices. Concurrent with the rotation for on-the-job skills transfer and the FET bridging courses, soft skills sessions are conducted through the DBSA Vulindlela Academy. These sessions cover areas such as computer literacy, decision-making, assertiveness and communication skills. The first group of apprentices are scheduled to graduate in March 2010 after completing their trade tests. Long-serving municipal officials have expressed interest in joining the programme so that they can undergo trade testing and qualify through recognition of prior learning. About 53 "section 28 apprentices" have been identified for admission.

Drawing on the lessons learnt in North West, Siyenza Manje is replicating the model across the country in partnership with other provincial governments and FET colleges. The Construction Sector Education and Training Authority has offered funding to deploy another 100 artisan apprentices.



Siyenza Manje municipalities with improved audit reports, 2008/09



MIG expenditure, 2006/07 to 2008/09

As the figure above shows, Siyenza Manje is responding to various campaigns by the National Treasury and COGTA to improve the financial management and reporting in municipalities. These initiatives include Gauteng's Operation Clean Audit and the National Municipal Budget Reform programme. During the year, 53% of municipalities in which Siyenza Manje financial experts were deployed improved the quality of their audit reports from the Auditor General from adverse to disclaimer, qualified or unqualified.

MIG/capex financial reporting

For the year under review, the total allocation is R7,9 billion (R5,3 billion in 2007/08) and total expenditure is R4,8 billion (R2,6 billion in 2007/08). Owing to the increase in the total budget allocation for the year, proportional expenditure has declined to 46,8% (from 58% in 2007/08). However, an increase of R2,2 billion in expenditure has been realised during 2008/09, owing to the increase in total budget allocations and the number of projects implemented, both of which were driven by the increase in Siyenza Manje deployments in low-capacity municipalities.

DBSA Vulindlela Academy

The DBSA Vulindlela Academy, the training centre for building capacity, sharing knowledge and transferring skills, is accredited by the LGSETA. The Academy offers capacity building and training to various development intermediaries, including municipalities, government departments, public utilities and non-governmental organisations in South Africa and development finance institutions throughout southern Africa. The strategic aim of the Academy is to contribute to developing the core skills that are critical for the efficient performance of the public sector in the region.

The DBSA Vulindlela Academy has strong partnerships in South Africa and the region. In South Africa, the Academy partners with the LGSETA, SALGA, LOGOLA, COGTA, the Department of Water and Environmental Affairs, the Industrial Development Corporation and the National Treasury. Outside the country, the Academy has partnerships with the SADC Development Finance Resource Centre, JICA and AFD. In the period under review, the Academy has worked closely with these partners to extend its market outreach in providing capacity building and training.

In 2008/09, the Board of the Development Fund advised the Academy to improve the quality of its training by increasing the number of accredited courses it provides. In response, and in partnership with the National Treasury and COGTA, the Academy developed and registered four new accredited courses with the LGSETA. These courses support Siyenza Manje's Young Professionals programme in relation to infrastructure finance and COGTA's initiatives to build capacity in low-income municipalities to develop credible integrated development plans (IDPs).

In support of the government's efforts to eradicate the bucket system, the DBSA Development Fund assists municipalities with implementing water and sanitation programmes. If a community opts for services above the MIG basic level, the new infrastructure can place a burden on the existing system. This was the case in Maquassi Hills, where the water-borne sanitation system chosen by the community strained both the bulk water supply and the bulk sewer lines. In response, the Fund supported a project to augment the bulk water supply. The box below outlines the challenges and achievements of this intervention.

Augmentation of bulk water supply to Maquassi Hills Local Municipality, North West

Maquassi Hills was facing serious water shortages as far back as 1998, with average daily demand far exceeding the capacity of the existing system. When the community chose water-borne sanitation over dry sanitation to replace the bucket system, the problem was set to get worse. Wastage was also a problem: as much as 45% of the water in the municipality was unaccounted for.

Several studies were conducted to find ways of improving the bulk water supply. According to these studies, the best option was to double the pipeline from the Sedibeng River. This entailed a 42 km pipeline from Bothaville in the Free State to Maquassi Hills in North West at a cost of more than R70 million (in 2002).

In 2006, Siyenza Manje deployed a civil engineer to the North West Department of Developmental Local Government and Housing to help deal with the water and sanitation backlogs. He won the Department's backing to champion the bulk water supply project and began to assist in consultations with stakeholders. Eventually all key stakeholders bought into the project, which was implemented through the North West Water and Sanitation Steering Committee, with the support of Local Government and Housing.

In 2006, the MIG allocation for Maquassi Hills was less than R10 million, whereas the costs of the project had escalated to about R143 million. The project was therefore financed through an integrated funding model, with contributions from the provincial Department of Developmental Local Government and Housing, the national Departments of Water Affairs and Forestry and of Provincial and Local Government, the Dr Kenneth Kaunda District Municipality, the Sedibeng Water Board and the DBSA. The Bank provided project finance of R46 million and a further R7,2 million for water conservation management.

A major factor in the success of this project was the hands-on role played by the local municipality and their ability to plan in advance. A service provider was appointed to do all the necessary planning on risk, and a business plan was developed, which helped in raising the funding. The municipality also engaged key stakeholders, including farmers and communities who had felt threatened by the project because of displacement and relocation fears.

When it came to the implementation of the project, the municipality again appointed competent service providers, and things ran smoothly. Project management – including water loss management – was made simpler by the fact that implementation was phased.

Roads are crucial for integrating services and making them accessible, and they are therefore a provincial priority.

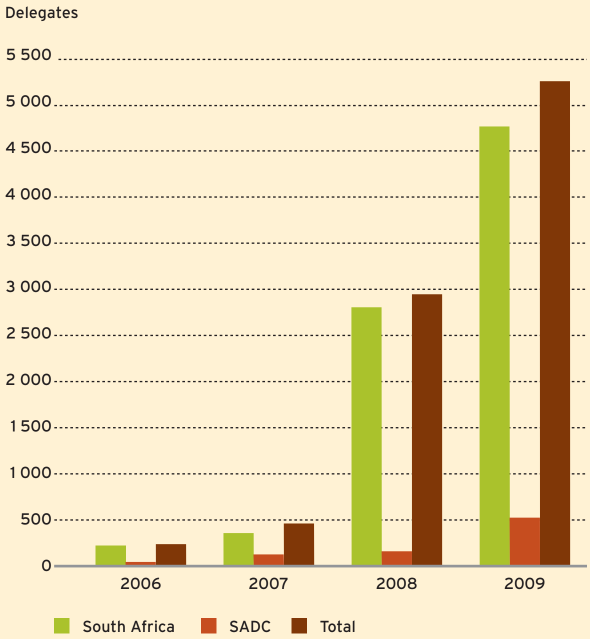
Courses accredited by LGSETA, 2008/09

Type of qualification	South African Qualifications Authority ID	Qualification title	National Qualifications Framework level	Minimum credits
National Certificate	50205	Municipal Integrated Development Planning	4	160
Further Education and Training Certificate	50372	Municipal Finance and Administration	4	157
National Diploma	49554	Public Finance Management and Administration	5	260
Certificate	48965	Municipal Financial Management	6	166

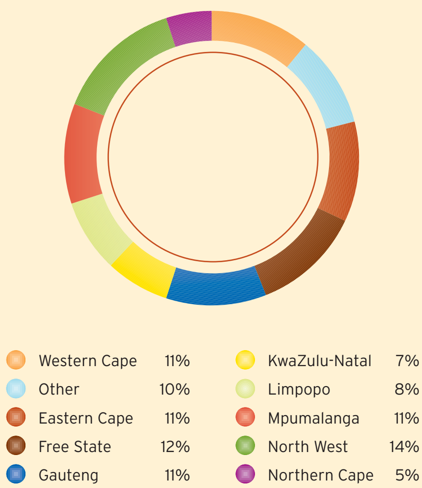
Development impact and outcomes

A total of 5 259 external learners were trained during 2008/09. Courses were offered in various aspects of planning and management: municipal and public finance management, including budgeting, strategic planning and integrated development planning; project management; municipal governance; project finance; risk management; community leadership development; sustainable development; local economic development; use of the Local Government Resource Centre and the LGNet; and supply chain management. The number of delegates trained grew by 59% over the previous year, as shown in the figure below.

The Academy's capacity building and training were spread evenly across all nine provinces. The training needs in specific areas were identified by Siyenza Manje deployees and by consulting the workplace skills plans of municipalities, and were confirmed by municipal managers. These needs were then channelled to the Academy so that courses could be designed to deal with the skills gaps.



Number of delegates trained by the Vulindlela Academy, 2005/06 to 2008/09



Distribution of Vulindlela Academy delegates per province, 2008/09

The Fund works with municipalities to improve the quality of their financial reporting. Under the Siyenza Manje programme, financial experts were deployed to the City of Johannesburg to deal with queries from the Auditor General. The City has now obtained unqualified audit reports for two years in a row, as highlighted in the box below.

Operation Clean Audit Report, City of Johannesburg, Gauteng

In 2002, the City of Johannesburg embarked on a broad process of transformation. The Egoli 2002 plan identified financial problems as a symptom of broader institutional and organisational deficiencies, and the city authorities set about reconfiguring the municipal borders and reorganising political structures to make them more responsive to the needs of local communities.

