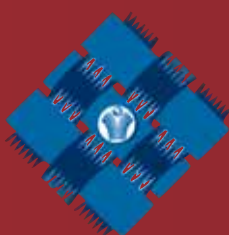


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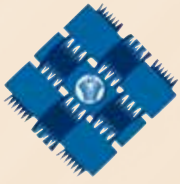
The Next Decade

Expanding the Frontiers of Delivery for Sustainable Development



DBSA Development Fund

The next decade ... expanding the frontiers of delivery for sustainable development



Principles of product and service delivery

The 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

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.

Products and services

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

- *Funds*: Capacity building funding through financial instruments such as grants
- *Expertise*: Mobilisation of consulting and advisory services
- *Development facilitation*: Technical support and knowledge-sharing

Guiding values

The DBSA Development Fund embraces the following:

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

Abbreviations

BEE	black economic empowerment
DBSA	Development Bank of Southern Africa Limited
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	information, communication and technology
ISRDS	Integrated Sustainable Rural Development Strategy
KfW	Kreditanstalt für Wiederaufbau
R	South African rand

Financial year

The financial year of the DBSA Development Fund is from 1 April 2004 to 31 March 2005.

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Year at a glance

Financial results	31 March 2005 R	31 March 2004 R	31 March 2003 R
Gross funding (deficit) surplus	(81 789 919)	252 847 458	141 291 372
Funds received	–	300 000 000	160 000 000
Capacity building grants	(73 584 528)	(41 057 653)	(12 537 985)
Development facilitation costs	(8 205 391)	(6 094 889)	(6 170 643)
Interest received	57 865	5 218	432
Operational expenditure			
Operating expenses	(6 138 167)	(4 806 113)	(2 919 789)
Funding (deficit) surplus for the year	(87 870 221)	248 046 563	138 372 015
Commitments for the year	170 273 000	153 000 000	86 048 438
Financial ratios			
Development facilitation costs to commitments (%)	5	4	7
Administration costs to capacity building grants (%)	8	12	23

Comments on summary of results at 31 March 2005

Disbursements

The year under review was the Fund's third year of operation. The level of disbursements increased significantly compared to the previous year due to the fulfilment of commitments from the first and second years of operation.

Administration costs to capacity building grants

The percentage of expenses to disbursements has reduced progressively mainly due to the increase in the level of disbursements over the year.

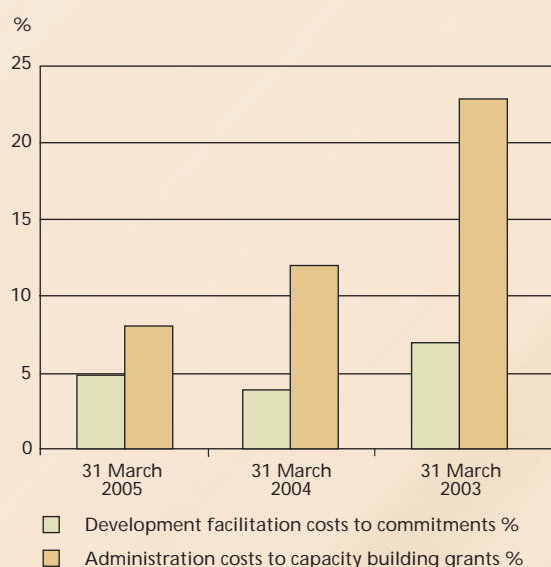
Commitments

The level of commitments increased significantly in 2004/05 compared to the previous year due to the consolidation of capacity building programmes at national, provincial and local government level.

Facilitation costs to commitments

The percentage of facilitation costs to commitments has increased slightly mainly due to the increase in facilitation costs compared to the previous year.

Financial ratios



Chairman's report



The DBSA Development Fund has come into its own during its third year of operation. I am pleased to report that the Fund has taken major strides towards fulfilling its mandate of capacitating municipalities and communities for effective service delivery and local economic development, especially in poorly resourced areas.

Our strategic context during the 2004/05 financial period was dominated by Project Consolidate, a major capacity building initiative led by the Department of Provincial and Local Government and focused on 136 distressed municipalities. The Fund and the wider DBSA family have reorganised to provide major strategic and operational support to this initiative.

In the wider context, the domestic economic environment remained fairly stable, though interest rates have dropped to historic lows, and the rand continued to strengthen against major currencies, generating further exchange rate pressure on key industries such as mining and textiles.

The strengthening of the rand made it more difficult for the Fund to seek additional donor grant funding beyond the co-financing of specific projects, as donor budgets have come under pressure as a result of unfavourable exchange rates.

As far as strategic performance is concerned, 2004/05 proved to be a landmark year for the Fund, as it managed to meet or exceed most of its targets and also set new long-term strategic targets for the



*Chairman
Mrs Hixonia Nyasulu*

next ten years. We did this by taking stock of what we have achieved to date, the lessons learned and the challenges remaining. The exercise took place against the backdrop of government's ten-year review and vision, and the recent findings of the Commission for Africa.

It is as clear as ever that capacity building remains a critical cross-cutting constraint on efforts to bring about sustainable, poverty-reducing growth and development, not only in South Africa but more widely in the sub-region and the continent. Among the key constraints are gaps in human capital and effective systems, particularly at municipal level, where the bulk of backlogs exist. A related concern is the question of appropriate deployment and retention of human resources in key positions in municipalities. The Fund, as a dedicated grant funding facility for capacity building, will continue to play an important role in unlocking these constraints

The Fund has identified systems development, training, investment planning and project preparation as key areas of its contribution in support of the People's Contract



together with its partners. The Fund has identified systems development, training, public investment planning and project preparation as key areas where it can make a contribution in support of government's People's Contract.

Our strategic emphasis on smart partnerships continued this year, as we partnered with government on a number of initiatives, notably Project Consolidate, which provides us with a unique opportunity to work with government and other partners in a more coordinated and focused way. This should help different role players achieve greater synergies in the development of local capacities. We also worked with the Department of Provincial and Local Government on the development of the Municipal Infrastructure Framework to quantify further the infrastructure backlogs in the country. In addition, we partnered with the Department of Public Works on the Expanded Public Works Programme, and with a number of provincial departments and local governments on other capacity building initiatives.

Our growing experience confirms that capacity building is indeed complex and long-term in nature. We are being less risk averse and learning lessons in the process, which will enable us to develop and package more innovative and sustainable solutions to the country's capacity problems.

Regarding our internal workings as an organisation, I am pleased that our programme managers, executives and Directors continue to work together in a devoted and efficient way, showing clear purpose, focus and accountability. The foundation partnership between the Bank and the Fund has also solidified, fostering coherence and synergy for the future. This positions the Fund to step up the quality and quantum of its contributions to sustainable development impact.

