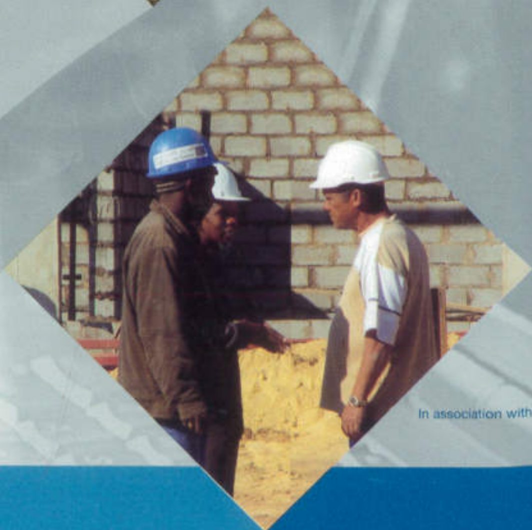
DBSA

DEVELOPMENT FUND

Annual Report 2003



Building capacity for sustainable development

In association with DBSA

Vision

To be a leading catalyst in municipal capacity building in order to maximise the impact of development finance in South Africa.

Mission

To capacitate municipalities and communities for effective service delivery and economic development in order to improve the quality of life of the people of South Africa.

Development Fund products and services

The Fund will achieve its mission by delivering the following products and services:

- *Funds:* Capacity building funding through financial instruments such as grants, development credits and other instruments
- *Expertise:* Mobilisation of consulting and advisory services
- *Development facilitation:* Ongoing technical support and sharing of knowledge

Principles of product and service delivery

The Development Fund will pursue the following guiding principles in the implementation of its strategy:

- *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 that programmes or projects supported improve the quality of life of communities
- *Sustainability* – to ensure that programmes or projects supported have a positive effect on institutions, the environment and the economy, and that they benefit future generations
- *Empowerment* – to ensure that programmes or projects supported bring communities into the mainstream economy, and that skills are transferred to recipients and beneficiaries

Guiding values

The Fund has embraced the same values that guide the Development Bank of Southern Africa:

- *Openness:* Maintaining transparency
- *Communication:* Achieving a common understanding
- *Collaboration:* Acting in support of mutual goals
- *Service excellence:* Exceeding customer expectations

Contents

Abbreviations

CHF	Swiss franc
DBSA	Development Bank of Southern Africa Limited
€	Euro
GDP	Gross domestic product
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
NEPAD	New Partnership for Africa's Development
R	South African rand
SADC	Southern African Development Community
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 2002/03, are to the financial year ended 31 March.

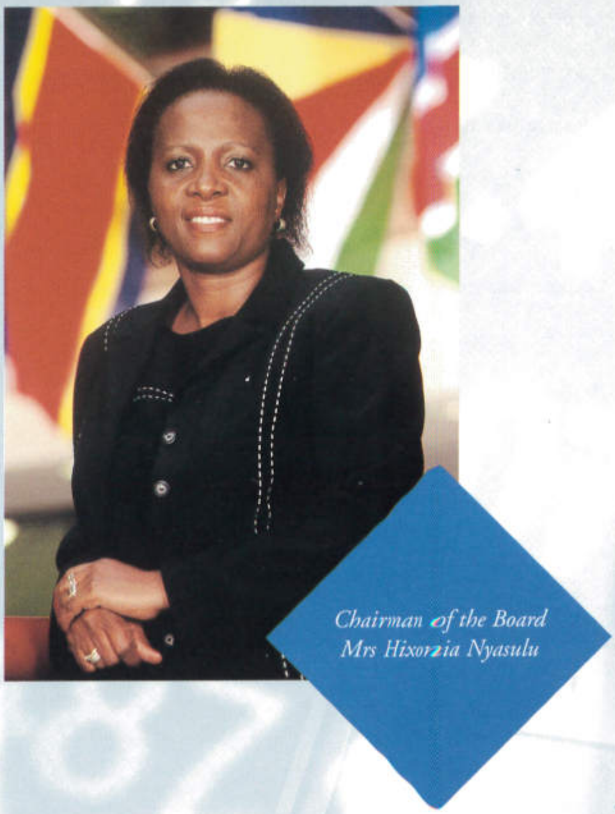
Reporting period

This report covers the period from the inception of the Fund in December 2001 to 31 March 2003.

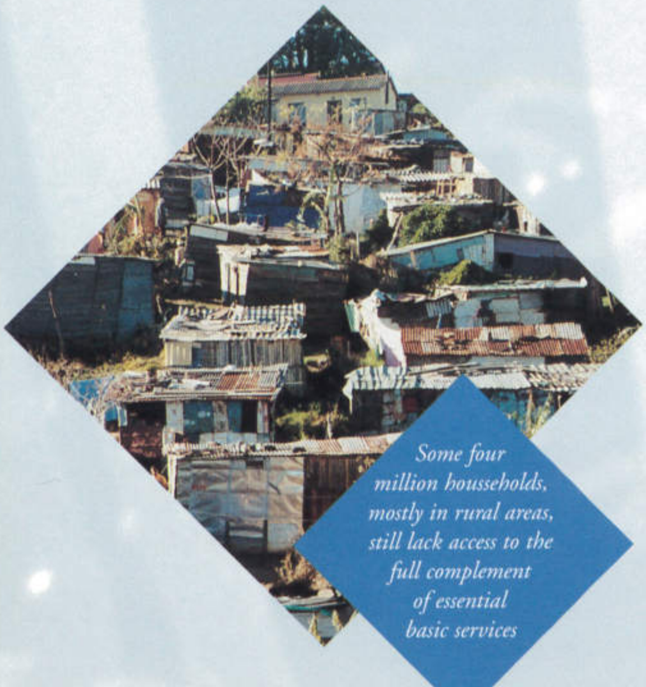
ISSN 1728-3205

The 2002/03 reporting period was a watershed for the DBSA Development Fund. It was the first full operating year since the Fund's inception in December 2001. I am pleased to report that the establishment phase is complete and the Fund is now fully operational, with governance, management and operational systems in place. The Development Fund's operating environment during the reporting period was characterised by stability and recovery on the macro level. Economic growth in South Africa proved resilient despite global recession, as growth in GDP edged up to 3 per cent, and job creation efforts saw positive gains for the first time in six years. There was also growth in investment, the recovery of the rand and downward inflation towards the end of the period.

Nevertheless, levels of unemployment and poverty in South Africa remain unacceptably high. Although major efforts have been made in recent years, some four million households, mostly in rural areas, still lack access to the full complement of essential basic services. This huge backlog continues to cast a shadow over the transformation process of our young democracy. It also challenges development agencies such as the Development Fund and the Development Bank of Southern Africa, along with their partners, to accelerate the pace of development.



Chairman of the Board Mrs Hixonia Nyasulu



Some four million housseholds, mostly in rural areas, still lack access to the full complement of essential basic services

Government, especially in the local sphere, remains at the forefront of this struggle for socio-economic transformation. Although there have already been important policy, legislative and programmatic achievements in establishing a coherent system and process of developmental governance, a great deal remains to be done at local level.

The stabilisation phase of the local government transformation that began in 2000 has proven to be more time-consuming and involved than expected. Several municipalities have not completed their amalgamation processes. Significant challenges have emerged during the attempt to restructure institutions and implement intra-governmental decisions regarding the division of municipal powers and functions. At the same time, many municipalities, especially in poor, rural areas, continue to face major capacity constraints as they try to establish and operationalise new structures and systems for the planning, programming and managing of finance, projects, human resources and performance.

The capacity constraints on local governments are multidimensional – being institutional, human, and to some extent financial – and are of central concern to the Development Fund and its principal stakeholder, the Development Bank of Southern Africa, which has provided capital of R230 million to date, with an equal amount to be allocated in 2003/04, for the express purpose of addressing these constraints. The mandate of the Fund is to maximise the impact of development finance by addressing human, institutional and financial capacity constraints on rural and urban development. It aims to support local processes of capacity development by providing assistance and mobilising resources of finance and knowledge.

As part of the effort to counter development failure, the Development Fund is working to strengthen the capacity to identify, implement and manage development initiatives at various levels, particularly those of third-tier government and the community. The Fund offers a mix of products, namely, financial grants for capacity building, development facilitation and development credits, primarily to local government institutions. These products are also provided to other institutions that are able to contribute meaningfully to local development processes, such as utilities, community-based organisations and non-governmental organisations.

The Development Fund and the Development Bank of Southern Africa are not the only institutions to have put capacity building at the top of the agenda. The issue is also of prime concern to local government and civil society institutions, provincial and national departments, as well as stakeholders in the private sector, donors, service delivery organisations and other development partners. For this reason, the Fund does not work in isolation but rather in close partnership with local institutions, as well as provincial, national and international agencies. The Fund is closely attuned to the different contributions that can be made by other funders and role players, and gears its products and services to complementing, leveraging and intensifying other capacity building investments from the public and private sectors, and civil society.