The City adopted an IDP, which outlined development priorities and targets, and linked planning to service delivery. City entities were converted into autonomous city-owned utilities, agencies and corporations. In this process, 14 city-owned companies were established.

In February 2002, the City launched Operation Clean Audit Report, which aimed to build a strong financial control environment, create a comprehensive asset register and confirm the completeness of revenue recorded in the financial system. Senior staff members were required to sign a declaration committing themselves to the goal of obtaining a clean audit report. Work in this regard was included in performance management evaluations and monitored on a regular basis.

In 2006, after several years of qualified audit reports from the Auditor General, the process was taken a step further. A project team was established to ensure that all officials employed by the City are accountable for decisions taken in their areas of responsibility. The Clean Audit Report team also undertook a diagnostic analysis of all of the systems and processes, and came up with a comprehensive plan to deal with issues identified as the main causes of the Auditor General's disclaimers.

The Siyenza Manje programme deployed a team of financial experts from the South African Institute of Chartered Accountants (SAICA) to assist with implementing the turnaround strategy. The experts assisted the City and built capacity to sustain the work beyond the deployment.

The success of the intervention is clear in the City's changed audit status. After qualified audit reports between 2001 and 2006, the City of Johannesburg received unqualified reports in 2007 and 2008, and complied fully with all the Statements of Generally Accepted Accounting Practice.

Agencies Unit

The Agencies Unit was established to help alleviate the development implementation and management constraints in the SADC region. It assists international and local funding agencies and acts on their behalf in planning and implementing development initiatives.

Agency services are offered in support of government, multilateral and bilateral funding agencies and other stakeholders whose aim is to advance the delivery of development initiatives. The Unit assists partners who have mobilised funds but lack the capacity, presence or experience to implement initiatives themselves, in South Africa or the wider region, by making the DBSA corporate infrastructure available to them.

The Unit supports the Bank's strategic imperatives of building and maintaining strong partnerships, building capacity in the public sector and developing innovative approaches to development. Its activities complement the capacity building initiatives of the Development Fund and the Vulindlela Academy.

The Unit manages a fund portfolio of R351,8 million for 31 agencies, including government departments, donor agencies and independent trusts.

The Voluntary Counselling and Testing programme, an initiative of the South African Department of Health and Germany's Kreditanstalt für Wiederaufbau (KfW), works to curb the spread of HIV/AIDS. The programme promotes behavioural change in poor communities and urban settlements by improving access to quality counselling and testing facilities. Under the programme, the Agencies Unit has managed a total of €10 million and facilitated the establishment of 61 health facilities in the Eastern Cape, KwaZulu-Natal and Mpumalanga.

The Agencies Unit works with the Job Creation Trust to raise and disburse funds for employment creation and development programmes. In terms of the agency agreement, the Unit appraises and manages the Trust's projects through a Project Management Unit.

To date, the Agencies Unit has provided grant facilitation and loan administration services for a grant and finance portfolio of R37,5 million, which promotes rural economic development by supporting small and micro businesses and creating sustainable jobs.

The Agencies Unit also cooperates with the Succulent Karoo Ecosystem Programme (SKEP) to promote economic development through community-based projects in the rural areas of Namaqualand, the Boland and the Klein Karoo. The programme has serviced 231 families, created 220 new jobs and 34 new businesses, promoted awareness of nature conservation amongst 60 000 people and empowered 30 women. To date, the Unit has disbursed a total of R4,1 million to projects in the environmental conservation sector.

Since 2005, the Unit has rendered logistical support to the IDIP by providing appropriate management systems for provincial departments of Health, Public Works and Education. The IDIP was initiated by the government and designed to overcome capacity problems in the planning and managing of public sector infrastructure. It provides provincial departments of Public Works, Education and Health with appropriate management systems and helps them develop the skills to plan and manage infrastructure well. To date, in terms of its agreement with IDIP, the Unit has managed R15 million on behalf of the National Treasury and also deployed 35 infrastructure advisors to the provincial departments.

The box below describes this unique capacity building initiative.

Infrastructure Delivery Improvement Programme (IDIP)

The origins of the IDIP lie in a review of provincial service delivery systems commissioned by the government in 2001. The review identified various deficiencies and recommended that a framework be developed to guide the management of infrastructure delivery. A further recommendation was that provincial departments should be helped to develop their capacity to manage and sustain infrastructure delivery. The government approved the recommendations for the creation of the IDIP. The programme was implemented in partnership with the National Treasury, the national departments of Public Works, Education and Health, the DBSA and the Construction Industry Development Board.

Stakeholders agreed to implement the IDIP in phases, and the pilot phase, which developed and tested the methodologies and tools used to build and sustain capacity in the host departments, started in July 2004. The second phase of rolling out the programme started in June 2005, taking on board the lessons learnt in the pilot phase. A well-conceived approach and a management system were developed to implement the programme.

The IDIP methodology is based on a programme cycle approach, which consists of several interrelated phases: assessment, design, inception and implementation. In the design phase, a business case is developed for IDIP support to the targeted departments in each province. The IDIP programme cycle is embedded in a continuous monitoring, reporting and review process aimed at measuring progress, effectiveness and impact. It is implemented through provincial technical assistance teams with multidisciplinary skills. These work closely with provincial officials, facilitating the transfer of skills.

The management of the programme is based on a decentralised management system with a Programme Management Unit, made up of representatives of all the national partners, and a provincial management system with responsibility for managing the IDIP in the provinces on a day-to-day basis. IDIP enjoys a high level of leadership support in both national and provincial spheres. With its focus on improving the capacity of the government to plan and implement infrastructure delivery, IDIP is a well-established vehicle for promoting sustainable socio-economic development and growth. Some of the benefits of IDIP are that it:

- Enables beneficiary departments to identify gaps and inconsistencies in their infrastructure delivery systems and to design solutions
- Establishes a well-functioning programme management system that ensures effective allocation and use of resources
- Enhances cooperative governance and teamwork among its role players
- Provides tools to guide the prioritisation of infrastructure needs, planning and budgeting, and to ensure alignment between infrastructure priorities, plans and budgets
- Provides a facility for knowledge sharing and lesson learning, and a network that offers access to building expertise in: infrastructure planning, budgeting, monitoring and reporting, programme and project management, procurement, change management, organisational development, capacity building and service delivery management systems

Lessons learnt during the different phases of the programme:

- The success of its capacity building programmes is closely linked to the way IDIP originated. From the initial design phase of the IDIP, there was high-level buy-in and commitment from senior political leaders and senior managers in the public service.
- The participative approach followed during the design process creates a solid base for the development of strong partnerships during the remainder of the programme.
- The programme is embedded in the strategic priorities of the government, which prevents it from "floating" and enhances its institutionalisation.
- IDIP has clear objectives and indicators for measuring progress against each objective, most of which have remained unchanged since inception. This has helped the programme steer a firm path through political leadership and public service management changes.
- It is important that the programme's partners and beneficiaries develop a common understanding of the preferred future the programme is intended to create. This helps to cement "smart" partnerships, built around a common vision of the future.
- Transforming political support into administrative action can be difficult. The challenges posed by moving from design to implementation strain partnerships built during the design phase.
- There is benefit in strong partnerships at the national level. This ensures that the programme is aligned with national priorities and can "protect" provincial initiatives from being hijacked by vested interests.
- There is a similar benefit in having credible and capable provincial partners. These can ensure that the programme meets the needs of the beneficiary provincial departments.
- Capacity building with the aim of enhancing infrastructure management is not merely about the filling of vacant public service posts and training staff. It requires a comprehensive approach that embraces, among other things, the development of management systems and approaches, and appropriate organisational designs for infrastructure delivery planning and management.
- The existing and preferred infrastructure delivery management processes need to be mapped to create a better understanding of the different phases of the process, and to ensure that different government entities have different roles to play during the process. Too often, departments adopt a "silo" approach, to the detriment of the constitutional principle of cooperative governance.
- Enhancing infrastructure planning by government departments will have limited success if such planning is not aligned with strategic priorities for infrastructure delivery and the multi-year budget cycle. Too often infrastructure plans are developed for the purpose of complying with legislative requirements, but are not anchored in strategic priorities and the multi-year budget.
- Capacity building and change programmes like IDIP do not start with a clean slate, but are actually interventions into existing institutions aimed at changing the way infrastructure is managed. The development of a change management model to navigate the intended and unintended impact of the programme helps institutionalise the systems and approaches being introduced.

Sustainable Communities

The Sustainable Communities initiative channels resources directly to communities with the goal of empowering and capacitating them to engage in equal partnerships with government, civil society structures and business; to formulate their development agenda; and to access the resources needed to implement it.

The intiative is about integrating communities and accelerating social and economic transformation in an environment that fosters human dignity and creates opportunities for sustainable development. It seeks to enhance and enrich existing processes and empower communities to achieve their objectives.

The programme, which is in the pilot phase, focuses on three areas:

- *Urban sites:* Grabouw, Phalaborwa, Ngangelizwe and Manenberg
- *Rural sites:* Elliotdale and uMkanyakude
- *Partnership sites:* Keiskammahoek, Tramways Trust, Richmond Park, Safcol, Nigel and Riemvasmaak

The Sustainable Communities programme seeks to build an active, involved community, working together to create a future where people can realise their full potential in social and economic terms; where the built and natural environment is attractive and displays the character of the community. It is therefore not just about incorporating the basic principles of sustainable development into the planning phases of projects; it is an inclusive approach that encourages communities to adopt a responsible attitude in their use of natural resources and engagement with their surroundings.