Looking ahead, we are excited by government's more galvanised stance towards the capacitation of municipalities. This higher priority and sharper focus offers new opportunities for us to target our interventions more precisely and find solutions to development failure in a more holistic way.

I am deeply grateful to the staff and management of the DBSA Development Fund. The extremely strong results that we have achieved over this past year would not have been possible without your hard work and dedication. I would also like to thank my fellow Board members for their valuable time and guidance, and their unwavering commitment to helping the Fund become a leading catalyst for local capacity building.

Hixonia Nyasulu

Board of Directors



Name and designation: **Dr Iraj Abedian (49)**
Chief Executive Officer and Chief Economist:
Pan-African Advisory Services

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

DBSA Development Fund
Director as from: 20 November 2001



Name and designation: **Mr Nick Christodoulou (56)**
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



Name and designation: **Mr Mandla Sizwe Vulindlela Gantsho (43)**
Chief Executive Officer and Managing Director, DBSA

Academic qualifications: Senior Executive Programme, London Business School (2005)
MSc (Project Management), George Washington University (2002)
CA (SA) (1987)
BCom Hons (Financial Management), University of Cape Town (1986)
Certificate in Theory of Accountancy, University of Cape Town (1985)
BCom (Accountancy), University of Transkei (1983)

DBSA staff member as from: 1 October 1995

DBSA Development Fund
Director as from: 20 November 2001



Name and designation: **Ms Nomboniso Gasa (37)**
Independent gender and policy analyst

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 (1988)

DBSA Development Fund Director as from: 24 February 2004



Name and designation: **Mr Johannes Bhekumuzi Magwaza (63)**
Company Director

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

DBSA Development Fund Director as from: 26 October 2004



Name and designation: **Mrs Hixonia Nyasulu (50)**
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

Chairman of the DBSA Development Fund Board as from: 25 April 2002



Name and designation: **Mr Madoda Vilakazi (41)**
Corporate Services Manager: Qualifications Authority,
Mining Qualifications

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



Name and designation: **Mr Jayaseelan Naidoo (50)**
Director: J&J Group

DBSA Development Fund
Director as from: 20 November 2001

Ceased to be a DBSA
Development Fund
Director on: 28 January 2005

Chief Operating Officer



Name and designation: **Mrs Jeanette Nhlapo (34)**
Chief Operating Officer: DBSA Development Fund

Academic qualifications: BA Hons (Social Sciences),
University of South Africa (1996)

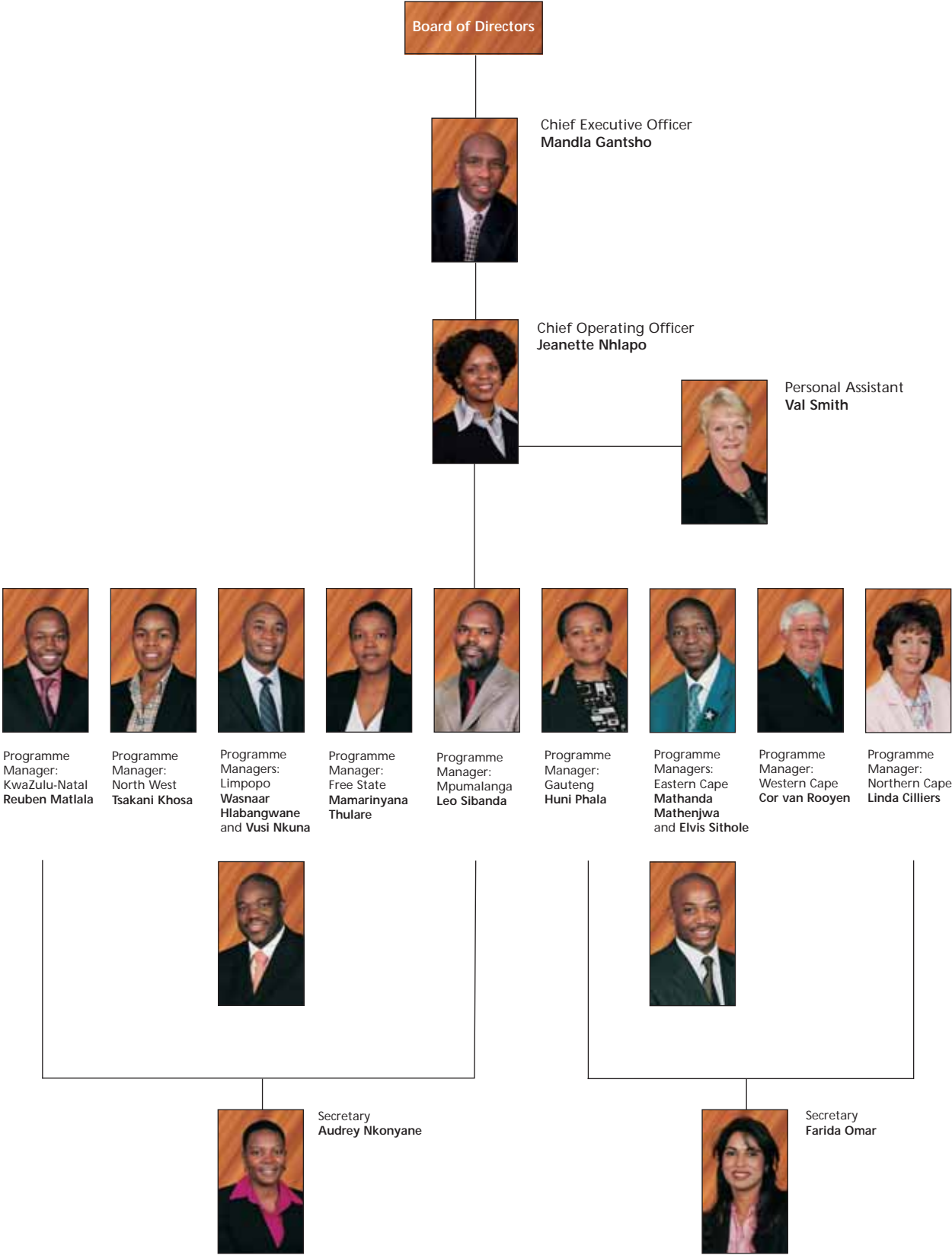
DBSA staff member as from: 18 December 2000