The Development Fund is a young institution, rapidly developing experience and building its knowledge resources, together with the Development Bank of Southern Africa, on the complex and evolving processes of local development in South Africa. We believe in synergies, in multi-stakeholder approaches, and in working in smart partnerships. We will join forces with others, extend our outreach, and strive to realise collectively the visions of developmental local government and sustainable development.

The rapid results achieved by the Development Fund during the reporting period would not have been possible without the dedication and effort of our staff and management, as well as the tireless support of the Development Bank of Southern Africa. I would also like to thank my fellow Board members for their unfailing commitment to governing the Fund in this crucial initial phase. Their experienced guidance has been indispensable.

We look forward to reaching out to more municipalities and their communities in the coming years, and to building more strategic and practical partnerships, so that we can accelerate the pace of delivery and leverage our investments in sustainable local capacities.

Mrs Hixonia Nyasulu

Name and designation: **Dr Iraj Abedian** (47)
Group Economist: Standard Bank Group

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

DBSA Development Fund Director as from: 20 November 2001

Attendance at Board meetings: 0/3

Name and designation: **Mr Nick Christodoulou** (55)
Chief Executive: Business Development, Sanlam

Academic qualifications:
MBA, University of Pretoria (1976)
BSc Engineering (Industrial), University of Pretoria (1973)

DBSA Development Fund Director as from: 22 August 2002

Attendance at Board meetings: 1/1

Name and designation: **Mr Mandla Sizwe Vulindlela Gantsho** (41)
Chief Executive Officer and Managing Director: DBSA

Academic qualifications:
MSc (Project Management), George Washington University (2002)
CA (SA) (1987)
BCom Hons (Financial Management), University of Cape Town (1986)
BCom (Accountancy), University of Transkei (1983)

DBSA Development Fund Director as from: 20 November 2001

Attendance at Board meetings: 3/3

Name and designation: **Ms Debrah Marsden** (38)
General Manager: Corporate Affairs, Old Mutual

Academic qualifications:
BBus Sc Hons (Economics), University of Cape Town (1998)
ATCL, Trinity College of Music and Drama, London (1985)

DBSA Development Fund Director as from: 22 August 2002

Attendance at Board meetings: 1/1

Name and designation: **Mr Jayaseelan Naidoo** (49)
Director: J&J Group

DBSA Development Fund Director as from: 20 November 2001

Attendance at Board meetings: 2/3

Name and designation: **Mrs Hixonia Nyasulu** (48)
Director: TH Nyasulu and Associates

Academic qualifications: International Programme for Board Members, IMD, Lausanne, Switzerland (1997)
Executive Leadership Programme, Cambridge, Massachusetts (1995)
BA Hons (Psychology), University of Zululand (1978)
BA (Social Work), University of Zululand (1976)

DBSA Development Fund Director as from: 20 November 2001

Attendance at Board meetings: 2/3

Name and designation: **Mr Madoda Vilakazi** (39)
Deputy Chief Executive Officer: Academy of Learning Development Agency

Academic qualifications: MBA, University of the Witwatersrand (2000)
Management Advancement Programme, University of the Witwatersrand (1997)
Industrial Relations Diploma, Damelin Institute (1994)
Certificate in Arbitration, Mediation and Conflict Resolution, IMMSA (1993)

DBSA Development Fund Director as from: 20 November 2001

Attendance at Board meetings: 3/3

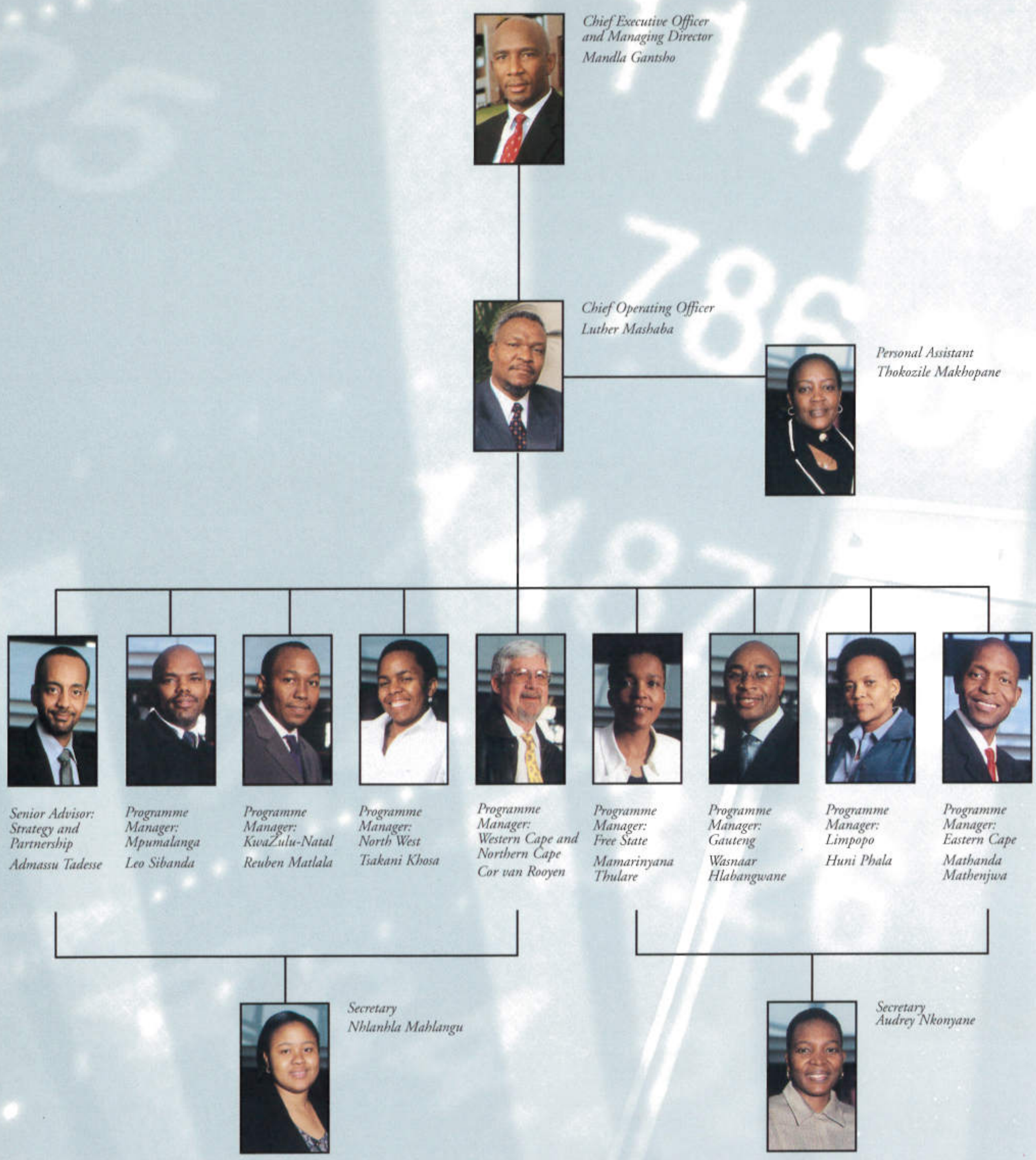
Chief Operating Officer

Name and designation: **Mr Magare Luther Mashaba** (51)
Chief Operating Officer: Development Fund

Academic qualifications: MSc (Ag. Econ), Michigan State University (1993)
BSc Hons (Ag. Econ), University of Pretoria (1986)
BSc (Ag. Econ), University of Fort Hare (1981)

DBSA staff member as from: 14 January 1985

Executive Manager as from: 1 September 2001


Chief Executive Officer and Managing Director
Mandla Gantsho
Chief Operating Officer
Luther Mashaba
Personal Assistant
Thokozile Makhopane
Senior Advisor: Strategy and Partnership
Admassu Tadesse
Programme Manager: Mpumalanga
Leo Sibanda
Programme Manager: KwaZulu-Natal
Reuben Matlala
Programme Manager: North West
Tsakani Khosa
Programme Manager: Western Cape and Northern Cape
Cor van Rooyen
Programme Manager: Free State
Mamarinyana Thulare
Programme Manager: Gauteng
Wasnaar Hlabangwane
Programme Manager: Limpopo
Huni Phala
Programme Manager: Eastern Cape
Mathanda Mathenjwa
Secretary
Nhlanhla Mahlangu
Secretary
Audrey Nkonyane

Chief Executive Officer's report

It is widely acknowledged that the key constraint on sustainable development in South Africa and elsewhere on the continent is the lack of institutional capacity rather than the lack of financial resources. In addressing the three pillars of sustainable development – people, prosperity and planet – the central need is to create sustainable, empowered and accountable institutions that are able to translate policies and programmes of development into delivery.