The approach to sustainable development

The foundation of the work of this initiative is the "Development Charter" or "Social Compact", a contract between the various community stakeholders on the vision, rules and priorities for future development in a particular geographic area. This is given life through a community-based integrated development planning process, which deals with the development of space, the built environment, infrastructure and the economy in harmony with the social and natural environments.

This complex process may be reduced to four steps. First, the major stakeholders are carefully identified in the early stages so that they take collective ownership of the initiative. The roles of stakeholders may differ from one project to the next.

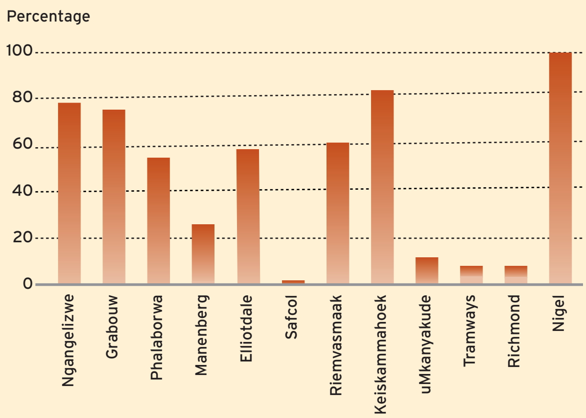
Second, the community's collective vision is developed through a Development Charter or Social Compact. At this stage, projects that are spatially neutral may be implemented, if funding is available immediately and the projects are properly structured.

Third, the vision is translated into spatial, settlement, economic and social plans with prioritised programmes and projects for implementation. At this stage, the involvement of the Sustainable Communities programme begins to diminish, while the role of other stakeholders, such as the DBSA's South Africa Operations Division, the LEDi, the Development Fund and external partners, begins to grow.

Fourth, specific interventions are designed, structured, financed and implemented.

Progress at the pilot sites

In the year under review, the Sustainable Communities programme finalised Development and Project Charters, completed various sustainable development plans and project feasibility studies, scoped and appraised specific projects and submitted reports for funding support, and started to implement projects. The figure below gives an indication of the progress made at the pilot sites.



Progress at pilot sites (weighted average), 2008/09

Keiskammahoek Agribusiness Development Project

At the Keiskammahoek site, the Bank is helping indigent rural farmers to develop viable commercial operations. In the year, the Agribusiness Development Project produced and sold its first paprika pepper crop.

The Zanyokwe irrigation scheme has 400 hectares of good, irrigated land, but much of it is lying fallow. The project aims to revive this underutilised asset, creating economic opportunities and sustainable livelihoods for the community. Part of the strategy is to shift from low-value to high-value crops against off-take agreements, thereby reducing the risk and impact of market failure. The programme provided financial, marketing and extension support.

Strong partnerships are essential if the Development Bank is to succeed in its roles as a change agent and integrator of development. In this project, critical partnerships were formed with the Bank's assistance. The provincial Department of Agriculture provided the irrigation infrastructure for the project and the Siyakholwa Development Foundation took responsibility for its implementation. Unilever South Africa signed an off-take agreement for the product.

Support activities are also crucial. Capacity building and technical support were provided by the University of Fort Hare and the Fort Cox Agriculture College. The university deployed 12 students as agricultural interns to work closely with farmers in creating a pool of expertise that could be used to expand and possibly replicate the project. While the interns gave the farmers practical support and training, they also acquired hands-on experience of management and implementation. As the future success of the project depends largely on making available the necessary skills and capacity, the strategy included a comprehensive capacity building support programme for the management committee, farmers, students and workers.

Despite all the challenges facing a project of this kind, the first seedlings were planted in September 2008, and 62 hectares of paprika and 16 hectares of rose geranium were cultivated. The first paprika fruits were harvested in February 2009 and dried before being supplied to Unilever. To date, 275 jobs (218 workers, 45 farmers and 12 section leaders) have been created, many of them for women.

The project confirmed that commercial sustainability in agriculture requires resources, smart partnerships, long-term commitment and skills. The institutional arrangements around ownership of and access to land and around communal land call for innovative funding approaches and investment products, as land cannot be pledged for collateral. The Keiskammahoek project demonstrates that with the right approach the barriers facing subsistence farmers can be eliminated.

The Elliotdale Rural Housing Project

The Sustainable Human Settlements and Housing Strategy for Elliotdale emphasises the provision of a range of housing-related opportunities to communities. The focus is on creating new economic opportunities in construction and related industries for both skilled and unskilled people in the community.

The strategy is also designed to:

- Maximise community participation in informed choice-making processes

- Ensure that appropriate technologies are employed and indigenous knowledge systems are considered
- Recognise and build on all the work conducted to date
- Build partnerships with all role players
- Pioneer a rural housing delivery model

Given global concerns about climate change, wasteful consumption and exploitation of resources, this project confronts issues of "sustainability" wherever possible, in a difficult rural context where budgets are tight, skills are low and the resource base poor. Four "Pillars of Sustainability" were identified to provide a basis for developing an appropriate housing strategy that integrates a range of concerns specific to the situation in Elliotdale. These are:

- *Address environmental challenges:* The project takes into account the resource limitations of the area and promotes efficient consumption of non-renewable resources.
- *Generate economic empowerment:* The project seeks to create employment, which is a key development challenge, particularly in the rural areas.
- *Enhance social capital:* The project deals with the socio-cultural needs and practices of the local communities.
- *Build institutional capacity:* The project seeks to develop stable, inclusive, transparent and accountable decision-making structures and implementation systems by ensuring community participation in and ownership of housing processes.

Resources and partnerships

A key component of the programme is the development of "smart partnerships" in order to crowd in the resources required for community development, empowerment and greater development impact. The programme has the following key relationships:

- *Government and parastatal institutions:* national Departments of Land Affairs and of Housing, Safcol
- *Private sector companies:* Group 5, Grinaker-LTA, Unilever, ABSA
- *Non-governmental organisations:* TEBA Development, Siyakholwa Development Foundation, Elgin Learning Foundation, Overberg Training Centre, Phalaborwa Foundation

These partnerships have contributed R1,5 billion to development in the various sites. The projects being implemented range from housing to infrastructure and local economic development.

Development impact

In the year under review, the Sustainable Communities programme registered the following achievements against its BSC targets:

- *Jobs:* The programme created 600 job opportunities against a BSC target of 500. These were in agriculture, construction and municipal service delivery projects.
- *Productive assets for previously disadvantaged individuals:* An amount of R87 million was transferred to previously disadvantaged individuals against a BSC target of R50 million. The assets included land secured from government or municipalities for community development projects, value added to underutilised community assets and developments financed on behalf of previously disadvantaged individuals.
- *Research papers concluded and submitted:* Three papers were completed against a BSC target of one. The topics ranged from project planning to project implementation models.

Future focus and integration

The strategy for the coming year is to focus on the implementation and integration of the programme internally and externally, by ensuring that the models developed are transferred to all the relevant stakeholders for replication in other areas.

The Development Fund works with communities to develop Social Compacts and Development Charters for their areas. In Manenberg, the Fund undertook the social facilitation that led to an agreement on the development priorities for the project. These priorities, embodied in a Development Charter, were subsequently incorporated into the municipal IDP and will guide the allocation of resources in future, as per the box below.

Manenberg Development Charter, Western Cape

Manenberg is about 10 km from Cape Town and home to around 70 000 “coloured” people. Under apartheid, the area experienced social and economic exclusion through legislation such as the Group Areas Act, and it continues to show the consequences of such exclusion in conditions of poverty, unemployment, crime and violence. The social problems are more evident among young people, where frustration and apathy have led to extremely high rates of violent crime, domestic and sexual violence, drug abuse and gangsterism.

Older people live in fear and alcohol abuse is rife. To make matters worse, entire families are squashed into tiny, run-down flats, while the streets, public spaces and schools are severely neglected.

Some five years ago, a powerful force for change arose in Manenberg. A group of residents and former residents, some now successful business people, decided to invest their time and talent in the community, hoping to bring about change and rebuild some of the positive values remembered from their childhoods. They coined the name “Proudly Manenberg” to brand their vision, and eventually set up a community-based organisation and campaign under that banner. The campaign has worked hard to include every stakeholder and give every resident a sense of ownership. From a slow and difficult start, Manenberg is becoming a place of hope, with a shared vision for the future and sense of how to get there.

The Development Charter was adopted after a process in which diverse parties with competing agendas engaged in a vibrant development debate, trying to bridge the gap between bureaucratic rule and activism. The Sustainable Communities programme designed and supported this process, and provided a technical assistance grant that empowered and capacitated the community to engage.

Although it comes at the end of an intensive process, the Charter marks the beginning of transformation of the community. The process was forcefully driven from within the community. Proudly Manenberg, the local facilitators, consulted intensely with individuals and community structures on their needs, aspirations and solutions, got more than 10 000 people to “sign up” in support of the Charter and established the Manenberg Development Forum, an inclusive, multi-stakeholder body that will now steer the process. The Charter was launched at the annual Proudly Manenberg Festival, which was attended by tens of thousands of people.