Executive Manager (Acting)
as from: 1 March 2003

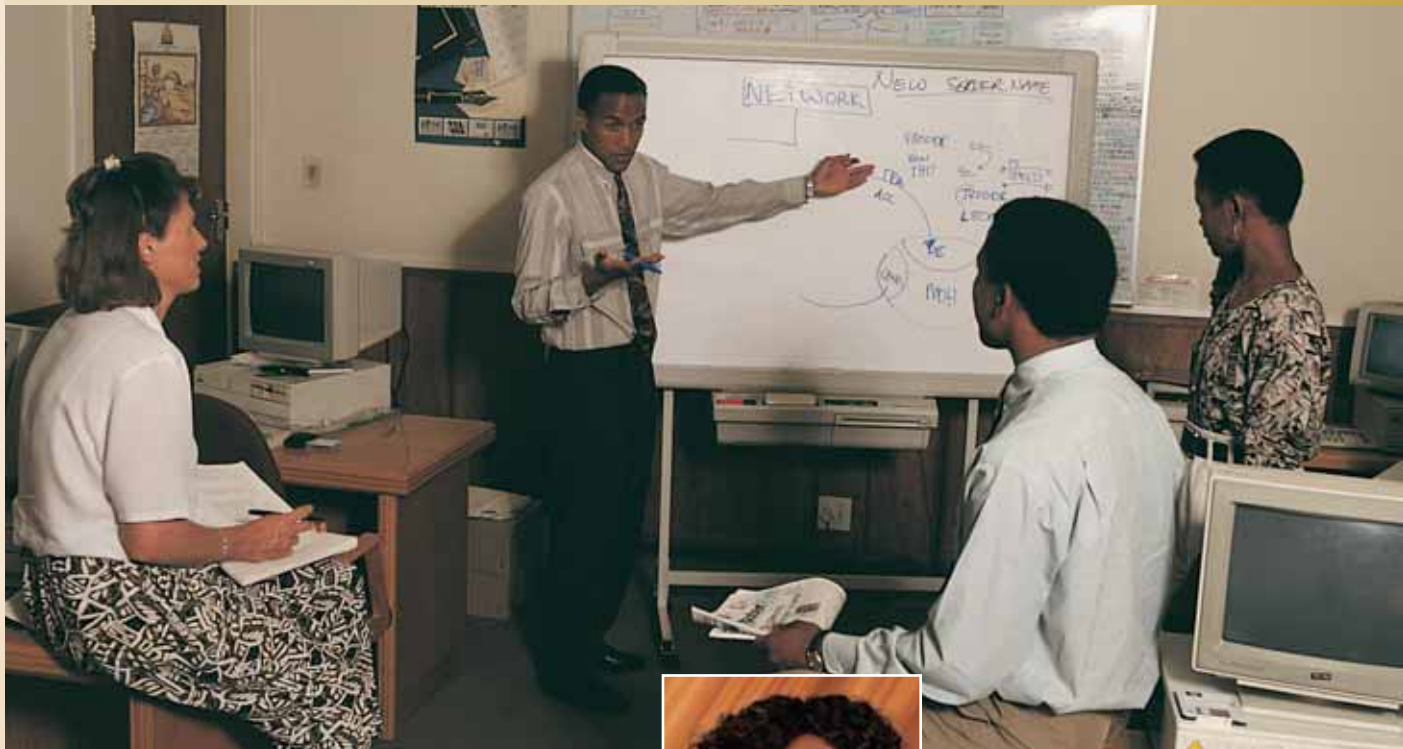
Chief Operating Officer
as from: 1 June 2004

DBSA Corporate Secretariat
Dr Paul Kibuuka (Corporate Secretary)
PO Box 1234, Halfway House, 1685

Organisational structure



Chief Operating Officer's report



*Chief Operating Officer
Mrs Jeanette Nhlapo*

The recent civil unrest in various communities around the country regarding service delivery and development is a sign that the patience of the poor is stretched to the limit. Although the government and other stakeholders have made enormous progress in developing the capacity of authorities to deliver services, it is apparent that municipalities have not been sufficiently transformed in most areas. Drastic measures need to be taken to address institutional challenges. In his State of the Nation address, the President called for a "strengthening of the local government sphere" by intensifying service delivery to improve the lives of communities.

The DBSA Development Fund, which was established to boost development facilitation and capacity building, has contributed significantly in the local government arena over the past three years, by helping municipalities to make strategic and sustainable choices with regard to development and service delivery. This Annual Report presents some of the successes.

By marketing its services extensively and refining its internal processes, the Fund surpassed its performance expectations and increased its exposure to more poorly resourced municipalities. During the year, the Fund almost doubled its commitments and exceeded its target for disbursements. Since its inception, the Fund has been capitalised by the Development Bank to an amount of R460 million and has committed R409 million, with disbursements amounting to R127 million. It has reached out to 90 per cent of the municipalities in the country through innovative interventions.

In 2004/05, the Fund once again exceeded the targets set for approvals in its capacity building and portfolio programmes. The Fund approved 245 projects, exceeding the target of 74 projects by 231 per cent. This constituted an amount of R170 million approved, compared to the target of R92 million. Disbursements in the financial year amounted to R73,5 million against a target of R52 million. The actual grant approvals of R170 million are even more significant if the leverage of other funds is taken into account, where a ratio of 42 per cent (by the Fund) to 58 per cent (by co-funders) was achieved.

Several municipalities are still grappling with the challenges and complexities of the system. The evident lack of implementation capacity in many municipalities is compounded by inadequate basic financial, planning and institutional management skills, which hamper their ability to coordinate activities and communicate properly.

The programmes and projects supported by the Fund have sought to build institutional capacity by developing proper systems; developing and

The Fund has assisted municipalities in making strategic choices with regard to development and service delivery



facilitating strategies to improve the turnaround times on projects; and entrenching project management processes so that services can be planned, implemented, monitored and evaluated effectively.

It would not be possible for the Fund to deal with all the capacity challenges facing municipalities on its own. Smart partnerships are required to pool the strengths of the different role players, thus ensuring that the interventions made are holistic and sustainable. The Fund has forged partnerships with 13 public and private organisations to implement various programmes of strategic importance.

The Bank and the Fund are committed to supporting the national government's agenda and priority programmes by complementing rather than substituting funding and other forms of assistance. The impact of local government is a national issue. Its significance is reflected in Project Consolidate, which aims to fast-track service delivery at the local level, especially in distressed municipalities.

This approach corresponds directly with the Fund's endeavour to concentrate more effort on the implementation of projects, which would result in an increase in disbursements. The Fund is integrally involved in Project Consolidate at the national level, representing the Bank on the National Advisory Working Group. At the provincial and municipal levels, the Fund's focus has also shifted towards assisting the most distressed municipalities identified by Project Consolidate.

