DBSA

Development Bank of Southern Africa Limited
Annual Report 2003

Investor

Advisor

Partner

Investor

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

Advisor

To build institutional, financial, technical and knowledge capacity for development

Partner

To leverage private, public and community players in the development process

Vision

The vision of the Development Bank is to be a leading change agent for socio-economic development in Southern Africa.

Mission

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

Strategic thrusts

- Accelerating the delivery of financial and non-financial services in an efficient and integrated manner
- Providing financial resources and expertise for excellence in delivery
- Increasing the Bank's involvement in the poorest areas
- Becoming a knowledge-based institution
- Promoting business growth through innovation and responsible risk-taking
- Building and maintaining strong strategic partnerships to maximise development impact
- Recognising and rewarding performance in relation to specific deliverables
- Continuing the Bank's transformation by building on the past and aligning for the future

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Development Bank profile

The Development Bank of Southern Africa is a development finance institution wholly owned by the South African government. Established in 1983, it celebrates its 20th anniversary this year.

The *mandate* of the Bank is to promote sustainable development through the funding of physical, social and economic infrastructure.

Geographical area of operations: The Bank operates in the 14 countries of the Southern African Development Community (SADC). It has established the following geographical business units:

- Gauteng, Free State and North West
- KwaZulu-Natal and Mpumalanga
- Western and Northern Cape
- Eastern Cape
- Limpopo
- International Finance: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe

Products and services

Investment support

Since inception, the Bank has approved loans and equity of R28,8 billion (resulting in commitments of R25,7 billion). In addition, the Bank provided cumulative guarantees to the value of R275 million. The total number of borrowers at year-end was 366.

Advisory and technical assistance

Since inception, the Bank has approved grants of R124,5 million. In addition to these grants, the Bank's advisory role also included knowledge support and agency services.

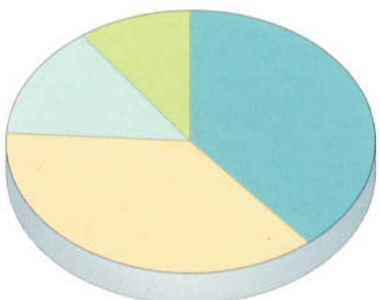
Knowledge management: During the year, the Bank provided policy and information support to its clients and the broader development community, including the following:

- The Bank helped the Department of Provincial and Local Government to manage a local economic regeneration study.
- It compiled 13 socio-economic profiles, which were supplied to the National Treasury to help them develop a strategy on Municipal Finance Management.
- It helped to develop a policy framework on the transfer of water schemes from the Department of Water Affairs and Forestry to local municipalities.
- It provided strategic advice to the Northern Cape Department of Economic Affairs and Tourism on a provincial development strategy and the establishment of a provincial development agency.
- It also advised the Free State provincial government as a member of the Premier's Economic Advisory Council.

Agency services: The Bank currently has 22 agency projects with a value of some R500 million in funding. These projects are diverse in nature and include:

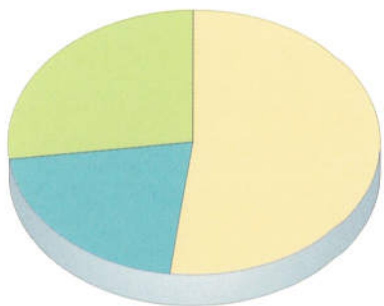
- Joint ventures
- Independent contractor assignments
- Management contracts

Sectoral distribution of cumulative loan and equity approvals



Internal reticulation infrastructure	39%
Bulk and connector infrastructure	37%
Social and institutional infrastructure	14%
Entrepreneurial support	10%

Sectoral distribution of cumulative grant approvals



Institutional capacity building	52%
Policy and planning	21%
Other	27%

Partnerships

The Bank emphasises the role of partnerships in maximising the impact of development interventions. As discussed in more detail in the rest of the Report, it draws partners from a wide spectrum of development stakeholders, such as national governments, provincial and municipal governments, the private sector, bilateral institutions, multilateral development agencies, community-based organisations and non-governmental organisations.

Financial structure

The Development Bank is a self-funding institution and raises its funding from domestic and international capital markets, bilateral and multilateral development institutions, and internally generated resources. The Bank has access to a callable capital facility of R4,8 billion, which is part of its capital structure. It is rated by three rating agencies: Fitch, Moody's Investors Service, and Standard and Poor's. Fitch reaffirmed the Bank's domestic premier ratings of AAA. Moody's upgraded the Bank's international investment credit ratings in May 2002 from Baa3 to Baa2 with a positive outlook, while Standard and Poor's upgraded the ratings from BBB- to BBB with a stable outlook.