The unfolding process is bound to provide other valuable lessons on building a sustainable community. While the Sustainable Communities programme will continue to support the Development Forum, the DBSA’s South Africa Operations Division will provide technical assistance to build capacity for participation. The City of Cape Town has taken leadership responsibility and will resource the development of the area through its Violence Prevention through Urban Upgrade programme, a partnership with KfW. This innovative programme was pioneered in Khayelitsha, and Manenberg is the second pilot site. Its philosophy is closely aligned with that of Sustainable Communities, emphasising community participation and the importance of social and economic development and urban design in creating an environment where people can become “the best they can be”.

Local Economic Development Initiative (LEDi)

The LEDi spent much of the year formulating a clear strategy and developing risk management frameworks for its operations. In addition, it identified and appraised its first three projects, which will be launched in the coming year.

The appraisal required that criteria be developed to determine the needs and potential of particular local economies. These criteria will form the basis for formulating local economic development plans and, more importantly, identifying catalytic interventions to enhance local economies. To identify the priority regions of the country, the LEDi analysed access to basic services, the presence of economic opportunities, levels of employment and population trends, and these findings will guide the initiative's future work.

In parallel to the appraisal of its first three projects in local economies where the Fund is already represented through Siyenza Manje or Sustainable Communities, the LEDi team worked with the key stakeholders to determine funding gaps and find ways of filling them in the identified priority areas.

Public participation in the Mthatha Functional Area, Eastern Cape

The Sustainable Communities methodology is based on a collaborative planning approach, which aims to get all stakeholders and potential beneficiaries to buy into the development strategy and plan for the community. This participatory process builds on and enhances the IDP. A "Development Charter" or "Social Compact" creates a social contract between the parties on the vision, rules of engagement and priorities for future development. The interactive nature of the process is intended to keep the momentum and avoid participation fatigue, while independent facilitation is employed to ensure that information flows lead to informed decision-making and real consensus.

During 2007, it was decided to extend the Sustainable Communities pilot study in Ngangelizwe to include the entire Mthatha Functional Area. This change in scope had important implications. On one hand, by consolidating the dormitory area of Ngangelizwe with its urban economic base of Mthatha, sustainability became more achievable. On the other hand, the initiative became much more complex, as it involved both proclaimed and informal urban areas and a range of development stakeholders and government structures, including national and provincial government, tribal authorities, and the district and local municipalities. To guide development in the area and bring these diverse players together, a Development Charter and an Integrated Sustainable Development Plan (ISDP) were required. The Charter would ensure that the ISDP was properly informed by local institutions and communities.

A two-pronged approach was applied in ensuring participation. Firstly, training was provided in community-based planning in four wards of Ngangelizwe. This was in preparation for involving the broader community of Mthatha in the formulation of the Development Charter and the ISDP, and aimed to improve municipal-level plans and strengthen local governance and community action. Secondly, the Development Charter built on the community-based planning and sought a commitment from all stakeholders – community members, the King Sabata Dalindyebo Local Municipality, the OR Tambo District Municipality, the provincial Area-Based Management Committee, NAFCOC, King Buyelekhaya Dalindyebo and the Traditional Council – to work towards a shared vision.

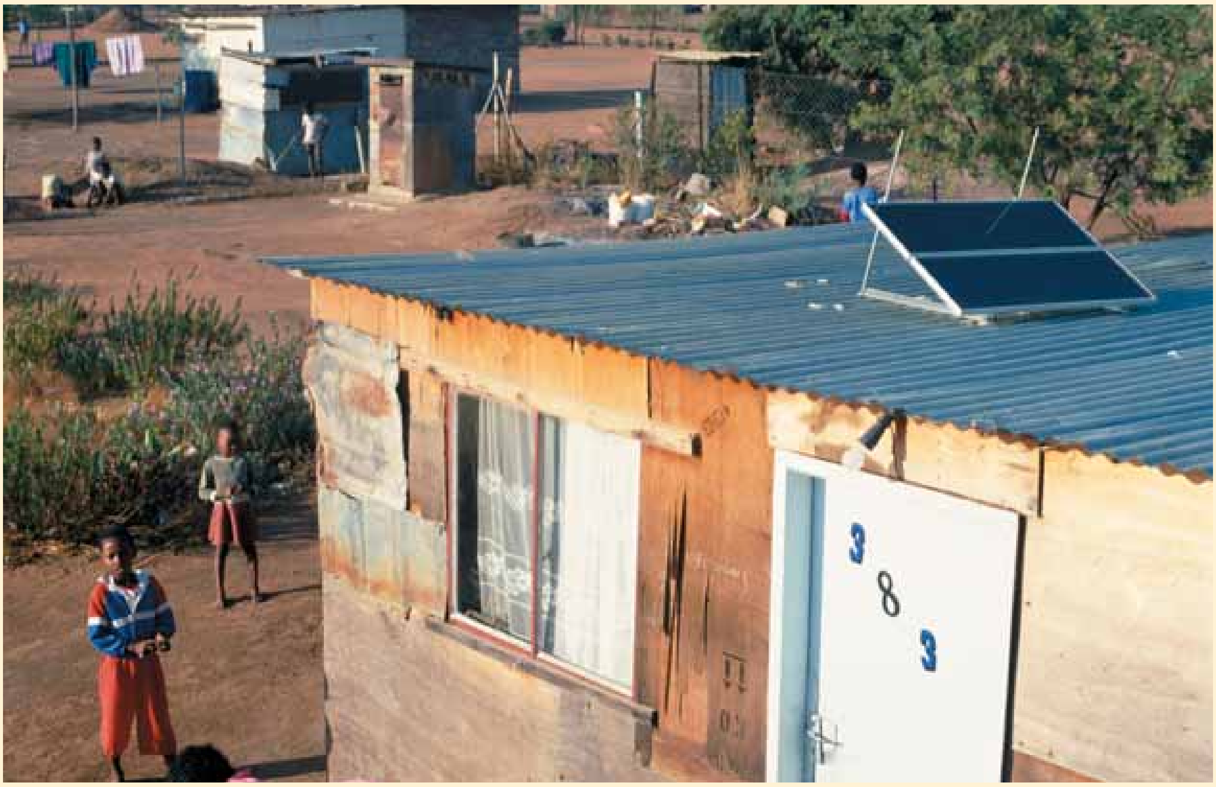
Intensive facilitation over a period of eight months included formal sessions, where information was shared and strategy formulated by the technical team and the community. The outcome was an innovative plan that speaks to the people, continues to carry stakeholders towards implementation and allows for monitoring.

Many lessons were learnt about participation with regard to intergovernmental relations, shared ownership between municipalities, traditional and modern government, and community empowerment. The most pertinent of these were:

- The Intergovernmental Relations Framework Act, No. 13 of 2005, promotes intergovernmental coordination and integration as a major factor in efficient and effective service delivery. Throughout the planning process, and with the assistance of the DBSA, the King Sabata Dalindyebo Municipality engaged various national and provincial government departments. This built a sense of inclusion and partnership in development.

- Even though the Intergovernmental Relations Framework Act and the Municipal Structures Act, No. 117 of 1998, require the different spheres of government to work together in planning for service delivery, this is still a challenge between district and local municipalities. More effort is required in the initial planning stages of projects to bring municipalities together and build a sense of shared ownership and partnership.
- The Municipal Structures Act makes provision for traditional leaders to form part of municipal councils, but there has often been tension between the two institutions. In this project, continued facilitation managed to bring them together to talk about development in their area and form a working partnership. A platform for meaningful discussion and resolution of conflict was created.
- Participation in previous government processes, such as imbizos and IDP meetings, had already created a strong sense of community in the Mthatha area. Even if these processes did not always produce the results communities hoped for, a culture of participation was entrenched.
- Continued facilitation gave stakeholders who seldom had a platform to air their views the opportunity to do so, and this led to a strong sense of ownership of the project and a sound partnership between the local authority and the community.
- Development programmes that are announced at imbizos or political gatherings easily become associated with a political party. Through facilitation, the planning team managed to depoliticise this development initiative.
- To ensure that project goals are met, it is recommended that experienced, impartial facilitators remain involved until a monitoring mechanism has been established and accepted by all the stakeholders.

The experience of building a Sustainable Community in Mthatha has been a very positive one thus far. Technical professionals, working with ordinary community members and all spheres of government, have devised an integrated and practical plan that everyone relates to and wants to see implemented.



Corporate governance

The DBSA Development Fund shares its corporate governance framework with the DBSA, excluding its Board of Directors. The Fund's commitment to the principles of good corporate governance accords with that of its controlling entity, the DBSA. The Directors of the Development Fund subscribe to the principles embodied in the King II Report and the Protocol on Corporate Governance for the Public Sector. Throughout the year, the Fund monitored its progress against the Companies Act, No. 71 of 2008, and the draft King III Report, so as to keep abreast with developments and ensure readiness to comply when the Act and the Code become effective. The operations of the Fund during 2008/09 were in line with the programme approved by the Board for the year.

Organisational repositioning

The constitution of the DBSA Development Fund was revised in 2007/08 as part of an ongoing refinement of its structure. In the past year, the Fund continued to integrate its different programmes so as to enhance synergies among all the capacity building functions of the DBSA group. The Fund now includes the following functions: the Sustainable Communities and Siyenza Manje programmes, the Local Economic Development Initiative, the Project Management Unit, the Vulindlela Academy and the Agencies Unit. The organisational structure of the Fund is depicted on page 11.