The Fund strengthened its institutional capacity over the past year, developing and refining a number of strategies and policies, and increasing its staff complement. Two additional staff members were

appointed to enhance support in Limpopo and the Eastern Cape, the two "hotspot" provinces where there is a need to expedite development initiatives and intervene intensively.

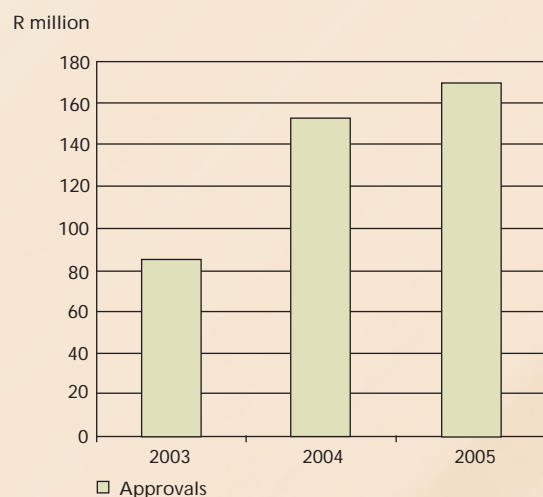
In addition, the Fund developed a tracking system, which has been approved by the Board. This system makes it possible to monitor and assess the effectiveness of the Fund's interventions, and therefore to learn from operations and improve the support offered to municipalities.

The Fund remains committed to expanding the frontiers of capacity building for sustainable development during the next decade. It has a pivotal role to play in overcoming the capacity backlogs that still exist in most municipalities, and will build on the good results achieved during the past year to accelerate its development support. In the 39 months of its existence, the Fund has laid a solid foundation for mobilising the necessary resources locally and internationally.

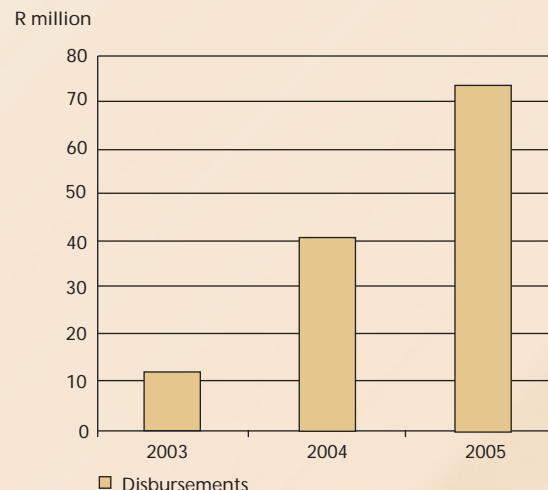
In conclusion, I would like to thank the Chairman of the Development Fund Board, Mrs Hixonia Nyasulu, and all the Board members for their guidance and support. I would also like to extend a warm word of gratitude to the dedicated staff of the Development Bank and the Development Fund, who have worked tirelessly to achieve the Fund's goals and objectives.


Jeanette Nhlapo

Approvals 2003–2005



Disbursements 2003–2005



Strategic partnerships



The DBSA Development Fund strives to create and sustain networks and partnerships in order to share knowledge and maximise the development impact of its capacity building initiatives. In the year under review, the Fund forged partnerships in all three spheres of government. Its partners included national and provincial departments as well as local authorities, with capacity building support focused particularly on the provincial level.

- The Mpumalanga Programme aims to empower local contractors, who will eventually maintain the infrastructure in the Kruger National Park. This joint initiative involves the Development Fund, the Department of Public Works, the Construction Education and Training Authority (CETA) and the Kruger National Park, which is providing a learning opportunity for trainee contractors.
- Together with the Department of Water Affairs and Forestry, the Development Fund co-funded the Operation and Maintenance Programme, which is developing five training manuals on operating and maintaining municipal services.
- In Gauteng, the Development Fund and the DBSA signed a Memorandum of Cooperation with the West Rand District Municipality aimed

at enhancing the local authority's capacity to deliver services. This is a particularly significant challenge, as the District Municipality has within its jurisdiction the Cradle of Humankind World Heritage Site, along with no fewer than three municipalities identified by Project Consolidate.

The Development Fund continues to collaborate with other development finance institutions that share a common interest. These include Teba Development, the United Nations Development Programme (UNDP), the German Association for Technical Cooperation (GTZ) and the Transnet Foundation.

The cooperation with the Transnet Foundation, for example, is aimed at empowering communities on local economic development initiatives in KwaZulu-Natal, North West and Limpopo provinces. In Limpopo, the Development Fund, the Transnet Foundation, the Co-ops Unit of the Department of Finance and the local municipality mobilised resources for the community of Bushbuckridge to establish and manage an abattoir. The support included conducting feasibility studies and providing infrastructure and training.

The Fund creates networks and partnerships to share knowledge and to maximise development impact on capacity building at local government level



Governance principles

The DBSA Development Fund's commitment to the principles of good corporate governance, as espoused in the King II Report and the Protocol on Corporate Governance in State-Owned Enterprises, accords with that of the controlling entity, the Development Bank of Southern Africa. This commitment is reflected in the Fund's corporate governance structure, which, with the exception of the Board of Directors, is shared with the Development Bank.

The Directors of the Fund subscribe to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have significantly been adhered to in discharging their fiduciary duties.

Strategic objectives and performance management

The Board sets the Development Fund's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of the objectives, in line with appropriate risk parameters. The Board monitors management performance against the objectives and compliance with policies through a comprehensive system of reporting to management and Board Committees.

During the year under review, the Fund introduced the Operations Review Committee to assess projects before they are submitted to the Board of Directors for consideration.

Business planning and performance reporting

The Board of Directors approved a three-year Corporate Balanced Scorecard in February 2004. The Balanced Scorecard was used as a basis for compiling business plans. Between October 2003 and January 2004, business plans and activity-based budgets were prepared in succession. Corporate performance assessment against predetermined objectives and targets in the Balanced Scorecard was conducted by executive management and approved by the Board. The Remuneration Committee of the Bank's Board evaluates the performance of the Managing Director and reviews the performance of the Fund's Chief Operating Officer.

Code of Ethics

The Development Bank's Code of Ethics is in line with industry trends and corporate best practice. The review was necessary to align the Code with regulatory developments and changes in the Bank's policies. The application of the Code was extended to include the operations of the DBSA Development Fund. The Code commits management and staff to high standards of ethical conduct in their dealings with the Bank's clients and stakeholders. The Code will be reviewed annually to align it with changes in legislation and benchmark it against best practice in other development finance institutions.