When it comes to meeting the challenges of development in South Africa, the recently transformed local governments are at the coalface. The capacity constraints faced by the newly demarcated municipalities – the main partners of the Development Bank of Southern Arica – prompted the establishment of the DBSA Development Fund in 2001. The Fund, which the Bank capitalised with an initial amount of R80 million, is mandated to mobilise resources for sustainable capacity development, primarily at local government level.

This Annual Report reflects on the Fund's progress in the first sixteen months of its existence, and on the contribution it has made towards sustainable capacity development as a means of creating a better life for all.

In its first full year of operation, the Fund has had to balance the practical demands of delivery and the challenges encountered during the establishment phase of a new institution. I am pleased to report that the essential internal processes, such as staffing and the development of systems, have been concluded expeditiously, and the Fund is now in a position to focus on its core development mandate.

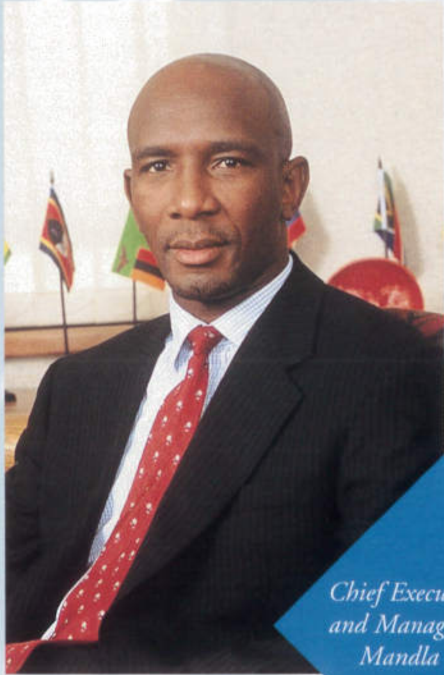
The Fund's cumulative commitments to capacity building programmes amounted to R86 million, with disbursements totalling R12,5 million by year-end. This translates into support for 134 municipalities, of which 77 per cent are rural. In the light of this excellent progress, the Board of the Development Bank of Southern Africa approved two further grants to the Fund of R80 million and R70 million. Another R230 million will be transferred in 2003/04.

Given the magnitude of the challenges confronting our clients, a key tenet of the Fund's operating philosophy is to form partnerships with role players across the spectrum. To this end, the Fund has actively pursued partnership and collaboration with all spheres of government, the private sector, civil society organisations and development agencies. This has resulted in a technical cooperation agreement with UNICEF and funding from Agence Française de Développement.

By its nature, the process of sustainable capacity development is complex and the results are often not immediately evident. I am confident, however, that the methodology adopted by the Fund, which takes account of the need for sustained and focused interventions, will bear fruit in due course. During the year ahead, I look forward to accelerated progress by the Fund in cementing new partnerships, mobilising resources for capacity building and contributing tangibly to rolling back the frontiers of poverty.

In conclusion, I would like to thank the Chairman of the Board, Mrs Hixonia Nyasulu, and fellow Board members for their sound guidance and unwavering support. The energy, resourcefulness and commitment of the Fund's management and staff, as well as the support of colleagues in the Development Bank of Southern Arica, have been instrumental in laying these important foundations for sustainable development.

Mandla Gantsho



Chief Executive Officer and Managing Director Mandla Gantsho

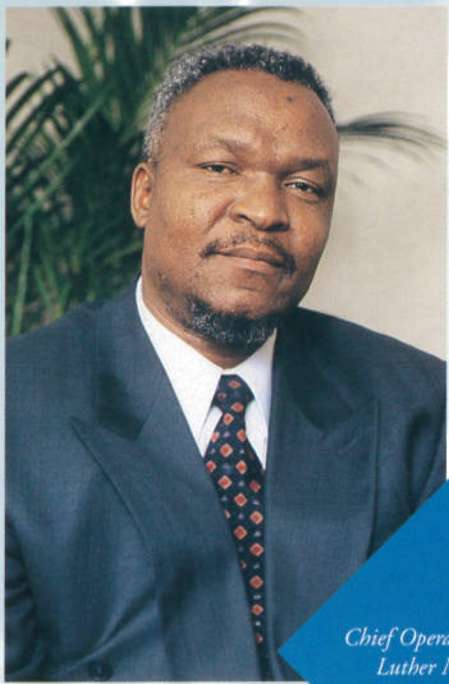
This Annual Report marks the first anniversary of a "newborn", the DBSA Development Fund. Appropriately, the theme of the Report – "sustainable development" – reaffirms the central commitment that guides the activities of the Fund's parent company, the Development Bank of Southern Africa.

The transformation of local government and capacity building

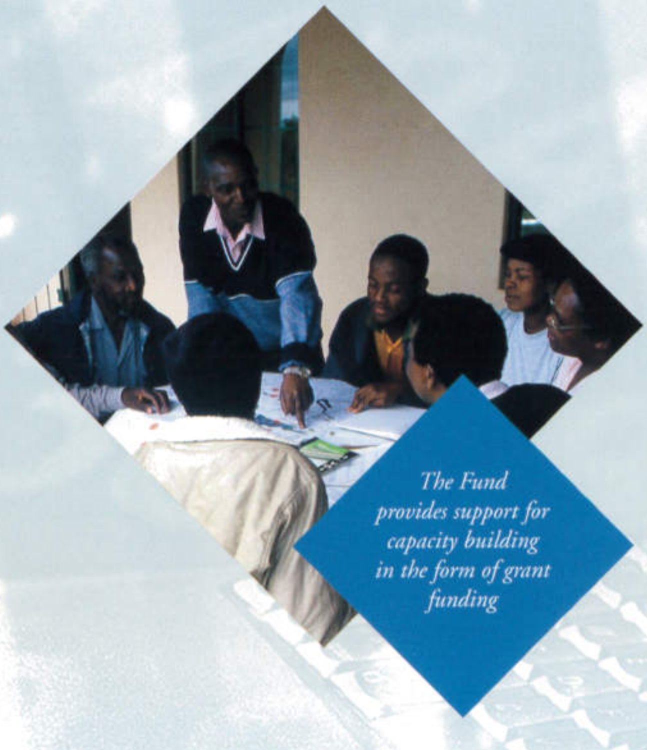
The advent of a new democratic dispensation in South Africa led to the restructuring and transformation of local government. Last year saw the final phase of this process, which has not been without its challenges. The vast problems confronting South Africa as a developing country have been compounded by its specific history. South Africa faces massive infrastructure backlogs, inefficient municipal service delivery, and other capacity constraints.

The transformation process has highlighted the need for capacity building in historically marginalised and poorly resourced areas. While some of the constraints are financial, the most pressing ones concern the functioning of local institutions and organisational systems, especially with regard to local economic development, planning, programming and project management.

In June 2001, the Board of the Development Bank of Southern Africa approved the establishment of a Development Fund to mobilise and apply resources for capacity building. The Fund is a section 21 company and was incorporated in December 2001. Recognising the centrality of local government in development, the Fund provides support for capacity building in the form of grant funding, mainly to municipalities and their communities.



Chief Operating Officer
Luther Mashaba



The Fund provides support for capacity building in the form of grant funding

The aim is to empower councils to perform the functions of local governance and give communities better access to resources, thus improving service delivery and promoting local economic development.

Some of the typical problems found in local government institutions are a lack of skills; inefficient service delivery; financial distress, that is, limited revenues and budgets; limited administrative transformation; massive backlogs, particularly in rural areas with limited capacity; and the lack of community participation in integrated development planning. These problems are felt acutely in poorly resourced municipalities, and have a particularly negative impact on development in rural areas.

In trying to resolve such problems, the Fund provides technical assistance grants to municipalities. The focus may be on the total functioning of the municipality or on specific elements, such as training for councillors, ward committees, officials or community members. The training covers skills such as financial management, leadership, strategic planning, policy development, local government legislation, service delivery, human resource development and information technology.

Contribution to rural development

The DBSA Development Fund has rapidly established a niche for itself in relation to poorly resourced municipalities, especially in rural areas.

The Fund's contribution to rural development in the period under review has ranged from support for the national government's Integrated Sustainable Rural Development Programme, to skills development, systems development and development facilitation at the municipal level. When municipalities do not even have sufficient capacity to absorb a grant, the Fund plays a proactive development role by facilitating and supporting project management.