Changes to the structure of the Development Fund necessitated a review of the relevant delegations of authority and approval thresholds. The delegations of the different programmes were subsequently reviewed and approved by the Board during the year.

Board of Directors

The conduct and business of the Development Fund Board are governed by the Articles of Association and relevant principles of the Companies Act, No. 61 of 1973. In terms of these Articles, the DBSA appoints all Board members for a term of three years. Upon appointment, Board members enter into a service contract in line with the Companies Act and applicable tenets, which sets out the details of their fiduciary responsibilities. New Board members also attend an induction session aimed at exposing them to the business model of the Development Fund.

The Development Fund Board was reconstituted during the year under review as the tenure of office of the following Directors expired by effluxion of time on 31 December 2008: Dr I Abedian, Mr N Christodoulou and Mr M Vilakazi. In addition, Mr JB Magwaza resigned from the Board on 9 July 2008. The DBSA appointed five new non-executive Directors to the Development Fund Board. The Board now comprises 12 Directors, with the Managing Director, Mr Paul Baloyi, as the only executive Director. The Board is chaired by Prof. Brian Figaji, a non-executive Director.

The Board is responsible for approving the Corporate Plan, which was submitted to National Treasury in February 2008 in accordance with the Public Finance Management Act, No. 1 of 1999. Management ensures that the strategy approved by the Board is executed and reports periodically on the implementation of the Corporate Plan and other initiatives agreed upon with the Board. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Development Fund is a member of the DBSA Board and reports on all of the significant resolutions of the Fund's Board at each meeting of the DBSA Board.

From 3–4 June 2008, the Board undertook a project oversight visit to the Western Cape province. This was an opportunity for Board members to confirm the development impact of the Fund's programmes and interact with members of the communities who benefit from the services they provide.

Board committees

As noted, the Fund shares its governance structures with the DBSA. This is in accordance with section 77 of the Public Finance Management Act, No. 1 of 1999, which recommends that an entity and its subsidiary share an Audit Committee and related systems if this is deemed cost effective. Accordingly, the Development Fund Board directs and controls the operations of the Fund through the Board committees that it shares with the DBSA. Going forward, the Development Fund has recognised the need to establish specific committees to provide strategic oversight on its interventions. A decision was made to establish a Risk Committee, which will come into existence in 2009/10.

Siyenza Manje Working Committee

In addition to the Board committees shared with the DBSA, the Fund Board approved the establishment of the national Siyenza Manje Working Committee to provide oversight on the effective implementation of the Siyenza Manje programme, an initiative with National Treasury.

The Siyenza Manje Working Committee is a stakeholder committee that is subordinate to the Board and is chaired by one of its members. It is intended to ensure that the efforts of all the stakeholders are well coordinated, and makes recommendations to the Board on effective strategies and on challenges encountered by Siyenza Manje deployees. The Committee is chaired by Ms N Gasa, and the other members are Mr E Africa (COGTA), Mrs M Ngqaleni (National Treasury), Mr L Joel (SALGA) and Ms J Evans (Department of Water and Environmental Affairs). Other departments that are crucial to the success of the Siyenza Manje initiative, such as Transport and Housing, are invited members of the Committee.

Further details on the Board's committee structure and governance system are provided in the corporate governance report on pages 72 to 76 of the DBSA Annual Report.

Corporate Secretary

All Directors have access to the advice and services of the DBSA Corporate Secretary. In terms of the DBSA Act, No. 13 of 1997, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

Board composition and record of attendance, 2008/09

Five Board meetings were held during the year and the attendance of individual members is reflected in the table below.

Number of meetings	5
Prof. Brian Figaji (Chairperson)	5/5
Mr Paul Baloyi	5/5
Dr Iraj Abedian[1]	2/4
Mr Elroy Africa	3/5
Mr Andrew Boraine	3/5
Mr Nick Christodoulou[1]	4/4
Ms Nomboniso Gasa	3/5
Mr JB Magwaza[2]	–
Dr Claudia Manning[3]	1/1
Mrs M Ngqaleni	1/5
Mr Madoda Vilakazi[1]	3/4
Prof. Eddie Webster	3/5
Ms Mampiti Matsabu[4]	–
Mr Simphiwe Mehlomakhulu[4]	–
Mr Ivan Mzimela[4]	–
Dr Sipho Ngubane[4]	–

1. *Retired from the Board on 31 December 2008.*
2. *Resigned from the Board on 9 July 2008.*
3. *Appointed as non-executive Director on 26 February 2009.*
4. *Appointed as non-executive Director on 26 March 2009.*

Risk management

The DBSA Development Fund is a section 21 company of the DBSA. The Fund subscribes to the corporate risk management frameworks and the governance and compliance processes described in the DBSA Annual Report.

In managing its risks, the Development Fund utilises the DBSA's risk management systems, procedures and internal controls. To assist in managing the risks associated with the Siyenza Manje programme, the Fund has implemented a system with built-in controls to ensure effective project management. The Fund is exposed to various types of risk, in addition to those covered in the DBSA Annual Report, and these are discussed below.

Development impact

There is a risk that the Fund's support to municipalities will not have the anticipated development impact. Significant progress has been made in minimising this risk by implementing mitigation controls, such as ongoing strategic reviews, and engaging stakeholders on the implementation of projects.

Institutional risk

The lack of appropriate skills and capacity, both among clients and within the Fund itself, is a key risk. This is being addressed by imparting skills through the joint efforts of the Siyenza Manje staff and the deployment programmes of the South African Institute of Chartered Accountants and the South African Institution of Civil Engineering. This provides for the mentoring of municipal employees, effective and appropriate political lobbying, and the deployment and mentoring of young professionals. In addition to these measures, the Fund will use external service providers to bridge skills gaps, and their activities will be managed and monitored to mitigate the associated risks.

Reputational risk

Failures could harm the image of both the Fund and the DBSA. As a countermeasure, the risk management function of the DBSA oversees the Fund's operations, to ensure that the Fund adheres to best practice and the principles of good governance in all respects.

During the year under review, the risk exposures of the Fund have been identified, assessed and mitigated, and there is no evidence of any significant breakdown in the systems of internal control and management of the Fund's risk exposures.

DBSA

Development Fund

Annual financial statements

Directors' responsibility for financial reporting

for the year ended 31 March 2009

The Directors are responsible for overseeing the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the DBSA Development Fund, its business and its transactions, as well as the financial position of its trade or business presented in this report.

In preparing the financial statements:

- The Companies Act, No. 61 of 1973, as amended, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adhered to.

In order to fulfil this responsibility and to enable the Directors to meet their financial reporting responsibilities:

- Management has 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 Fund's assets.
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been applied on a consistent and going-concern basis.
- The Audit Committee of the Development Bank of Southern Africa and internal and external auditors review the financial and internal control systems, accounting policies, reporting and disclosure.

The Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls, and auditing and financial reporting matters. The external auditors have unrestricted access to the Audit Committee.

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 period under review.

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

The annual financial statements that appear on pages 43 to 57 were approved by the Board of Directors on 9 June 2009 and signed on its behalf by:

Brian Figaji
Chairman of the Board

Paul Cambo Baloyi
Chief Executive Officer

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2009.

The Audit Committee members and attendance are reflected on page 75 in the corporate governance statement of the DBSA Annual Report.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the Public Finance Management Act and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

Section 51(1)(a)(ii) of the Public Finance Management Act states the following:

(a) The accounting authority must ensure that the public entity has and maintains:

- (i) effective, efficient and transparent systems of financial and risk management and internal control;
- (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77, and
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The Audit Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The quality of in-year management and monthly and quarterly reports submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board of Directors and the DBSA Development Fund during the year under review.

Evaluation of financial statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the Annual Report with the independent external auditors and the Accounting Authority
- Reviewed the independent external auditors' management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

DKonar

Deenadayalen Konar
Chairman of the Audit Committee

Independent auditors' report to the Minister of Finance

Report on the financial statements

We have audited the financial statements of the DBSA Development Fund, which comprise the balance sheet at 31 March 2009, and the income statement, the statement of changes in funding reserve and the cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes and the Directors' Report as set out on pages 43 to 59.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (No. 1 of 1999) and the Companies Act of South Africa (No. 61 of 1973). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund at 31 March 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and by the Companies Act of South Africa.

Gobodo Inc.
Registered Auditor

Per L Govender
Chartered Accountant (SA)
Registered Auditor
Director
09 June 2009

1st Floor, Block B Empire Park
55 Empire Road
Parktown
Johannesburg

Directors' report
for the year ended 31 March 2009

The Directors have pleasure in presenting their report, which forms part of the annual financial statements of the DBSA Development Fund for the year ended 31 March 2009.

The Directors of the Fund subscribe to the principles of good corporate governance. With the exception of its Board, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. Further details on the Fund's corporate governance structures and practices are provided on page 39 of this Annual Report.