The Fund has adopted a compliance manual that spells out roles, responsibilities and guidelines with respect to the management of compliance risk in all areas of its operation

Internal control

Responsibility for the internal systems of financial and operational control rests with the Board of Directors of the DBSA Development Fund. The internal control processes are founded on the Fund's governance principles, which incorporate ethical behaviour, legislative compliance and sound accounting practice. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets, and adherence to policies, processes and guidelines. Executive management is responsible and accountable for determining the adequacy, extent and operation of these systems. In addition, the Internal Audit function (which is shared with the DBSA) provides independent assurance to the Board of Directors regarding the effectiveness of the Bank's internal control systems.

The Chief Operating Officer attends Board meetings of both the Development Fund and the Development Bank, and Board Committee meetings of the Bank. Regular meetings are held between the Chief Executive Officer and the Chief Operating Officer of the Fund, the Chairman of the Audit and Finance Committee, the Internal Audit Unit of the Bank, and the external auditors. Between Board meetings, the Chairman and the Chief Operating Officer hold regular meetings to monitor progress and follow up on issues raised by the Board.

Regulatory environment and statutory compliance

In line with the provisions of section 51(1)(h) of the Public Finance Management Act, No. 1 of 1999, which enjoin the Board of a public entity to ensure compliance with applicable legislation, the Bank in 2003 established an independent compliance function headed by the Group Compliance Officer. The function is aimed at ensuring that the Bank continuously manages its regulatory risk, through compliance with applicable laws and regulations. The Group Compliance Officer has direct access to the Chief Executive Officer, and the Chairpersons of the Board and the Audit and Finance Committee.

During the year under review, the Bank finalised a group-wide compliance strategy. In addition, it adopted a group compliance manual that spells out roles, responsibilities and guidelines with respect to the management of compliance risk throughout the Bank. The manual identified the Bank's regulatory framework (universe of legislation) and the probability and implications of non-compliance with each aspect of the law.

The roles and functions of the Group Compliance Officer extend to the activities of the Fund.

Measures to counter money laundering

The Development Bank has formulated and implemented a Money Laundering Control policy and adopted internal rules in this regard, as required by the Financial Intelligence Centre Act, No. 38 of 2001 (FICA). This policy also applies to the Fund. After conducting a compliance assessment, the Fund is satisfied that, given the nature of its operations, the risk of non-compliance with the legislation on money laundering is effectively managed.

Fraud prevention and whistle-blowing

The Fund maintains an internal fraud hotline that is operated and managed by an independent external service provider, and employees are encouraged to report any suspected corrupt, fraudulent or unethical practices. The Bank thereby gives effect to and complies with the requirements of the Protected Disclosures Act, No. 26 of 2000, with respect to creating an environment in which it is safe for members of staff to report impropriety.

The Board is responsible for overseeing the Fund's Fraud Prevention Plan and internal controls through periodic reports from the Fraud Management Committee, a subcommittee of the Finance and Risk Management Committee of the Development Bank. The latter Committee reports directly to the Audit and Finance Committee.

Governance structures

Shareholder linkages

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

Minister of Finance

The Minister, as the shareholder representative, 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

According to the articles of association of the Fund, the Development Bank has the right to nominate and appoint all Directors of the Fund and to



remove or substitute them from time to time. The Fund's Board of Directors consists of seven members. Six of the members, including the Chairperson, are non-executive Directors. The Chief Executive Officer of the DBSA is the sole executive Director. The Board is chaired by Mrs Hixonia Nyasulu.

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

The Board reports to the shareholder through annual and interim reports, and through regular meetings between the Chairperson of the Board, the Chief Executive Officer and the Minister of Finance. The Board approves grant funding and development facilitation costs.

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 cost-effective. Accordingly, the Board directs and controls the operations of the Fund through the Board Committees of the Development Bank, each with a distinct mandate and written terms of reference. The relevant committees are the Audit and Finance Committee, which deals with finance and risk management and control; the Knowledge Management Committee, which is responsible for knowledge management and employment practices, including employment equity; and the Remuneration Committee, which oversees the implementation of remuneration policy.

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 Managing Director assists the Board in providing strategic and policy direction to the Fund, and consults regularly with the shareholder representative and the Fund's Chief Operating Officer. The Managing Director also holds the position of Chief Executive Officer of the Fund.

Corporate Secretary

All Directors have access to the advice and services of the 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 provisions of the Companies Act, No. 61 of 1973.

Board composition and record of attendance

Four Board meetings were held during the year under review.

Name	Number of meetings attended
Dr I Abedian	2
Mr N Christodoulou	1
Mr MSV Gantsho	4
Ms N Gasa	3
Mr JB Magwaza ¹	1
Ms D Marsden ²	1
Mr J Naidoo ³	–
Mrs H Nyasulu (Chair)	2
Mr M Vilakazi	4

1. Appointed to the Board in October 2004.
2. Ceased to be a Board member on 25 June 2004.
3. Ceased to be a Board member on 28 January 2005.



When it was founded in December 2001, the DBSA Development Fund was mandated to maximise the impact of development finance in South Africa. It did this by providing financial grants and technical assistance grants to local governments and communities to help them overcome financial capacity constraints and build capacity for development.

In 2002, the Board of the Development Fund approved the establishment of a development credit facility to provide finance on concessional terms to low-income municipalities, which would otherwise have been unable to borrow from the Bank. This facility has since been shut down as it was in violation of the tax exempt status which the Fund enjoyed under the Income Tax Act, No. 58 of 1962. Projects approved under the credit facility were transferred to the Bank's Operations Division. The Fund currently has no credit exposure, but is exposed to operational risks, which are discussed below.

The Fund uses the log frame matrix as a monitoring tool in managing its risk exposures. It supplements its own monitoring processes by making use of the Bank's systems, procedures and internal controls.

Major risk exposures

Risk of no development

This is the risk that projects supported by the DBSA Development Fund do not achieve their objectives.

Mitigation measures

The Fund mitigates this risk by thoroughly appraising the projects it finances to ensure that they 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 fraud.

Mitigation measures

The Fund uses the Development Bank's fraud prevention measures to report on and prevent the occurrence of such activities.

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.

The Fund monitors its risk exposures through the log frame matrix and through the Bank's systems, procedures and controls



People risk – HIV/Aids

This is the risk that the Fund may be adversely affected by the HIV/Aids epidemic and related illness, leading to the loss of staff, productivity and corporate memory.

Mitigation measures

An HIV/Aids awareness campaign is held annually, at which staff are addressed by people living with the disease. Employees of the Fund are encouraged to undergo voluntary testing and are covered by a medical aid scheme.

Data risk

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 operations.