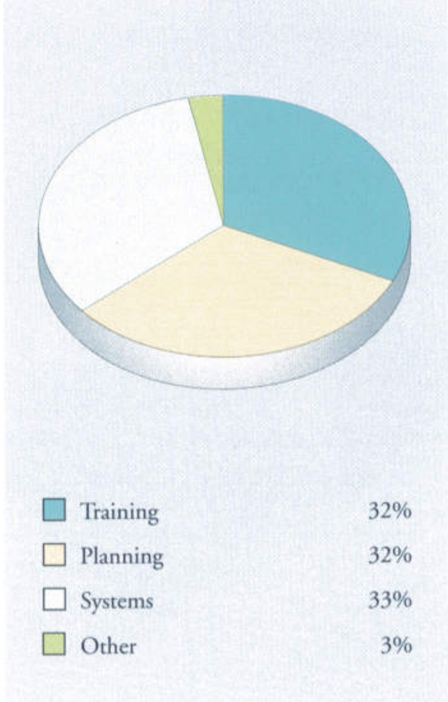
The Fund has supported a total of 134 municipalities, of which 77 per cent are rural. Total approvals to date amount to R86,0 million, and total rural approvals to R60,4 million. Funding leveraged for programmes or projects amounts to R33,5 million.

The work done by the Fund complements the national government's significant support programmes and efforts to improve municipal performance. The impact of this work, gauged in terms of the classification system used by the DBSA Development Fund, can be seen in the case of the Nqutu Municipality in KwaZulu-Natal, to take just one example. Nqutu was classified initially as a Market 3 municipality, that is, as a newly established rural municipality with limited institutional and financial capacity. It was regarded as unable to take up loan finance from the Development Bank of Southern Africa. Since the Fund's intervention, Nqutu has been reclassified as a Market 2 municipality, meaning that it has a fair level of capacity and can sustain its operations. The Development Bank of Southern Africa is currently appraising this client for a R5 million loan.

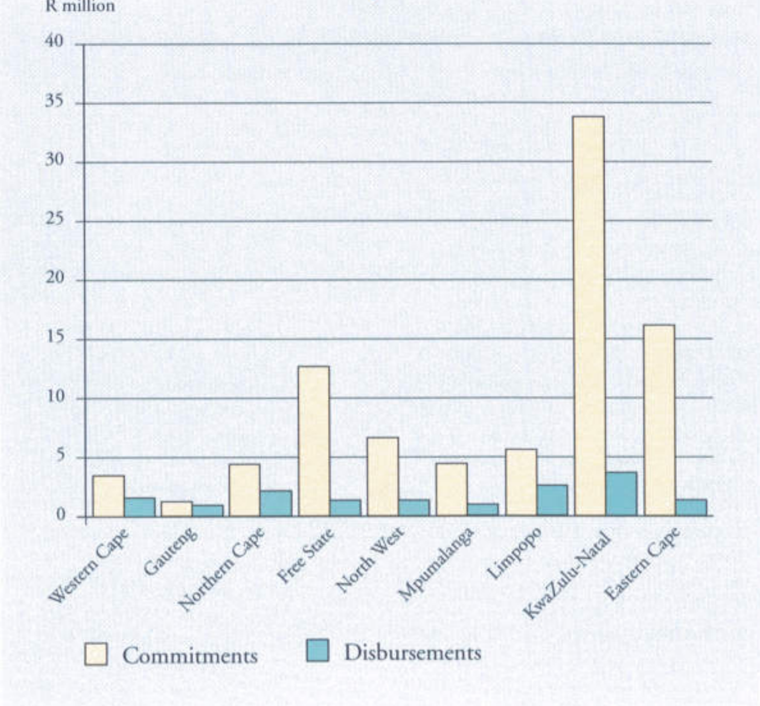
I would like to thank the Board of Directors of the DBSA Development Fund and its Chairman for their dedicated work during the first year of operation. My colleagues and I are also grateful to all the employees of the Development Bank of Southern Africa for their unwavering support.

Luther Mashaba

Portfolio by type of support, March 2003



Approved projects per province (21 December 2001 – 31 March 2003)



Partnerships

The DBSA Development Fund is committed to providing support for sustainable development. In pursuing this goal, the Fund seeks to build partnerships with various role players in development, including international agencies and donors, and government authorities at the national, provincial and local levels. Such partnerships promote the optimal use of resources and allow for the leveraging of expertise and funding.

The Fund's lead partner is the Development Bank of Southern Africa. The Bank capitalises the Fund, houses it in terms of a management agreement, and works closely with it in appraising funding requests. Other important strategic partners are the National Treasury, the Department of Provincial and Local Government, and the various local government associations.

The Fund collaborates on developmental initiatives on a bilateral basis or at the level of the individual programme or project. In the period under review, a significant achievement on the corporate level was the approval of credit of R6 million by Agence Française de Développement. The total funding leveraged from government, clients and other sources for programmes or projects amounted to R33,5 million.

The capacity constraints at local level in South Africa are extensive and complex. A huge number of local institutions, especially municipalities, requires capacity support to design, fund and manage local development solutions. Only a multi-stakeholder approach can provide sufficient human, financial and organisational resources to make an impact on the scale required. Accordingly, the Development Fund views itself as a dedicated partner in sustainable local development. It seeks to co-fund initiatives and to mobilise resources with and from various development partners in the public and private sectors. It also seeks to work with partners to identify innovative and effective capacity building approaches, models and practices.

Given the limited management and administrative capacities of many municipalities and local support organisations, there is a risk that they will be overwhelmed by fragmented, activity-based external support. In this regard, partnerships may have the additional advantage of engendering more coordinated efforts in support of local capacities.

In line with this strategic approach, the Development Fund initiated relationships with numerous development agencies, donors and foundations during the reporting period. These included Agence Française de Développement, the European Union Commission, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Infrastructure Finance Corporation Limited (INCA), the Independent Development Trust, Kreditanstalt für Wiederaufbau, the Standard Bank Foundation, the United Nations AIDS Agency, the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organisation (UNESCO), the United Nations Foundation for International Partnerships, the United Nations Office for Project Services, the United Nations Population Fund, the United States Agency for International Development (USAID), and the United States Chamber of Commerce's Centre for International Private Enterprise. A partnership was forged with Agence Française de Développement, which provided a line of credit to the Development Fund. Co-funding partnerships at project level were also forged with UNDP and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). A technical cooperation partnership was entered into with UNICEF.

Now that its governance and operational systems are in place, the Development Fund, together with the Development Bank of Southern Africa, expects to build on this good early track record and forge more strategic and practical partnerships in the years to come. This task should beaided by the development and capacity building efforts of NEPAD, which are being intensified and brought to bear on the local front lines of the development struggle.

Partnerships promote the optimal use of resources and allow for the leveraging of expertise and funding

The Board of Directors of the DBSA Development Fund strives to serve the interests of its sole member, the Development Bank of Southern Africa, and its broader constituencies, including other development finance institutions, donors, fiscal agents and civil society. To this end, a proper structure has been adopted, along with a number of broad principles and guidelines on best practice, designed to ensure that the enterprise is run efficiently, effectively and sustainably.

In seeking to establish good corporate governance principles in the Fund during 2002/03, the Board and management clarified the organisational mandate and strategy, aligned the organisational structure with the strategy, finalised the development of internal systems, rationalised Board Committees, and linked budgeting and business planning processes.

Principles of corporate governance

The DBSA Development Fund seeks to maximise the impact of development finance by dealing with the human, institutional and financial capacity constraints on rural and urban development. In pursuing this goal, the Board of Directors and management have committed the Fund to following sound corporate governance principles by:

- Ensuring ethical leadership, integrity and good judgement in directing the business of the Fund
- Adhering to business strategies that promote efficiency, competitiveness, ethical business practices and commercial viability
- Maintaining reliable and transparent communication with stakeholders
- Monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans to ensure that management and staff are appropriately recruited, trained, developed, recognised and rewarded
- Providing for the minimum number of own staff, on the understanding that additional staff and support systems that may be needed from time to time will be contracted from the Development Bank and elsewhere
- Providing guidance in the recruitment, remuneration, career development and succession planning of executive management
- Monitoring key risk areas to develop risk management policies
- Reviewing internal procedures and policies to ensure that control systems are effective in managing risk
- Ensuring that the Fund will continue as a going concern in the next financial year and continue to be sustainable in the long term
- Ensuring that technology is adequate to support effective and efficient operations, without compromising the environment in which it operates
- Supporting a culture of innovation throughout the institution, the country and the region, and creating a knowledge-based institution
- Engendering work discipline to increase productivity
- Nurturing the moral and ethical culture of the Fund by formulating guidelines and policies that encourage participation of management, staff and stakeholders in decision-making
- Procuring transparent financial and management reporting
- Ensuring self-evaluation by the Board and its committees
- Complying with the requirements of the regulatory environments in which the Fund operates

The articles of association of the Fund deal with the appointment and disqualification of Directors, their powers, and their proceedings at meetings, including attendance and conflict of interest. They prescribe the application of all principles of company law in terms of the Companies Act, No. 61 of 1973, adherence to the South African Statements of Generally Accepted Accounting Practice, and compliance with the Public Finance Management Act, No. 1 of 1999. The articles will be given further effect in a charter to be adopted by the Board to guide its functions, roles and responsibilities.