The functions of the Fund and nature of the business

The DBSA Development Fund was registered on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance by mobilising and deploying technical resources and providing grant funding to address institutional, human and financial constraints to rural and urban development, thereby promoting efficient and effective service delivery and local economic development. The Fund provides the following products and services:

- Mobilisation and deployment of municipal expertise
- Grant funding for targeted capacity building
- Development facilitation
- Development of sustainable communities
- Stimulation of local and regional economies through catalytic projects

Mobilisation and deployment of municipal expertise

The approach of the DBSA Development Fund is centred on providing hands-on support, primarily to municipalities, but also to selected service delivery departments. The Fund's flagship intervention is the Siyenza Manje programme, which assists municipalities with implementing infrastructure projects as part of the national drive to accelerate the delivery of basic services to communities. At the heart of the initiative is the deployment of skilled expertise to municipalities, particularly in the areas of engineering and technical services, as well as project and financial/ treasury management. These experts are paired with financial, management and technical officials within the municipalities to ensure the transfer of skills for planning and implementing infrastructure projects. To ensure sustainability, young graduates are assigned to these experts to be mentored and coached with the objective of retaining them within the municipalities. The Siyenza Manje programme intends leaving a legacy not only of completed projects but also of capable officials within the technical and treasury departments of targeted municipalities, to operate and maintain the assets once the deployment programme has been completed. The Development Fund however realises that the technical experts alone cannot turn around municipalities without the simultaneous establishment of supporting policies, proper financial management practices and town planning practices. For this reason, the Fund has also expanded the teams of experts to cover these areas of need in municipalities. During 2009/10, the programme will pilot the institutional turnaround module to address governance, leadership and administrative challenges in low-capacity municipalities.

Grant funding for targeted capacity building

Before implementation of the Siyenza Manje programme, the Fund had a key role in channelling technical assistance grant funding to municipalities, backed by a recapitalisation grant from the DBSA. This role has been scaled down to focus on Siyenza Manje. However, the Fund is still giving priority support to interventions that will ensure the long-run sustainability of the Siyenza Manje programme, Sustainable Communities and LEDi programmes, such as service delivery improvement and critical municipal management systems for operations and maintenance, in addition to facilitating community-based sustainable development plans and community Development Charters. The Fund still supports needy municipalities that are not necessarily covered by its programmes.

Development facilitation

In close collaboration with the DBSA and other stakeholders, the DBSA Development Fund continues to provide municipalities and service delivery organisations with capacity building, development knowledge, technical support and expertise.

Development of sustainable communities

During the year, the programme channelled resources directly to communities, with the aim of empowering and capacitating them to engage in equal partnerships with all spheres of government, civil society structures and business, to formulate their own development agenda and access the resources needed to ensure its implementation. As such the Development Fund facilitated pilot sites to develop Social Compacts and Development Charters. The consequence was the inclusion of the development priorities of the local communities in the integrated development plans of local municipalities. Ultimately, the Fund aims to stimulate local economies through catalytic projects that form the basis of the LEDi, an initiative which will gather momentum as its projects commence.

High-level performance overview

The Fund operates on a three-year business cycle for corporate strategy and business planning. It uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2008/09 were set in terms of high-level targets from the different divisions of the Fund. The Board approved the 2008/09 objectives on 13 February 2008, and the BSC was used as the basis for the performance management of all of its staff. While these were high-level objectives, each division had its own BSC, which determined its share of the composite objectives. Management of the divisions was therefore measured against these objectives.

The Fund facilitated MIG expenditure of R4,8 billion, exceeding the annual target by 26%, and completed implementation of 769 infrastructure projects.

The Directors are pleased that the Development Fund achieved most of its strategic objectives for 2008/09. The Fund has now completed the third year of implementation of Siyenza Manje and will consolidate its deployment initiative in the year ahead. It has also increased its overall capacity building support during the year. In addition, Sustainable Communities have now delivered two sites that have moved to implementation. These are the Keiskammahoek and Grabouw sites, which have been delivered through the development of the Social Compact and community-based development plans. The process culminated in the development priorities of the communities being incorporated into the integrated development plans of their respective municipalities.

The table below summarises the Fund's performance against its high-level strategic objectives and targets for the year ended 31 March 2009.

The DBSA Development Fund's high-level performance in 2008/09

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity	Provide assistance for clients' social and economic infrastructure projects	Total rand value of grants disbursed	R180 million	R117 million
		MIG and other infrastructure grants expenditure	R3,8 billion	R4,8 billion
		Funds crowded in/ leveraged	R500 million	R597 million
		Milestones achieved - urban sites	23% of project milestones to be completed	58% of project milestones completed
		Milestones achieved - rural sites	21% of project milestones to be completed	52% of project milestones completed
		External learners trained by Vulindlela	3 300	5 259
		Number of people trained on the job - (finance and technical)	475	1 762
		% conversion of contractual commitments to disbursements during the financial year	58%	75%

Financial report

The DBSA established the Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided the Fund with a total of R752 million for its capacity building and development initiatives. The Bank is committed to capitalising the Fund periodically for continued operations. It is also committed to providing continued management support for the Fund's financial, accounting and governance systems.

The financial results of the Fund are fully disclosed on pages 43 to 59. The financial highlights for the year under review are:

- Of the R117 million* total grants disbursed during the year, R91 million was for capacity building initiatives (2007/08: R59,8 million).
- The costs of the Siyenza Manje programme grew substantially from R121,3 million to R313,3 million as a result of the increased deployment of experts and young professionals in municipalities.
- Other operating expenditure grew to R19,5 million (2007/08: R6,6 million) with the balance of the costs reflected as part of the Siyenza Manje programme.
- Development Fund grants of R16 million are reflected in the DBSA Annual Report.

**R16 million was disclosed in the DBSA financial results.*

Directorate

Details pertaining to the Board members appear on pages 6 to 9.

Details of the Directors' service contracts are as follows:

Name	Position	From
Prof. B Figaji	Non-executive Director	24 November 2005
	Chairperson	21 February 2006
Mr P Baloyi	Chief Executive Officer and Managing Director	1 July 2006
Mr E Africa	Non-executive Director	14 February 2008
Mr A Boraine	Non-executive Director	24 November 2005
Ms N Gasa	Non-executive Director	1 August 2003
Dr C Manning	Non-executive Director	26 February 2009
Ms M Matsabu	Non-executive Director	26 March 2009
Mr S Mehlomakhulu	Non-executive Director	26 March 2009
Mr I Mzimela	Non-executive Director	26 March 2009
Mrs M Ngqaleni	Non-executive Director	15 November 2007
Dr S Ngubane	Non-executive Director	26 March 2009
Prof. E Webster	Non-executive Director	1 August 2007

The details of the Directors' emoluments are set out in note 8 of the financial statements.

Business and registered address

The Fund's business and registered address details appear on page 60.

Events subsequent to balance sheet date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in the annual financial statements, which will have a significant effect on the operations of the Fund, the results of the operations or the financial position of the Fund.

Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Fund sustained material losses.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Fund sustained material losses.

III. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business, none of which was material.
IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Fund: no such financial assistance was received. The DBSA and National Treasury provided financial support to Siyenza Manje, and both have committed to providing funding for the duration of the programme. The National Treasury provided R219,3 million during the year under review and will provide a total of R846,7 million for the period 2011–12.

Funding mobilisation

The DBSA Development Fund aims to maximise the impact of its development resources and therefore leverages contributions by clients and third parties as far as possible. During the year, a leverage ratio of 52% was achieved. This demonstrates an aggressive implementation of the funding policy by the Fund and the willingness of clients to contribute to their own capacity building. The National Treasury provided funding support for Siyenza Manje worth R219 million during the year and will provide a total of R749 million over the three-year cycle ending 31 March 2010. Further commitment to funding has been secured from the National Treasury for the duration of the programme. The Sustainable Communities programme mobilised R597 million for community development programmes through the Neighbourhood Partnership Development Grant (NPDG) and the Breaking New Ground (BNG) initiative. Likewise, the DBSA Vulindlela Academy leveraged a total of R6 million from the Local Government Sector Education and Training Authority (LGSETA), Japan International Cooperation Agency (JICA) and the Agence Française de Développement (AFD).

Strategic partnerships

Strategic partnerships are an important element of the long-term sustainability of the Fund's initiatives and contribute to the leveraging of funding and expertise. Partnerships at strategic and project levels include the establishment of a Deployment Multi-Party Stakeholder Committee/Forum. In addition, representatives from the Department of Water Affairs and Environmental Affairs, Department of Cooperative Governance and Traditional Affairs, South African Local Government Association, National Treasury and selected local government practitioners provide guidance on the implementation of Siyenza Manje through the Siyenza Manje National Working Committee. The DBSA Vulindlela Academy has made significant progress with the Pan African Capacity Building Programme (PACBP) in terms of establishing the virtual academy envisaged in the memorandum of understanding signed with the AFD in April 2008. Provincial governments have also provided guidance with respect to priority municipalities within their jurisdiction and this has facilitated a smoother and quicker deployment process.

The February 2009 Board meeting guided the Siyenza Manje management to leverage partnerships in the rollout of the Artisan Programme to the rest of the provinces, following the successful pilot in the North West. The LGSETA, Construction SETA, and Metals SETA have since approached the Siyenza Manje programme to partner in the rollout. Discussions with positive feedback have been held with Group 5, Grinaker-LTA and Murray & Roberts. Group 5 and Murray & Roberts have committed to providing funding and resources to support the Artisan Programme.

Client service excellence

In support of the objective of improving client service and the effectiveness of municipal service delivery, the Fund deployed technical professionals to key national and provincial government departments to remove blockages, accelerate the approval process for municipal infrastructure grants, and improve the overall service delivery chain for local government. The impact of this deployment effort was acceleration of approval of technical reports by Department of Water and Environmental Affairs regional offices which has shortened the approval process of MIG-funded water and sanitation projects.