Mitigation measures

The Fund adheres to the principles of good corporate governance. The Development Bank's codes and structures in this connection, which also govern the Fund, promote the highest standards of ethical behaviour.

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's Group 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 and makes use of the Bank's information technology. The premises and their contents are insured, critical electronic data are backed up daily and kept off-site, and important documents are kept in fireproof safes.

Annual financial statements

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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

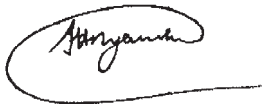
To enable the Directors to meet their financial reporting responsibilities:

- 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.

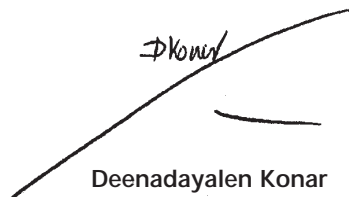
The financial statements that appear on pages 23 to 37 were approved by the Board of Directors on 02 August 2005 and are signed on its behalf by:



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 to the Minister of Finance

We have audited the annual financial statements of the DBSA Development Fund as set out on pages 23 to 37 for the year ended 31 March 2005. The annual financial statements are the responsibility of the DBSA Development Fund's directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit was also planned and performed to ensure our compliance with sections 27 and 28(1)(a) and (b) of the Public Audit Act, No. 25 of 2004.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 2005 and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa and its regulations, and other reporting requirements as set out in the Public Finance Management Act of South Africa.



Gobodo Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
30 June 2005

Assurance report of the independent auditors to the Minister of Finance

We have performed our assurance engagement on the Report on Performance against Predetermined Objectives of the DBSA Development Fund ("the Fund") for the year ended 31 March 2005, set out in the Directors' report on pages 23 to 37 of the Fund's Annual Report.

Directors' responsibility

The directors are responsible for the preparation of the Report on Performance against Predetermined Objectives ("the Report").

Auditors' responsibility

Our responsibility is to conclude whether sufficient appropriate evidence has been obtained to support the reasonable assurance conclusion expressed in this Report. We performed our assurance engagement in accordance with the International Standard on Assurance Engagements (3000) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. That standard requires that we comply with ethical requirements and that we plan the engagement so that it will be performed effectively.

Our assurance engagement involves performing procedures to obtain sufficient appropriate evidence that the performance information is reported against the predetermined objectives, set out on pages 23 to 37 of the Report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the information reported, whether due to fraud or error.

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

Conclusion

In our opinion, the Report on Performance against Predetermined Objectives, prepared in terms of section 55(2)(a) of the Public Finance Management Act of South Africa, presents in all material respects, the performance of the Fund for the year ended 31 March 2005, against the predetermined objectives set out in the Report.



Gobodo Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
30 June 2005

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the DBSA Development Fund for the year ended 31 March 2005. The report deals with the performance of the DBSA Development Fund and meets all 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 2005 and the results of its operations and cash flow information for the year 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

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 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:

- Grant funding for capacity building
- Development facilitation
- Partnership development

In the course of the past year, the Fund reviewed its product offerings and decided to transfer its development credit facility to the Operations South Africa Division of the Development Bank. This new location will strengthen the complementarity of the products and services offered by the DBSA Group.

Grant funding for capacity building

The grant funding supports capacity building programmes and projects aimed at strengthening institutional capacity and human resource development for all types of clients. The funding is available in three areas, namely, institutional capacity building, skills development and transfer, and local economic development.

The emphasis is on building the planning capacity of municipalities and on upgrading and developing systems. Municipalities, communities, government

departments and other institutions are helped to develop the required skills by way of facilitating training, mentorship and coaching, and by providing funding for training materials and manuals.

The Fund also provides financial support to government and community initiatives aimed at identifying and prioritising opportunities for income generation, job creation and overall economic empowerment. Support of this kind is channelled through municipalities. It includes advice on planning, facilitation of training and skills transfer to communities that are engaged in local economic development initiatives, and support for municipal officials involved in planning and facilitating such initiatives.

There have been notable developments in the local government sector during 2004/05. As the sector begins to build on the gains made over the past years, so the Development Fund is also entering a consolidation phase in its youthful life as a capacity development partner and grant-making practitioner. This phase is characterised by the acceleration and innovative packaging of capacity development support programmes, an improved uptake of capacity grants and higher levels of disbursements on projects. The achievements are detailed in the table of high-level performance.

Development facilitation

The Fund, jointly with the DBSA, shares development knowledge and offers ongoing technical support and expertise in support of municipal capacity building.

Partnership development

The Development Fund recognises the importance of coordinating and pooling resources from various development agencies to maximise development impact through collective action. The Fund therefore actively endeavours to establish partnerships with other development institutions.

Objectives

The corporate strategy and business planning activities of the 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 2004/05 objectives on 23 February 2004. The year under review was the third in which the Balanced Scorecard served to identify performance indicators and formed the basis of the subsequent reporting.

The strategic objectives were set for 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, and actual results exceeded targets in most areas of performance. The Chief Operating Officer reported on progress at the quarterly Board meetings. Using the Balanced Scorecard as a basis, personal performance plans were agreed with programme managers and the rest of the staff.

The Directors subscribe to the principles and practices of good corporate governance, and this report reflects the Fund's achievements in that regard. The Directors have continued to broaden the content and improve the standard of reporting based on the "triple bottom line" of social, economic and environmental development achievements.

The following table summarises the high-level strategic objectives and performance against the Balanced Scorecard targets for the year ended 31 March 2005. The table is followed by a more detailed commentary on progress and achievements in relation to the "triple bottom line".

High-level performance in 2004/05

Targets	Results 2004/05	Comments
Balanced Scorecard perspective: Financial sustainability		
1. Strategic objective: Maintain sound financial health		
Operational expenditure not more than 10% of approved budget	Operational expenditure: R14,3 million including development facilitation costs (16% of approved budget) (2003/04: Operational expenditure R10,9 million including development facilitation costs; 72% of budget utilised)	Refer to narrative
2. Strategic objective: Mobilise funding for the Development Fund from international and local funding institutions		
Funding agreements of up to R4 million concluded with other funders by March 2005	R2,3 million funding agreement with KfW (2003/04: Agreement in process of being finalised with KfW)	Target not achieved
3. Strategic objective: Leverage additional resources at programme/project level		
Market 3 = 60:40 Market 2 = 50:50 Market 1 = 40:60	Systems to measure leverage per market segment not developed 58% leverage ratio of Fund to client achieved across all markets (2003/04: Not a target)	Refer to narrative
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Provide capacity building support to clients		
2 200 additional councillors and officials trained by March 2005	Training of 4 767 councillors and officials approved; 4 765 councillors and officials actually trained (2003/04: Not a target)	Target exceeded