Code of ethics and business conduct

Since 1998, the Development Bank of Southern Africa has set standards of conduct for staff as part of the conditions of service. These include the protection and promotion of the dignity and interests of the Bank. In 1999, the Bank adopted a Code of Business Conduct, following a thorough consultation process in which every staff member could contribute to the principles. The Fund has also adopted the Code, which now applies to its own staff and operations.

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

Regulatory environment and statutory compliance

The DBSA Development Fund was incorporated under section 21 of the Companies Act on 21 December 2001. To date, the Fund has nine members. The maximum number of members is not limited, but, as stipulated in the articles of association, read in conjunction with the Act, shall at no time be less than seven.

In terms of the Public Finance Management Act, any subsidiary or entity under the ownership control of a major public entity also becomes a schedule 2 entity. In line with the Bank's responsibilities under this Act, regular reporting to the National Treasury takes place, especially on risk and financial issues. According to section 52, a corporate plan covering the affairs of the Fund for the following three years must be submitted at least one month before the start of the financial year. The 2003/04 submission was effected in February 2003.

Under the Companies Act, a copy of the audited financial statements must also be submitted to the registrar of companies.

Compliance with the King Code

Both the Development Bank of Southern Africa and the Development Fund have complied with the principles of the King I Code, and are working towards compliance with the King II Code. A compliance review of both organisations' practices in relation to the Code is planned for the next financial year.

Structural governance

Membership/shareholder linkages: The Fund, through its Board, is accountable to the Development Bank of Southern Africa, to the Bank's shareholder, the government of the Republic of South Africa, and to Parliament in terms of the Development Bank of Southern Africa Act. As required by section 55 of the Public Finance Management Act, the Fund's financial statements are published in the Development Bank's Annual Report.

Minister of Finance: As the shareholder representative, the Minister determines the mandate of the Bank and holds the Board accountable for managing and controlling the operations of the Bank in line with the stated mandate. The Minister tables in Parliament the Annual Reports for the Development Bank of Southern Africa and the DBSA Development Fund.

Board of Directors: The Development Fund has a unitary, non-executive Board of seven members. The Managing Director is the only executive director, and the other Board members are independent directors from diverse business backgrounds. The Board appoints a non-executive Chairman.

According to the articles of association, the Development Bank of Southern Africa has the right to nominate and appoint all Directors of the company and to remove or substitute them from time to time. Unless and until otherwise determined by the company at a General Meeting, there shall not at any time be fewer than three Directors.

The role of the Board is to determine the direction and strategy of the company, to monitor the achievement of business objectives, and to ensure that the company meets its responsibilities to its member. It is further responsible for ensuring that the control environment adequately protects the company assets against major risks. In addition to monitoring the performance of the executive management, the Board also contributes to reviewing the company's goals and strategic objectives.

The Board reports to the shareholders through annual and interim reports, and through regular meetings between the Chairman of the Board, the Chief Executive Officer and the Minister of Finance. During the last calendar year, the Board met three times.

As may be noted from the résumés of current Board members on pages 4 and 5, five Board members commenced their term of service on 20 November 2001.

Two new Board members were appointed on 22 August 2002. The articles of association stipulate that all Directors must retire by rotation. At every Annual General Meeting, commencing with the second such meeting to be held subsequent to the incorporation of the company, one third shall retire from office but shall be eligible for re-election.

Board Committees: Section 77 of the Public Finance Management Act recommends that two or more institutions establish a single Audit Committee if the relevant treasury considers it to be more economical. Accordingly, the Board directs and controls the operations of the Fund through the Board Committees of the Development Bank, each of which has a distinct mandate. The relevant committees are the Audit and Finance Committee, which deals with financial and risk management and control; the Knowledge Management Committee, responsible for knowledge management and employment practices, including employment equity; and the Remuneration Committee, which oversees the implementation of remuneration policy. The Board approves grant funding, development facilitation costs and development credits.

Chief Executive Officer and Managing Director: In terms of the provisions of the Development Bank of Southern Africa Act, the Managing Director is charged with the day-to-day management of the Bank's operations. The Chief Executive Officer assisted the Board in providing strategic and policy direction to the Fund, and consulted regularly with the shareholder representative. The Directors have delegated some of their powers to the Chief Executive Officer, who has the authority to delegate such powers further.

Internal control: The Board recognises the need to oversee internal operational and financial controls. The Chief Operating Officer attends Board meetings of the Development Fund and the Development Bank of Southern Africa, and Board Committee meetings of the Development Bank. The Bank's Internal Audit Unit serves the Fund as well. There are regular meetings between the Chief Executive Officer and Chief Operating Officer of the Fund, the Chairman of the Audit and Finance Committee, and the Internal Audit Unit of the Bank, and the external auditors.

Corporate Secretary: All Directors have access to the advice and service of the Development Bank's Corporate Secretary. In terms of the Development Bank of Southern Africa Act, the functions of the Corporate Secretary are in line with the requirements of the Companies Act of 1973.

Strategic planning

During the year, the Board adopted the Balanced Scorecard as a tool to implement strategy. The Board approved the three-year Balanced Scorecard on 4 July 2002. The tool was also utilised to monitor and measure the Fund's progress in relation to the Development Bank of Southern Africa's "quantum leap" strategy (an enhancement of its Vision 2004).

Business planning and performance reporting

The Fund manages and monitors its business operations through an annual business planning and budgeting process. Performance management and auditing processes underpin the monitoring of progress in relation to the Fund's business objectives, and reporting on the achievements. Corporate budgeting and control systems further promote the efficient and effective attainment of these objectives. The three-year Balanced Scorecard approved on 4 July 2002 was used as the basis for compiling the 2002/03 business plan. In August 2002, management proposed a change in the business planning cycle, so that business planning would precede and align with organisational budgeting. Between October 2002 and January 2003, using the Balanced Scorecard, business plans and activity-based budgets were prepared in succession for the first time, successfully linking the business planning and budgeting processes.

The Remuneration Committee of the Development Bank's Board evaluates the performance of the Managing Director. The Chief Executive Officer reviews the performance of the Chief Operating Officer. An annual self-evaluation system to gauge the effectiveness of the Board (including the Audit and Finance Committee) has been implemented. The Chairman evaluates the performance of Directors.

The risk philosophy of the Development Fund is one of responsible risk-taking. While the Fund is prepared to allocate financial resources to activities where the risk of not achieving the project's objectives is high, it also works closely with clients and partners in development to ensure that projects have every chance of succeeding. The Fund takes very seriously its custodianship of the grant financing that donors have placed under its management, and is scrupulous about ensuring that the requirements of funders are met when risks are taken.

Risk exposures

The Development Fund was constituted to provide funding and development credit for capacity building purposes. It did not offer a development credit facility during the period under review, but development credits will be considered in the next financial year. Although the Fund is not exposed to credit risk, it is exposed to operational risks, as discussed below. In managing these risk exposures, the Fund uses the systems, procedures and internal controls of the Development Bank of Southern Africa. It is considered that the Fund's risk exposures are managed appropriately within tolerable limits.

Risk of no development impact: This is the risk that projects supported by the Fund do not achieve their objectives.
Mitigation measures: The Fund conducts extensive and thorough appraisals to ensure that the projects it finances are appropriately structured to achieve their objectives.

Financial loss through fraud: This is the risk that the Fund may suffer financial loss through the activities of organised crime or opportunistic fraudsters.
Mitigation measures: The Fund uses the active fraud prevention processes and internal controls of the Development Bank to guard against losses of this type.

Financial counterparty risk: This is the risk that the Fund may suffer financial loss because counterparties to liquidity and investment transactions have defaulted.
Mitigation measures: The Fund uses the services of the Treasury Unit in the Development Bank of Southern Africa to manage its capital. The mitigation measures applied by the Bank to control this risk are applied equally in respect of the Fund.

Loss of key staff: This is the risk that the Fund may be unable to retain staff in key positions or activities.
Mitigation measures: The Fund implements an Integrated Rewards and Recognition system to counteract permanent loss of staff. Career and succession planning, job rotation and job cover are also used. The Fund contracts Development Bank staff to perform certain functions.

People risk – HIV/Aids: This is the risk that the Fund may be adversely affected by the HIV/Aids epidemic and related illnesses, leading to the loss of staff, productivity and corporate memory.
Mitigation measures: Employees of the Fund and employees of the Bank contracted to the Fund are covered by a medical aid scheme, which has an HIV/Aids benefit. Arrangements have been made for staff to undergo voluntary testing and counselling. Workshops have also been held to train staff on peer counselling related to the epidemic.

Data sabotage: This is the risk that the Fund may suffer loss due to the destruction, theft or loss of material data.
Mitigation measures: The Fund uses the information technology of the Development Bank, which incorporates password protection systems, user profiles and firewalls for Internet access.

Reputation risk: This is the risk that damage to the Fund's image will harm its credibility in its target market.
Mitigation measures: The Fund adheres to the principles of good corporate governance. The governance structures are designed to ensure quality control, and active measures are taken to prevent fraud.