Siyenza Manje observed that most municipalities were not adequately operating and maintaining the existing and new infrastructure delivered through the government's various municipal infrastructure programmes. The unintended consequence of the construction of new infrastructure without addressing maintenance needs was that the operations and maintenance backlogs in low-capacity municipalities increased. The Fund Board has approved a proposal by management for an expansion of the grant funding mandate to include grant support for operations and maintenance in poor municipalities. Following this approval, project prioritisation for targeted municipalities has been undertaken.

Efficient and effective operating systems

The DBSA and the Fund revised the management agreement on the services to be rendered by the Bank's operational and support units; the revised agreement has been implemented successfully.

The Fund maintained the project portfolio office and system approved during the last financial year. Management continued to fine-tune the system to improve the integrity and completeness of data during the year under review, and this saw data quality improving to an average of 90%. The result has been better management information and more informed decision making, reducing the turnaround time for development solutions.

Siyenza Manje assembled a team of experts in municipal management to develop a tool for assessing the level of need for support in each municipality targeted for deployment. The tool was developed in consultation with other operations and enabling divisions of the Bank. The tool has been refined, taking into account the inputs provided, and is currently being applied to guide the deployment process, through determining capacity and resource gaps, in addition to baseline information required by the different divisions of the Bank.

Environmental report

The DBSA Development Fund pays particular attention to the environmental impact of its operations. Although it does not set separate objectives for environmental impact, the Fund's appraisal framework includes a module on the environmental impact of all the projects supported by the Fund. In addition, Siyenza Manje deployees assist in ensuring that municipalities adhere to environmental management legislation in the service delivery objectives. They also transfer skills to officials to enable the latter to plan and implement infrastructure projects in an environmentally responsible manner.

Social report

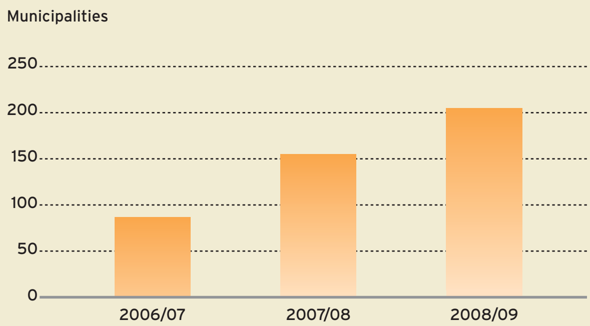
Capacity building support

The DBSA Development Fund's capacity building support to municipalities aims to sustain the thrust of the government's Project Consolidate and the five-year local government strategic agenda. Project Consolidate identified 136 local municipalities that require priority hands-on support to accelerate service delivery and overcome poverty. In support of the objectives of Project Consolidate, the Fund set a target of assisting 160 municipalities in the year under review, but it significantly exceeded this target by reaching 172, using a shared services model to increase the programme's coverage. An amount of R97,6 million from the grant funding system was committed, most of which was allocated to poorly resourced municipalities.

The Fund made disbursements of R117 million towards development grants. The Directors are pleased with the significant success in the capacity building portfolio of the Fund.

The Artisan Programme has been successfully piloted in ten municipalities in the North West province. The intervention was a partnership between the DBSA Development Fund and the North West Department of Developmental Local Government and Housing. The main aim of the programme was to explore ways of addressing the operations and maintenance challenges in low-capacity municipalities. An assessment of the pilot programmes performance in the first nine months was finalised. The report highlighted lessons learnt and spelt out implications for the rollout to other provinces.

The process of structuring the Young Professionals programme has been finalised. The identification and appointment of coaches and mentors for the young professionals has also been completed. The programme is now formally in the implementation stage. The first 15 graduates through recognition of prior learning are expected to be registered with professional bodies by 31 March 2010. Ten will be registered with the Engineering Council of South Africa (ECSA) and one with the South African Council for Planners (SACPLAN), while the remaining four will receive certificates in municipal finance.



Number of municipalities supported, 2006/07 to 2008/09

Innovation

Among the Fund's main goals in the context of its BSC is the development of market-relevant new products and services. The Fund is constantly seeking innovative programmes to address the significant capacity needs and challenges of poor municipalities. During the year under review, the Fund together with the North West Department of Developmental Local Government and Housing piloted the implementation plan of the North

West Artisan Programme. A total of 47 artisans were deployed to poorly resourced municipalities to undertake urgent operations and maintenance interventions. The Board approved the rollout of the programme to other municipalities and the Fund will develop an implementation plan in the new year. The plan will be accompanied by selection criteria that will provide guidelines for selecting deserving municipalities.

Human resources and employment equity

The personnel of the Fund are its main asset and the Fund is committed to ensuring the wellbeing of its employees. In terms of the management agreement with the DBSA, full-time employees of the Fund have access to the Bank's Employee Assistance Programme. The Fund also operates within the employment equity framework set by the Bank. The Fund's full-time staff complement comprises 77% previously disadvantaged individuals and 57% women. The deployment staff complement comprises 80% previously disadvantaged individuals and 28% women.

	Black	Coloured	Asian	White	Total	% gender
Permanent staff						
Male	19	0	2	7	28	43
Female	28	1	0	8	37	57
Total	47	1	2	15	65	
Percentage (% race)	72	2	3	23	100	
Deployment staff[1]						
Male	185	14	5	71	275	72
Female	95	6	2	5	108	28
Total	280	20	7	76	383	
Percentage (% race)	73	5	2	20	100	

1. Deployment staff complement includes contract programme managers, young professionals and artisans.

Balance sheet
at 31 March 2009

in rands	Notes	2009	2008
Assets			
Current assets			
Accounts receivable	1	**12 713 091**	102 041 128
Cash and cash equivalents	2	**113 349 845**	101 528 331
Total assets		**126 062 936**	203 569 459
Funds and liabilities			
Funds			
Funding reserve		**10 132 320**	104 289 558
Current liabilities			
Accounts payable	3	**43 321 650**	10 532 927
Deferred income	4	**72 608 966**	88 746 974
Total funds and liabilities		**126 062 936**	203 569 459

Income statement

for the year ended 31 March 2009

in rands	Notes	2009	2008
Gross funding			
National Treasury contribution recognised	4 & 7	**219 293 843**	84 926 208
Development Bank of Southern Africa funding		**120 000 000**	–
		339 293 843	84 926 208
Other income			
Interest received	5	**320 005**	147 492
Operating expenses and grants			
General and administration expenses	6.1	**(172 663 207)**	(43 172 193)
Grants	6.2	**(101 049 195)**	(59 845 826)
Personnel expenses	6.3	**(160 058 684)**	(87 704 516)
		(433 771 086)	(190 722 535)
Deficit for the year		**(94 157 238)**	(105 648 835)
Transfer from funding reserve		**94 157 238**	105 648 835
		–	–

Statement of changes in funding reserve

for the year ended 31 March 2009

in rands	
Balance at 1 April 2007	**209 938 393**
Transfer from funding reserve	(105 648 835)
Balance at 1 April 2008	**104 289 558**
Transfer from funding reserve	(94 157 238)
Balance at 31 March 2009	**10 132 320**

Cash flow statement

for the year ended 31 March 2009

in rands	Notes	2009	2008
Cash flows from operating activities			
Cash receipts		**401 207 119**	281 673 902
Cash payments		**(400 982 363)**	(184 845 146)
Cash generated from operations	9	**224 756**	96 828 756
Interest income		**320 005**	147 492
Interest received included in deferred income		**11 276 753**	4 782 932
Net cash from operating activities		**11 821 514**	101 759 180
Cash and cash equivalents movement for the year		**11 821 514**	101 759 180
Cash and cash equivalents at the beginning of the year		**101 528 331**	(230 849)
Cash and cash equivalents at the end of the year	2	**113 349 845**	101 528 331

Accounting policies

for the year ended 31 March 2009

1. Presentation of annual financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa, 1973. The financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

2. Basis of preparation

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Financial instruments

Classification

Management determines the appropriate classification of financial assets on initial recognition.

Accounts receivable

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounts payable

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

A provision is recognised in the balance sheet when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligations.

4. Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to expenses. Grants received from National Treasury are recognised to the extent that they have been expended on Siyenza Manje, any unexpended funds received are recognised as deferred income in the balance sheet.