High-level performance in 2004/05 (continued)

Targets	Results 2004/05	Comments
Balanced Scorecard perspective: Sustainable development impact		
2. Strategic objective: Accelerate implementation in existing nodes, additional nodes and poorly resourced municipalities		
Consolidate support in 5 existing ISRDS development nodes by March 2005	Consolidated support in the 5 existing nodes (2003/04: 6 additional ISRDS nodes supported)	Target achieved
50 additional municipalities supported by March 2005	59 additional municipalities by March 2005 (2003/04: 132 municipalities supported)	Target exceeded
Total commitments = R91,7 million	Commitments of R170,2 million by March 2005 (2003/04: R153 million)	Target exceeded
Total disbursements = R51,6 million	Disbursements of R73,5 million by March 2005 (2003/04: R41 million)	Target exceeded
3. Strategic objective: Promote black economic empowerment in the appointment of service providers		
A minimum of 20% of the contract value to be allocated to emerging service providers by March 2005	All approved projects stipulated 20% for BEE by March 2005 (2003/04: 50% of the value of contracts awarded to empowerment companies)	Target achieved
4. Strategic objective: Implement the marketing strategy for the Fund		
Marketing material completed by September 2004	Brochures and other corporate gifts developed (2003/04: Marketing strategy developed and implemented; brochures developed and roadshows undertaken)	Target achieved
5. Strategic objective: Establish and utilise partnerships with other development agencies		
3 new partnerships by March 2005	13 partnerships concluded by March 2005 (2003/04: 3 partnerships confirmed by signed memoranda of understanding)	Target exceeded
Balanced Scorecard perspective: Effective business processes		
1. Strategic objective: Maintain an efficient and effective Development Fund operational system		
Annual Report by July 2004	Annual Report approved and launched by August 2004 (2003/04: Annual Report launched in September 2003)	Refer to narrative
Appraisal reports approved within 6 weeks of receipt of application	13% of projects appraised within 6 weeks (2003/04: Application tracking system introduced)	Target not achieved

High-level performance in 2004/05 (continued)

Targets	Results 2004/05	Comments
2. Strategic objective: Monitor and assess the effectiveness of the Fund's systems and programmes		
Review tracking system by June 2004	Tracking system reviewed by December 2004 (2003/04: Tracking system framework developed and approved)	Target achieved later
Completion reports within 1 month of full grant disbursements	Completion reports done more than 1 month after full grant disbursements (2003/04: No completion reports submitted; projects not fully disbursed)	Target not achieved
Submit biannual reviews to Board	Biannual reviews submitted (2003/04: Not a target)	Target achieved
6 programmes/projects/case studies evaluated by March 2005	6 projects evaluated by March 2005 (2003/04: 5 case studies evaluated)	Target achieved
Balanced Scorecard perspective: Learning and growth		
1. Strategic objective: Improve competency levels of staff		
All staff development programmes implemented by March 2005	80% of staff attended relevant training programmes (2003/04: All staff development plans implemented)	Target not achieved
Up to 4.5% of remuneration budget used for training by March 2005	R87 733 spent on training (33% of target achieved) (2003/04: R145 145 spent on training; 435% of target achieved)	Target not achieved
2. Strategic objective: Achieve organisational objectives through performance management		
100% alignment of individual performance plans to Fund's Balanced Scorecard by March 2005	100% alignment of individual performance plans to Balanced Scorecard (2003/04: 100% compliance and alignment of individual performance plans to Balanced Scorecard)	Target achieved
3. Strategic objective: Create a conducive organisational climate to support the Fund's vision		
1 important idea generated and implemented by March 2005	Development Fund capacity building dialogue series implemented (2003/04: Graduate ICT internship programme initiated)	Target achieved

Comments on performance

The Directors are pleased that the Development Fund managed to achieve most of its strategic objectives set for the 2004/05 financial year. The Fund has now entered a phase of consolidating and accelerating capacity building initiatives at a municipal level, either through provincial governments or directly to municipalities. The support provided to municipalities has increased in a number of areas. In the sections below, the main activities of the Fund are discussed in relation to the three pillars of sustainable development: economic, social and environmental development.

Economic report

The Development Fund was established specifically to maximise the provision of development assistance and finance to disadvantaged communities. 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, based on needs analysis and a business plan. 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

During the year under review, the operational expenditure exceeded the operational budget by 16 per cent. This was mainly due to an increase in management fees on the exceeded disbursement target, increased deployment of consultants and the employment of two additional programme managers.

Mobilising funding from international and local funding institutions

The Fund continued to seek networks and to build relationships with strategic partners, so as to mobilise further resources for building capacity in development, while enhancing its own long-term sustainability. In line with the funding mobilisation strategy, the Fund targeted potential partners and pursued interaction with them. A funding agreement that mobilised R2,3 million was concluded with KfW.

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 60 per cent of funding and the client or a third party the remaining 40 per cent. During the year, a leverage ratio of 42 per cent to 58 per cent was achieved, demonstrating the willingness of clients to contribute to their own capacity building.

Establishing and utilising 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. Partnerships were entered into at strategic and project levels. The number of partnerships increased from 3 in the previous year to 13 this year.

Maintaining efficient and effective operating systems

A number of interventions to expand or improve the Development Fund's operating systems were successfully implemented during 2004/05.

The management agreement between the Fund and the DBSA covering the services to be rendered by the Bank's operational and support units has been successfully implemented. The agreement was also reviewed in 2004/05. 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 capacity to appraise projects has improved.

Monitoring and assessing the effectiveness of the Fund's systems and programmes

A tracking system framework developed in the previous year was refined during 2004/05. Quarterly reports will be produced on all approved projects. The Board has also approved the implementation of an electronic tracking system which will be linked to the Fund's Balanced Scorecard.

Environmental report

Although separate objectives have not been set for environmental impact, the Fund places particular emphasis on the impact of its operations on the environment.

The Fund's appraisal framework has a module which looks at the environmental impact of all the projects supported by the Fund.

The Fund supports environmental management plans, environmental impact assessments and feasibility studies to build the environmental management capacity of municipalities. To this end, the appointed service providers are required to transfer skills to officials to enable them to plan and implement projects in a responsible manner.

Social report

Impact of activities on the social environment

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 capacity building support

One of the Fund's strategic objectives is to provide capacity building 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 the Fund consolidated its support in the existing development nodes.

The Fund set a target of providing support to 50 additional municipalities in 2004/05, and exceeded this target by providing support to 59 municipalities. An amount of R170,2 million was committed to

poorly resourced municipalities, far exceeding the target of R91,7 million. The Fund also made record disbursements of R73,5 million, exceeding the target by 42 per cent. These results indicate that the Fund has indeed accelerated its capacity building initiatives in the year under review.