Regulatory risk: This is the risk that the Fund may not comply fully with legislative requirements, possibly resulting in litigation.
Mitigation measures: The Fund manages this risk through its governance structures, and has access to the Development Bank of Southern Africa's Compliance Officer to ensure that the relevant Acts are complied with.

Business continuity: This is the risk that the Fund may stop operating, or fail to resume operation within a reasonable period, following a disastrous event, such as the destruction of the premises.
Mitigation measures: The Fund is housed within the Development Bank of Southern Africa and makes use of the Bank's information technology. The premises and their contents are insured with a reputable institution, critical electronic data are backed up daily and kept off-site, and important documents are kept in fireproof safes.

Annual financial statements

Directors' responsibility for financial reporting

The Directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the DBSA Development Fund, its business and transactions, as well as the financial position of its trade or business.

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
- South African Statements of Generally Accepted Accounting Practice have been adopted

To enable the Directors to meet their financial reporting responsibilities:

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

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

The Directors have a reasonable expectation that the Fund 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 18 to 29 were approved by the Board of Directors on 2 July 2003 and signed on its behalf by:

Hixonia Nyasulu
Chairman of the Board

Mandla Gantsho
Chief Executive Officer
and Managing Director

Deenadayalen Konar
Chairman of the Audit and Finance Committee,
Development Bank of Southern Africa

Report of the independent auditors

We audited the annual financial statements of the DBSA Development Fund set out on pages 15 to 29 for the period ended 31 March 2003. These financial statements are the responsibility of the Directors of the DBSA Development Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We also audited the performance information included in the annual financial statements set out on pages 18 to 29. This performance information is the responsibility of the Directors of the DBSA Development Fund. Our responsibility is to express an opinion on whether the performance information furnished in terms of subsection 55(2)(a) of the Public Finance Management Act of 1999, read in conjunction with subsection 60(1)(b) of the same Act, is fair in all material respects.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and that our duties in terms of subsections 60 and 61 of the Public Finance Management Act of 1999 have been complied with. An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall presentation of the financial statements

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

Opinion

In our opinion:

- The financial statements fairly present, in all material respects, the financial position of the DBSA Development Fund at 31 March 2003, and the results of its operations and cash flow for the period then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act of 1973 and the Public Finance Management Act of 1999.
- The performance information provided in terms of subsection 55(2)(a) of the Public Finance Management Act of 1999 fairly presents, in all material respects, the DBSA Development Fund's performance for the period ended 31 March 2003 against predetermined objectives.
- The transactions of the DBSA Development Fund that came to our attention during the audit were, in all material respects, in accordance with the mandatory functions of the Fund, as determined by law or otherwise.

Gobodo Inc.

Gobodo Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg
2 July 2003

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the DBSA Development Fund for the period 21 December 2001 to 31 March 2003. The report deals with the performance of the DBSA Development Fund and meets the relevant statutory information requirements.

In the opinion of the Directors, the financial statements fairly present the financial position of the Fund as at 31 March 2003 and the results of its operations and cash flow information for the period then ended. The Directors have no reason to believe that the business will not be a going concern in the year ahead. They are also of the opinion that the DBSA Development Fund complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

The functions of the Fund and nature of the business

In February 2001, the Board of Directors of the Development Bank of Southern Africa approved the concept of establishing a Development Fund. The DBSA Development Fund was registered 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 providing grant funding to address human, institutional and financial constraints on rural and urban development, thereby promoting efficient and effective service delivery and local economic development.

The DBSA Development Fund provides the following products and services:

- *Funds:* Capacity building funding through grants, development credits and other financial instruments.
- *Expertise:* Consulting and advisory services for institutional and human capacity building to ensure that basic services are delivered to disadvantaged communities.
- *Development facilitation:* Ongoing technical support and sharing of knowledge to ensure that clients gain the necessary experience to manage the functions and processes of service delivery.

The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and in compliance with sections 284 to 303 of the Companies Act, No. 61 of 1973. It deals with performance in relation to approved objectives for the 2002/03 financial year, and also with the broad achievements of the Fund since its inception, covering the period 21 December 2001 to 31 March 2003.

Objectives

The corporate strategy and business planning activities of the DBSA Development Fund occur within a three-year business cycle. The objectives and targets of the Fund are set and approved by the Board using the Balanced Scorecard methodology. In this way, the Board provides strategic direction to the operational management of the Fund. The Board approved the 2002/03 objectives on 4 July 2002. The year under review was the first in which the Balanced Scorecard served to identify performance indicators and formed the basis of the subsequent reporting. The strategic objectives were set from the following four perspectives of the Balanced Scorecard:

- Financial sustainability
- Sustainable development impact
- Effective business processes
- Learning and growth

A coordinated effort was made to achieve the strategic objectives. The Chief Operating Officer of the Fund concluded a performance contract with the Chief Executive Officer, using the Balanced Scorecard as a basis, and personal performance plans were also agreed on with programme managers and the rest of the staff. The Chief Operating Officer reported on progress at the quarterly Board meetings.

The Directors subscribe fully to the principles and practices of good corporate governance, and this inaugural report reflects the Fund's achievements in that regard. The Directors are committed to broadening the content and improving the standard of future reporting, especially in relation to the "triple bottom line" of social, economic and environmental achievements. The following table summarises the high-level strategic objectives and performance against targets for the 12 months ending 31 March 2003. Commentary on progress and achievements is based on the approved Balanced Scorecard for 2002/03.

Capacity building to ensure that basic services are delivered to communities

High-level performance in 2002/03

Strategic objectives	Targets	Results since inception
	Financial sustainability	
1. To maintain sound financial health	Operational expenditure within 10% of budget	Operational expenditure is R8,9 million (62% of budget) (R14,4 million)
2. To mobilise funding for the Development Fund from international and local funding institutions	Fund mobilisation strategy in place by November 2002	Fund mobilisation strategy in place by September 2002 and being implemented
	Establish contact with two institutions by March 2003	Contact established with seven potential contributors Line of credit approved by Agence Française de Développement
	Sustainable development impact	
1. To provide development support	Integrated Sustainable Rural Development nodes supported: 3	Integrated Sustainable Rural Development nodes supported: 5 +67% of target
	Municipalities supported: 90	Municipalities supported: 134 +49% of target
	Approvals: R50 million	21 December 2001 – 31 March 2003: R86,0 million
	Disbursements: R25 million	21 December 2001 – 31 March 2003 (including facilitation costs): R18 709 million 2002/03 (excluding facilitation costs): R12,3 million -50,7% of 2002/03 target
2. To provide development facilitation support	Disburse development facilitation support through delivery of services and expertise to value of R3 million	Costs of such support included in grant disbursements Systems to measure separately being finalised
	Appoint external consultants to provide expertise to clients if required: R8,5 million budgeted	No expenditure incurred; no need identified or requested
3. To broaden the scope of products	Develop credit product by October 2002	Development credit guidelines drafted, approval pending
4. To project a positive image of the Fund among various stakeholders	Conduct eight workshops and presentations to raise awareness of the Fund by December 2002	6 workshops and presentations conducted
5. To leverage funding for programmes and projects	Leverage ratio of Fund to client (%): 80:20	Leverage ratio of Fund to client (%): 72:28 +10% of target
6. To develop partnerships	Target three organisations for partnerships by March 2003	12 organisations contacted Partnership formed with Agence Française de Développement Initial technical cooperation partnership formed with UNICEF
	Sign two memoranda of understanding with partners	Agreement signed with Agence Française de Développement Memorandum of understanding signed with KwaZulu-Natal Department of Traditional and Local Government Affairs

High-level performance in 2002/03

Strategic objectives	Targets	Results since inception
	Effective business processes	
1. To develop efficient and effective operating systems	Establish Programme Management and Credit committees	Credit Committee mandate document approved; decision by Board to deal with these functions at Board level
	Approve appraisal guidelines	Appraisal guidelines approved
	Customise grant agreements	Standard grant agreement approved
	Incorporate all systems into the DBSA's corporate recording (CORE) system by March 2003	Significant incorporation in CORE by September 2002
	Sign management agreement with Development Bank to provide support services	Management agreement signed in August 2002
2. To develop monitoring and evaluation guidelines	Develop monitoring and evaluation guidelines	Monitoring and evaluation guidelines developed
	Learning and growth	
1. To improve competency levels related to strategy	Set up all staff development programmes by July 2002	Staff development plans completed by June 2002
	Percentage of remuneration budget used for training: 4,5%	13,3% of remuneration budget spent (-86,7% on budget)
2. To achieve organisational objectives through performance management	Complete all performance reviews and appraisals for individual staff members	All performance reviews submitted by December 2002 and completed for Integrated Rewards and Recognition system by March 2003
	Submit biannual review reports (on Balanced Scorecard) to Board	Three review reports presented to Board
3. To create an organisational climate conducive to realising the Fund's vision	Develop one new product and idea by March 2003	Capacity Building Programmes developed as new approach

Comments on performance

The Directors are pleased that the Development Fund managed to achieve most of its strategic objectives in its first full year of operation. Despite the demands placed on staff and management to draw up plans and set up the necessary systems and resources, the Fund made rapid and impressive progress with the actual approval of technical support projects and programmes. Although some areas still need attention, a significant contribution was made and solid foundations were laid for providing further support to clients. The achievements are assessed below in relation to the perspectives contained in the Balanced Scorecard.