5. Grants disbursed

Grants disbursed consist of amounts disbursed to beneficiaries, including facilitation costs incurred by the DBSA Development Fund. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

6. Development facilitation costs

Costs incurred in respect of projects under investigation and projects that have been approved but not implemented are charged to development facilitation costs.

in rands	2009	2008
1. Accounts receivable		
Development Bank of Southern Africa Limited	**5 366 228**	95 946 578
Interest receivable – current account	**28 248**	6 315
Interest receivable – Siyenza Manje deferred income	**994 228**	971 437
Prepayments	**–**	2 673 850
South African Revenue Services (VAT)	**5 558 264**	1 832 655
Staff advance	**766 123**	610 293
	12 713 091	102 041 128
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	**10 226 602**	–
Call account	**103 123 243**	101 528 331
	113 349 845	101 528 331
3. Accounts payable		
Bonus provision	**12 485 678**	2 663 067
Development Bank of Southern Africa Limited	**11 890 898**	3 832 474
Leave pay provision	**7 532 464**	4 013 670
Trade payables	**11 412 610**	23 716
	43 321 650	10 532 927
4. Deferred income		
National Treasury		
Opening balance	**88 746 974**	–
Funds received from National Treasury	**190 504 082**	168 890 250
Plus: interest on bank call account	**10 882 862**	4 782 932
Less: National Treasury portion recognised	**(219 293 843)**	(84 926 208)
	70 840 075	88 746 974
On 1 April 2009, the Development Fund received R56 million from National Treasury, being the fourth tranche of the 2008/09 contribution. This amount was not included in the deferred income.		
Industrial Development Corporation		
Funds received from the Industrial Development Corporation	**10 000 000**	–
Plus: interest on bank call account	**393 891**	–
Less: Industrial Development Corporation portion of costs	**(8 625 000)**	–
	1 768 891	–
Total	**72 608 966**	88 746 974

in rands		2009	2008
5. Other income			
Interest received			
Bank		**320 005**	147 492
6. Operating expenses and grants			
6.1 General and administration expenses			
Administration costs		**9 405 905**	1 357 601
Audit fees		**169 501**	268 255
Communication costs		**5 066 665**	1 447 718
Consulting fees		**86 001 353**	18 101 813
Management fees		**14 547 959**	5 793 182
Subsistence and travel		**39 667 312**	14 848 502
Training		**17 804 512**	1 355 122
		172 663 207	43 172 193
6.2 Grants			
Capacity building grants disbursed		**91 174 195**	59 845 826
Grants to victims of violence		**9 875 000**	–
		101 049 195	59 845 826
6.3 Personnel expenses			
Remuneration – non-executive Directors' emoluments	8	**543 620**	462 780
Remuneration – staff and deployees		**159 515 064**	87 241 736
		160 058 684	87 704 516
7. Siyenza Manje costs included in the operating expenses above are as follows:			
Administration costs		**8 073 048**	1 029 275
Audit fees		**135 601**	214 604
Communication costs		**5 007 894**	1 276 910
Consulting fees		**85 887 741**	17 902 996
Remuneration		**157 531 880**	85 735 810
Subsistence and travel		**39 065 720**	13 981 439
Training		**17 575 034**	1 182 120
		313 276 918	121 323 154
Siyenza Manje costs are shared as follows:			
Development Bank of Southern Africa		**93 983 075**	36 396 946
National Treasury		**219 293 843**	84 926 208
		313 276 918	121 323 154

8. Directors' emoluments

Non-executive

2009	Salaries/fees	Subsistence and travel	Attendance fees	Total
Prof. BD Figaji	240 000	–	45 000	285 000
Dr I Abedian[1]	–	–	22 500	22 500
Mr E Africa[2]	–	–	–	–
Mr A Boraine	–	–	22 500	22 500
Mr N Christodoulou[1]	–	–	37 500	37 500
Ms N Gasa	–	490	30 000	30 490
Mr JB Magwaza[3]	–	–	–	–
Ms M Matsabu[4]	–	–	–	–
Dr C Manning[5]	–	210	7 500	7 710
Mr S Mehlomakhulu[4]	–	–	–	–
Mr I Mzimela[4]	–	–	–	–
Ms M Ngqaleni[6]	–	–	–	–
Dr S Ngubane[4]	–	–	–	–
Mr M Vilakazi[1]	70 000	–	37 500	107 500
Prof. EC Webster	–	420	30 000	30 420
	310 000	**1 120**	**232 500**	**543 620**
Made up as follows:				
– Siyenza Manje	248 000	896	186 000	434 896
– Capacity building	62 000	224	46 500	108 724

1. Tenure ended on 31 December 2008.
2. Representative of DPLG, does not receive emoluments.
3. Resigned from the Board on 9 July 2008.
4. Appointed as non-executive Director on 26 March 2009.
5. Appointed as non-executive Director on 26 February 2009.
6. Representative of National Treasury, does not receive emoluments.

2008	Salaries/fees	Subsistence and travel	Attendance fees	Total
Prof. BD Figaji	240 000	–	37 500	277 500
Dr I Abedian	–	180	37 500	37 680
Mr A Boraine	–	–	7 500	7 500
Mr N Christodoulou	–	19 710	37 500	57 210
Ms N Gasa	–	210	22 500	22 710
Mr JB Magwaza	–	–	7 500	7 500
Mr M Vilakazi	–	–	37 500	37 500
Prof. EC Webster	–	180	15 000	15 180
	240 000	**20 280**	**202 500**	**462 780**
Made up as follows:				
– Siyenza Manje	192 000	16 224	162 000	370 224
– Capacity building	48 000	4 056	40 500	92 556

Other executive Directors

Mr P Baloyi (CEO) was the only executive Director.
Executive Directors do not receive Directors' emoluments.
The total cost of executive management has been borne by the Bank.

in rands	2009	2008
9. Cash generated from operations		
Deficit for the year	**(94 157 238)**	(105 648 835)
Adjustments for:		
Interest received	**(320 005)**	(147 492)
Interest received included in deferred income	**(11 276 753)**	(4 782 932)
Changes in working capital:		
Accounts receivable	**89 328 037**	112 783 652
Accounts payable	**32 788 723**	5 877 389
Deferred income	**(16 138 008)**	88 746 974
	224 756	96 828 756
10. Approvals and commitments		
Grant approvals for the period	**61 833 000**	49 300 000
Total outstanding grant commitments at the end of the period	**97 592 000**	102 300 000
Contractual commitments entered into with the Siyenza Manje programme		
Due in one year	**112 792 000**	157 000 000
Thereafter	**57 813 000**	145 000 000
	170 605 000	302 000 000

11. Taxation

The DBSA Development Fund is exempt from income tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.

12. Related parties

12.1 Related party transactions

in rands	2009	2008
Management fees paid to:		
Development Bank of Southern Africa	**14 547 959**	5 793 182
Grant received from:		
Development Bank of Southern Africa	**120 000 000**	–

12.2 Related party balances

in rands	2009	2008
Amounts included in accounts receivable regarding related parties		
Development Bank of Southern Africa	**5 366 228**	95 946 578
Amounts included in accounts payable regarding related parties		
Development Bank of Southern Africa	**11 890 898**	3 832 474

The DBSA has undertaken to underwrite the commitments of the Development Fund to the extent that is not covered by external funders.

13. Retirement benefits and post-retirement medical benefits

The liabilities for employees who are currently employed by the Bank and contracted to the DBSA Development Fund are fully disclosed in the financial statements of the Bank. The staff employed on the Siyenza Manje programme are contracted to the Fund on an annual basis, and therefore no liability exists for retirement benefits and post-retirement medical benefits.

14. Risk management

The DBSA Development Fund is a section 21 company and subscribes to the corporate risk management frameworks and governance and compliance processes described in the DBSA Annual Report.

In managing its risks, the DBSA Development Fund utilises the DBSA's risk management systems, procedures and internal controls. Dedicated risk management capability has been assigned to the Fund in preparation for the growth and scope challenges that the Fund is facing. To assist in managing the risks associated with the Siyenza Manje programme, the Fund has implemented a system with built-in controls to ensure effective project management and reporting. The Fund is exposed to various types of risk in addition to those covered in the DBSA Annual Report, and these are discussed below.

Development impact

There is a risk that the Fund's support to municipalities will not have the anticipated development impact. Significant progress has been made in minimising this risk by implementing mitigation controls, such as ongoing strategic reviews, and engaging stakeholders on the implementation of projects.

Institutional risk

The lack of appropriate skills and capacity, both among clients and within the Fund itself, is a fundamental ongoing business risk. This is being addressed by imparting skills through the joint efforts of the Siyenza Manje staff and the deployment programmes of the South African Institution of Civil Engineering and the South African Institute of Chartered Accountants. This provides for the mentoring of municipal employees, effective and appropriate political lobbying, and the deployment and mentoring of young professionals. In addition to these measures, the Fund uses the Vulindlela Academy and external service providers to bridge skills gaps, and their activities are managed and monitored to mitigate the associated risks. The area of ongoing maintenance has been identified as a critical risk point in the municipalities and the Fund has initiated a pilot plan to deploy artisan skills appropriately to manage this risk, on much the same basis as the Siyenza Manje programme.

Reputational risk

Failures will harm the image of both the Fund and the DBSA. As a countermeasure, the risk management function of the DBSA also oversees the Fund's operations, to ensure that the Fund adheres to best practice and the principles of good governance in all respects.

During the year under review, the risk exposures of the Fund and mitigation controls were identified and assessed, and there is no evidence of any significant breakdown in the systems of internal control and management of the Fund's risk exposures.

Financial risk

The financial and market risk aspects of the financial sustainability of the Fund are mitigated and managed by the same risk management frameworks as the DBSA. The Fund is dependent on the DBSA and National Treasury for ongoing support of its mandate. The Fund is pursuing other potential sources of funding to broaden its funding base.

DBSA

Development Fund

Company registration number	2001/030153/08
Registered office	Headway Hill 1258 Lever Road Midrand South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Telephone	+27 11 313 3911
Fax	+27 11 313 3993
Home page	www.dbsadevfund.org

Layout and reproduction: Colour Curve, Johannesburg, South Africa
Printing: Hot Dot Print, Johannesburg, South Africa

This annual report is printed with vegetable oil-based inks on SAPPI's Magno Satin paper. Only wood from sustainable forests is used. Manufactured from TCF pulp (Totally Chlorine Free). Acid Free. Recyclable.