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.

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 80 per cent (2003/04: 92,3 per cent) are from previously disadvantaged communities and 53 per cent are female.

Training

The Fund continued to pay 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. Staff members attended various relevant training courses during the year.

	African	Coloured	Asian	White	Total
Male	6	0	0	1	7
Female	5	0	1	2	8
Total	11	0	1	3	15
Percentage	73,3	0	6,7	20	100

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 DBSA. All staff performance plans were approved and reviewed during the year, and at year-end the Fund reported 100 per cent compliance and alignment of individual performance plans with the Balanced Scorecard. 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 services. This relates to programmes aimed at meeting the capacity needs and challenges of municipalities. In 2004/05, a capacity building dialogue series was introduced. The first dialogue was attended by representatives of the Department of Provincial and Local Government, who shared information on Project Consolidate. This initiative led by the Department is targeting 136 municipalities that are struggling with service delivery.

Balance sheet

at 31 March 2005

	Notes	2005 R	2004 R
Assets			
Current assets			
Funds receivable	2	301 243 417	385 705 415
Cash and cash equivalents	3	<u>33 090</u>	<u>2 377 809</u>
		<u>301 276 507</u>	<u>388 083 224</u>
Funds and liabilities			
Funds			
Funding surplus		298 548 357	386 418 578
Current liability			
Accounts payable	4	<u>2 728 150</u>	<u>1 664 646</u>
		<u>301 276 507</u>	<u>388 083 224</u>

Income statement

for the year ended 31 March 2005

	Notes	2005 R	2004 R
Gross funding (deficit)/surplus		(81 789 919)	252 847 458
Funds received		-	300 000 000
Capacity building grants and development facilitation costs	5	(81 789 919)	(47 152 542)
Interest received		57 865	5 218
Operating expenses		6 138 167	4 806 113
General and administration expenses	6.1	3 949 966	2 645 584
Staff costs	6.2	2 188 201	2 160 529
Net funding (deficit)/surplus		(87 870 221)	248 046 563

Cash flow statement

for the year ended 31 March 2005

	Note	2005 R	2004 R
Cash flows from funding activities	7	(2 402 584)	1 933 089
Cash receipts		84 461 998	52 507 777
Cash payments		(86 864 582)	(50 574 688)
Interest received		57 865	5 218
Movement in cash and cash equivalents		(2 344 719)	1 938 307
Cash and cash equivalents at beginning of the year		2 377 809	439 502
Cash and cash equivalents at the end of the year		33 090	2 377 809

Statement of changes in funds

for the year ended 31 March 2005

	Funding surplus R
Funding surplus at 1 April 2003	138 372 015
Surplus for the year ended 31 March 2004	<u>248 046 563</u>
Balance at 31 March 2004	386 418 578
Deficit for the year ended 31 March 2005	<u>(87 870 221)</u>
Balance at 31 March 2005	<u>298 548 357</u>

Notes to the financial statements

for the year ended 31 March 2005

	2005 R	2004 R
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 DBSA Development Fund.		
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 Limited 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 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.		
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.		
2. Funds receivable		
Interest receivable	6 619	3 729
Development Bank of Southern Africa Limited	301 236 798	385 701 686
	<u>301 243 417</u>	<u>385 705 415</u>
3. Cash and cash equivalents		
Current account	<u>33 090</u>	<u>2 377 809</u>

	2005 R	2004 R
4. Accounts payable		
DBSA management fee	1 322 532	1 137 105
Leave pay and bonus accruals	1 319 359	130 805
Accrued expenses	86 259	396 736
	<u>2 728 150</u>	<u>1 664 646</u>
5. Capacity building grants and development facilitation costs		
Capacity building grants	73 584 528	41 057 653
Development facilitation costs	8 205 391	6 094 889
	<u>81 789 919</u>	<u>47 152 542</u>
6. Operating expenses		
6.1 General and administration expenses		
are arrived at after taking into account:		
Audit fees	128 599	111 367
Management fees	3 359 355	1 866 054
Other	462 012	668 163
	<u>3 949 966</u>	<u>2 645 584</u>
Management fees are paid to the Development Bank of Southern Africa Limited for administration services rendered.		
6.2 Staff costs		
Remuneration	1 776 063	1 678 133
Directors' emoluments (refer to 6.2.1)	324 405	337 251
Training	87 733	145 145
	<u>2 188 201</u>	<u>2 160 529</u>
Included in remuneration above is the remuneration for the following executives:		
– ML Mashaba	179 080	1 090 434
– J Nhlapo	<u>1 113 000</u>	<u>–</u>
All other remuneration is included in development facilitation costs.		

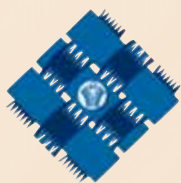
6.2.1 Directors' emoluments

	Salaries/ fees R	Subsistence and travel R	Attendance fees R	Total 2005 R	Total 2004 R
Non-executive directors					
I Abedian	–	360	15 000	15 360	9 000
N Christodoulou	–	–	7 500	7 500	12 000
N Gasa	–	420	22 500	22 920	–
JB Magwaza	–	–	7 500	7 500	–
D Marsden	–	–	–	–	9 000
H Nyasulu	240 000	–	7 500	247 500	273 718
J Naidoo	–	180	–	180	16 790
M Vilakazi	–	945	22 500	23 445	16 743
	240 000	1 905	82 500	324 405	337 251
Executive director					
MSV Gantsho	–	–	–	–	–
	240 000	1 905	82 500	324 405	337 251

	2005 R	2004 R
7. Reconciliation of net funding deficit/surplus to cash flows from funding activities		
Net funding (deficit)/surplus	(87 870 221)	248 046 563
Interest received	(57 865)	(5 218)
(Deficit)/surplus before working capital changes	(87 928 086)	248 041 345
Movement in funds receivable	84 461 998	(247 492 223)
Movement in accounts payable	1 063 504	1 383 967
	(2 402 584)	1 933 089
8. Approvals and commitments		
Grant approvals for the year	170 273 000	153 000 000
Total outstanding grant commitments at end of year	277 512 800	185 452 800

There are sufficient funds available to cover the outstanding grant commitments at year-end.

	2005 R	2004 R
9. South African 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.		
10. Related party		
Development Bank of Southern Africa Limited		
Grant funding received	–	300 000 000
Management fees paid	3 359 355	1 866 054
11. Retirement benefits and post-retirement medical benefits		
These 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.		

**Registration number**

2001/030153/08

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Home page

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