Financial sustainability

The Development Fund was established specifically to maximise the provision of development assistance and finance to disadvantaged communities, after the Development Bank of Southern Africa had become aware that dedicated support of this kind was required under its mandate. Initially, the Bank provided two grants of R80 million each for the Fund to establish and operationalise itself. It subsequently approved an additional grant of R300 million. The Bank is committed to making further grants if necessary to capitalise the Fund for continued operations. It has also undertaken to provide management support for the Fund's financial and accounting systems.

Maintaining sound financial health

In the year under review, the Fund managed its operational expenditure well, using only 62,1 per cent of the planned budget. This is mainly due to the budgetary provision of R8,5 million for the appointment of external consultants to assist municipalities directly with their activities. This contingency measure was not required during the year, as the development facilitation provided by contracted staff of the Bank and the Fund was found to be adequate. However, the need for this type of support in future cannot be discounted, and it will be provided for again in future budgets. The introduction of the development credit facility scheduled for 2003/04 will require support from external consultants.

Mobilising funding from international and local institutions

The Fund sought to initiate networks and build relationships with strategic partners, so as to mobilise further resources for building capacity in development, while enhancing its own long-term sustainability. A funding mobilisation strategy was developed and approved by the Board. In line with this strategy, the Fund targeted potential partners and pursued interaction with them. The targeted institutions included the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Africa-America Institute, the United Nations AIDS Agency, the United Nations Educational, Scientific and Cultural Organisation (UNESCO), the United States Agency for International Development (USAID), the United Nations Office for Project Services, the Centre for International Private Enterprise, and Agence Française de Développement. In most cases, initial contacts were made and follow-up actions taken.

Rapid progress was made with Agence Française de Développement, leading to a tripartite agreement between the Agency, the Development Bank and the Fund, signed in September 2002. Under this agreement, Agence Française de Développement extended a line of credit to the Fund, which will be used to build capacity in projects that meet the specified criteria. This represents an important milestone in the Fund's effort to mobilise additional funding.

Sustainable development impact

The Development Fund aims to maximise the impact of development finance in South Africa by acting as a leading catalyst of capacity building efforts. The Fund works to add value to development programmes and to promote their sustainability. The specific focus is on tackling the constraints in rural and urban areas, in order to improve the efficiency and effectiveness of service delivery and local economic development. Capacity building initiatives are supported at the level of the community, the municipality, and the provincial and national government. Local authorities are the main target, as they are primarily responsible for implementing development programmes.

Providing development support

One of the Fund's strategic objectives is to provide development support to the rural nodes identified in the Integrated Sustainable Rural Development Strategy. These are areas that have been identified and prioritised nationally as requiring support to overcome poverty and the lack of services. The Directors are pleased to report that support programmes were initiated in five of the thirteen nodes, exceeding the target of three.

The Fund set a target of providing support to 90 municipalities in 2002/03, focusing on the newly demarcated ones. The results show that 94 municipalities were reached during the year (making a cumulative total of 134 municipalities since the inception of the Fund).

Overall, the support to municipalities was apportioned as follows: training (32 per cent); planning (32 per cent); systems (33 per cent); and other (3 per cent).

The Fund also made an impact at the provincial level. Through the first phase of the Local Government Capacity Building Programme for the Department of Traditional and Local Government Affairs in KwaZulu-Natal, the Fund provided coordinated, comprehensive support for the implementation of programmes affecting all 61 municipalities in that province.

Since 21 December 2001, the Fund has approved technical support grants to the value of R86,048 million. The approvals covered all the provinces, and ranged from major capacity building programmes dealing with planning, training and local government systems on a provincial level, to support for under-capacitated, newly demarcated local municipalities such as Msinga, where capacity was built around everything from internal staffing to local economic development initiatives such as tourism. Of the 134 municipalities that received funding, 104 (77 per cent) were rural.

Disbursements on approved grants lagged behind budget. Total disbursements reached R12,538 million, or -50,7 per cent of the target. Disbursements were much lower than anticipated because the intensive development facilitation required in certain municipalities resulted in long lead times. Some of the bigger programmes were only approved in the latter part of the year, and these disbursements flowed over into the new year. The Directors are confident that a closer alignment between approvals and disbursements will be possible in the next financial year, as most of the approved projects are now being implemented.

Providing development facilitation support

The Fund provides development facilitation through its permanent or contracted staff in two ways. Firstly, the cost of dedicating staff to provide services to the client is included in the grant funding made available for a particular project. An amount of R3 million in staff time was budgeted for the year. As a new organisation, the systems for tracking these costs are still being finalised and it is not possible to report on this target at present.

Secondly, the Fund makes provision for the appointment of external consultants to assist municipalities directly. An amount of R8,5 million was budgeted for this purpose, but was not required, as noted above.

Broadening the scope of products

The Development Fund recognised that certain municipalities cannot be made sufficiently sustainable to take up loan finance in the short to medium term, and therefore cannot attend to other priorities. The need for a credit facility was thus identified. The facility will fill this gap in the market by providing capital loans at low or zero interest rates. Guidelines in this respect were prepared and will be finalised during 2003/04.

Projecting a positive image of the Fund among various stakeholders

Workshops and presentations were organised to enhance business development and provide information about the Fund, its aims and objectives, and the products and services rendered. There were six such events in the different provinces and municipalities.

Leveraging funding

The Fund tried to ensure that other sources of finance, including contributions by clients and third parties, were leveraged on its projects. Given that clients in rural areas often find it difficult to make significant contributions of their own, the initial target set was for the Fund to provide 80 per cent of funding and the client or a third party the remaining 20 per cent. During the year, a leverage ratio of 72 per cent to 28 per cent was achieved, demonstrating the willingness of clients to contribute to their own capacity building.

Developing partnerships

In the drive to make its interventions sustainable in the long term and to leverage funding and expertise, the Fund regards the development of strategic partnerships as a very important activity. The Fund made contact with 12 potential strategic partners during the year and signed a formal agreement with Agence Française de Développement. The Fund also signed a memorandum of understanding with the provincial government of KwaZulu-Natal, via its Department of Traditional and Local Government Affairs, establishing a multi-year co-funding and cooperation arrangement between the Fund, the provincial government and the Development Bank. The Fund will continue to pursue such strategic partnerships in the new year.

Effective business processes

Developing efficient and effective operating systems

A number of interventions to expand or improve the Development Fund's operating systems were successfully implemented during 2002/03.

A document proposing that a separate Credit Committee be established to review project approvals was presented to the Board of the Development Fund. However, the Board subsequently decided to perform credit functions itself rather than to set up a separate committee.

A management agreement was concluded with the Development Bank, covering the services to be rendered by the Bank's operational and support units. In terms of this agreement, the Fund uses project teams appointed from the Bank's Business Units to process new applications and requests. The agreement covers services rendered in appraising projects under consideration by the Fund; compiling and presenting appraisal reports; monitoring the implementation of approved projects; and performing financial, legal and contract administration functions.

The Fund drew up a set of guidelines for the appraisal of projects under consideration. The guidelines aim to ensure that requests for assistance are assessed in a consistent and coherent manner. Similarly, the Fund examined and standardised the documentation regarding grant agreements.

The administration of projects has been incorporated into the Development Bank's main corporate recording system (CORE).

Developing monitoring and evaluation guidelines

Guidelines for monitoring and evaluating projects were developed as planned. In terms of these guidelines, completion reports must be prepared for all projects within two months of the grant being fully disbursed, as it is critically important to obtain insight into the results achieved by the different kinds of interventions. The log frame matrix has been employed on all projects to ensure proper monitoring.

Given the short period of operation, no targets were set for the evaluation of programmes and projects in the year under review. The plan is to evaluate eight programmes and projects in 2003/04.

Learning and growth

Management and staffing structure

In the interest of empowering staff and ensuring efficient decision-making, the Development Fund has established a flat organisational structure. The Chief Executive Officer is also the Chief Executive Officer of the Development Bank, and represents the Fund on the Development Fund Board. The Chief Operating Officer, assisted by programme managers, is responsible for the day-to-day management.

Contracting arrangements have been made with the Development Bank for appraising and managing specific projects and programmes in each province.

Human resources and employment equity

As a knowledge-based institution, the Fund regards its personnel as its main asset. In terms of the management agreement with the Development Bank, full-time employees of the Fund have access to the Bank's Employee Assistance Programme, which caters for the general well-being of staff and also offers support on specific problems like HIV/Aids.

While the Fund still needs to develop its own employment equity framework, it has managed to achieve a staff complement within the framework originally developed and managed by the Development Bank. The Fund is proud to report the following profile for full-time staff, which shows that 91,7 per cent are from previously disadvantaged communities and 50,0 per cent are female.

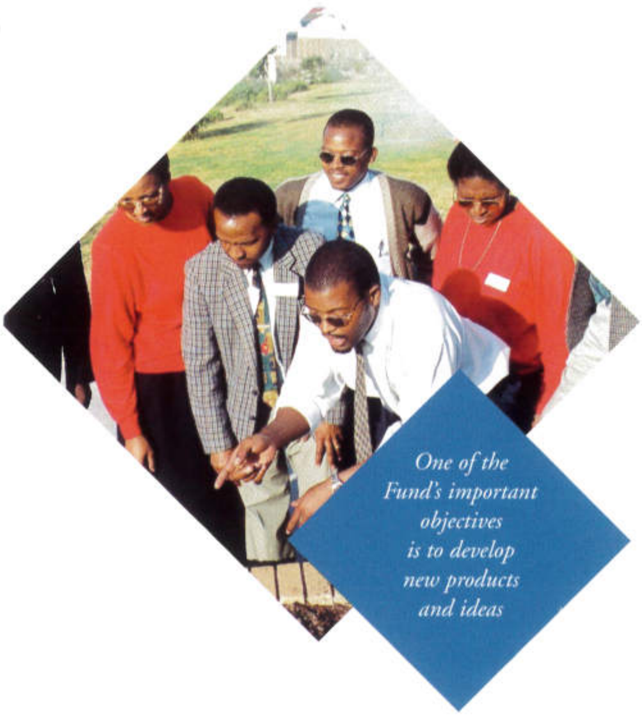
	African	Coloured	Asian	White	Total
Male	5	0	0	1	6
Female	6	0	0	0	6
Total	11	0	0	1	12[1]
% of total	91,7	0	0	8,3	100,0

1. Total staff complement excludes one contract worker.

Training

As a newly established institution, the Fund has paid particular attention to improving the competency levels related to its strategies. All staff formulated personal development plans, in which their specific training needs were identified. The target was to complete all the identified training during the year, but that proved impossible: staff faced a high workload, compounded by additional initiatives to establish policies and procedures for marketing the Fund more successfully. Thirty per cent of intended training was completed. This aspect will receive further attention in the new year.

In total, 4,5 per cent of the remuneration budget was targeted for training. The Fund used 13,3 per cent of its budget for this purpose, indicative of the above-mentioned time constraints.



One of the Fund's important objectives is to develop new products and ideas

Performance management

The achievement of organisational objectives was measured and managed on an individual basis. Each staff member prepared a personal performance contract derived from the Balanced Scorecard. Staff were assessed and rewarded for their contributions on the basis of the Integrated Rewards and Recognition system introduced by the Development Bank of Southern Africa. All staff performance plans were approved and reviewed during the year, and at year-end. In the course of the year, the Chief Operating Officer submitted three review reports on performance to the Board.

Innovation

One of the Fund's important objectives, viewed from the "Learning and growth" perspective of the Balanced Scorecard, is to develop new products and ideas. A number of innovative programmes aimed at meeting the needs of municipalities in a comprehensive way were approved during the year. They include the Nqutu Municipality technical support programme (phase 1); the Maluti a Phofung Municipality planning for services delivery programme (phases 1 and 2); and the Amatole Municipality technical assistance programme. Among other things, these programmes were concerned with building the capacity of municipal officials and councillors, developing skills plans and information systems, and promoting local economic development through tourism and commercial centres.

A specific breakthrough in this area was the implementation of the Local Government Capacity Building Programme (phase 1) for the KwaZulu-Natal Department of Traditional and Local Government Affairs. This multifaceted programme supports the provincial department by building capacity, providing training, and developing systems and models that all municipalities in the province can apply in a cost-effective, coordinated way.

Balance sheet

at 31 March

	Notes	2003 R
Assets		
Current assets		
Funds receivable	2	138 213 192
Cash and cash equivalents	3	439 502
		138 652 694
Funds and liability		
Funds		
Funding surplus		138 372 015
Current liability		
Accounts payable	4	280 679
		138 652 694

Income statement

for the period 21 December 2001 to 31 March 2003

	Notes	2003 R
Gross funding surplus		141 291 372
Funds received	1.4	160 000 000
Funds disbursed and development facilitation costs	4	(18 708 628)
Interest received		432
Expenditure		(2 919 789)
Bank charges		(3 019)
Consulting fees		(26 243)
Data processing costs		(2 166)
Directors' emoluments	5	(1 677 015)
Entertainment and catering		(10 434)
Membership fees: staff		(2 820)
Management fees	6	(562 269)
Postage		(8 395)
Public relations activities		(55 085)
Publications and journals		(2 000)
Rental: office equipment		(2 280)
Staff costs		(568 063)
Net funding surplus		**138 372 015**

Statement of changes in funds

for the period 21 December 2001 to 31 March 2003

	2003 R
Funding surplus at 31 March 2003	138 372 015

Cash flow statement

for the period 21 December 2001 to 31 March 2003

	Note	2003 R
Cash inflow from funding activities	7	439 070
Cash receipts		21 786 808
Cash payments		(21 347 738)
Interest received		432
Cash and cash equivalents at the end of the period		439 502

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on the historical cost basis. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice. The following are the principal accounting policies used by the Development Fund. These financial statements cover a period of 15 months.

1.2 Cash and cash equivalents

The DBSA Development Fund's liquid assets consist of cash.

1.3 Funds receivable

Funds receivable are stated at cost.

1.4 Funds received

Funds received from the Development Bank of Southern Africa are recorded as income when the grant has been approved by the Board of Directors of the Bank. Costs relating to these grants are charged to expenses.

1.5 Funds disbursed

Funds disbursed consist of amounts disbursed to beneficiaries, including costs incurred by the DBSA Development Fund. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

1.6 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.

1.7 Comparative figures

As this is the first period of operation, no comparative figures have been presented.

	2003 R
2. Funds receivable	
Development Bank of Southern Africa Limited	138 213 192
3. Cash and cash equivalents	
Current account	439 502
4. Funds disbursed and development facilitation costs	
Project disbursements	12 537 985
Development facilitation costs	6 170 643
	18 708 628

5. Directors' emoluments

	Salaries/fees R	Performance bonus R	Other R	Attendance fees R	Travel R	Total R
Non-executive Directors						
I. Abedian	13 500	–	–	7 500	157	21 157
N. Christodoulou	13 500	–	–	870	–	14 370
D. Marsden	13 500	–	–	8 370	–	21 870
H. Nyasulu	73 500	–	–	1 160	–	74 660
J. Naidoo	13 500	–	–	725	–	14 225
M. Vilakazi	13 500	–	–	1 595	275	15 370
	141 000	–	–	20 220	432	161 652
Executive Director						
M.S.V. Gantsho	–	–	–	–	–	–
Chief Operating Officer						
M.L. Mashaba	950 626	456 972	107 765	–	–	1 515 363
	1 091 626	456 972	107 765	20 220	432	1 677 015

	2003 R

6. Management fees

Management fees paid to the Development Bank of Southern Africa Limited for administration services rendered	562 269

7. Reconciliation of net funding surplus to inflow from funding activities

Net funding surplus	138 372 015
Interest received	(432)
Surplus before working capital changes	138 371 583
Funds receivable	(138 213 192)
Accounts payable	280 679
	439 070

8. Funding commitments

Total contractual commitments	86 048 438
Total commitments paid to date	(12 537 985)
Total outstanding contractual commitments	73 510 453

9. Taxation

The DBSA Development Fund has submitted an application for tax exemption in terms of sections 10 and 30 and schedule 9 of the Income Tax Act, No. 58 of 1962. The DBSA Development Fund is awaiting a response from the South African Revenue Services.

10. Related party

Development Bank of Southern Africa
- Grant funding received
- Management fees paid

11. Retirement benefits

The DBSA Development Fund provides retirement benefits for all its employees through the Development Bank of Southern Africa Limited.

11.1 Defined contribution plan

The employees are members of the Development Bank of Southern Africa Limited Provident Fund, which is a defined contribution plan and is governed by the Pension Fund Act, No. 24 of 1956.

12. Post-retirement medical benefits

This benefit is in respect of all employees who are members of Discovery Health.

The above liabilities are fully disclosed in the financial statements of the Development Bank of Southern Africa Limited, as all employees are currently employed by the Bank, and contracted to the DBSA Development Fund.

13. Post-balance sheet event

The Board of Directors of the Development Bank of Southern Africa Limited approved an additional grant of R300 million to the DBSA Development Fund on 5 July 2003.

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