Governance structure

Sole owner
South African government

Shareholder representative
Minister of Finance

Chairman of the Board
Jayaseelan Naidoo

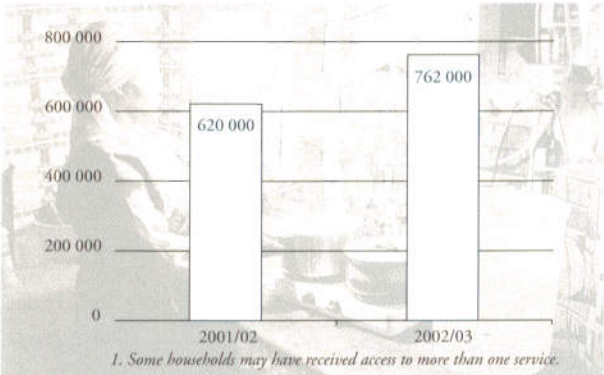
Chief Executive Officer and Managing Director
Mandla Gantsho

Board of 14; 13 non-executive

Buffalo City development programme, Eastern Cape

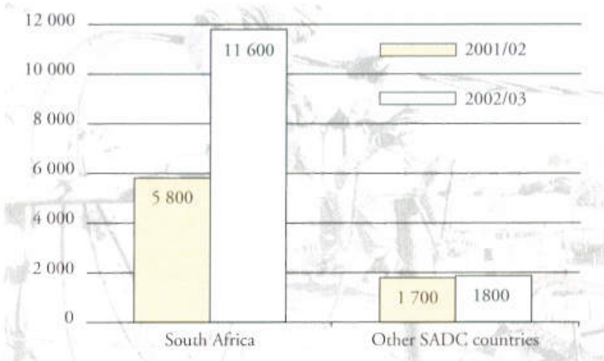
Development impact through operations

Estimated number of households to benefit from access to services, based on total project cost, South Africa and other SADC countries[1]

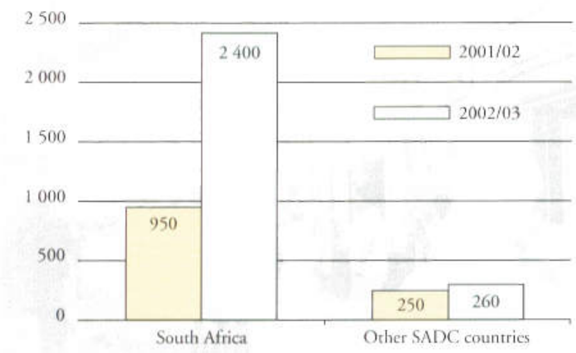


1. Some households may have received access to more than one service.

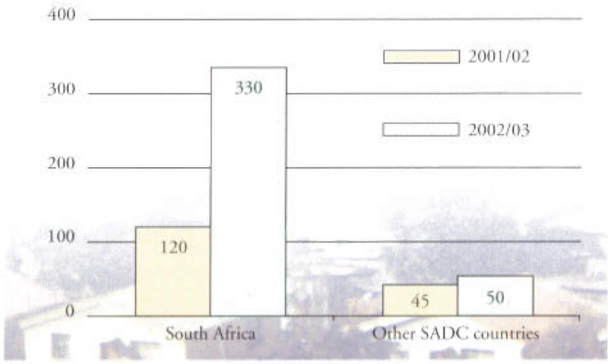
Estimated number of employment opportunities created by DBSA disbursements, South Africa and other SADC countries



Estimated contribution of DBSA disbursements to gross domestic (regional) product, South Africa and other SADC countries (R million, constant 2002/03 prices)



Estimated contribution of DBSA disbursements to low-income households, South Africa and other SADC countries (R million, constant 2002/03 prices)



Business performance

	2002/03	2001/02	2000/01	1999/2000	1998/99	4-year average (1999–2002)
Total capital cost of approvals, DBSA and co-funders (R million)	13 775	13 484	13 897	5 607	7 715	10 176
South Africa	10 278	8 477	3 106	3 648	4 098	4 832
Other SADC countries	3 497	5 007	10 791	1 959	3 617	5 344
Total DBSA contribution to approvals (R million)	3 833	3 151	2 217	2 040	1 903	2 328
% of total capital cost funded by sources other than DBSA	72,2	76,6	84,0	63,6	75,3	77,1
Disbursements (R million)	3 661	1 781	1 622	1 702	2 457	1 891
South Africa	2 903	1 101	1 139	1 286	1 893	1 355
Other SADC countries	758	680	483	416	564	536
Total operating costs (R million)	287	255	232	181	169	209
Total operating costs as % of approvals	7,5	8,1	10,5	8,9	8,9	9,0
Number of employees at year-end	470	430	430	431	446	434
Net contribution per employee (R million)[1]	7,8	4,1	3,8	4,0	5,5	4,4
% of employment equity managers at year-end	86	81	72	76	79	78

1. Calculated as the net contribution of the average number of employees to disbursements.

Financial performance

	2002/03	2001/02	2000/01	1999/2000	1998/99	4-year average (1999–2002)
Financial results						
Income excluding provisions and exceptional items (R million)	1 650	920	969	797	864	887
Interest on development activities[1] (R million)	1 686	1 505	1 465	1 333	1 100	1 351
Interest on investments (R million)	597	579	577	519	543	554
Interest paid (R million)	967	1 150	1 151	950	789	1 010
Surplus for the year (R million)	1 284	593	632	414	615	563
Financial position						
Cash and cash equivalents (R million)	1 306	1 376	1 092	1 268	899	1 159
Investment in government bonds	3 361	3 253	3 253	3 253	3 160	3 230
Investment in development activities[1] (R million)	14 296	12 004	12 306	10 798	9 272	11 095
Other assets	1 956	2 010	1 104	672	2 236	1 505
Total assets (R million)	20 919	18 643	17 755	15 991	15 567	16 989
Issued share capital (R million)	200	200	200	200	200	200
Total capital and reserves (R million)	10 231	8 898	8 328	7 479	6 669	7 843
Medium- and long-term financing (R million)	9 940	8 341	7 521	7 836	6 129	7 457
Other liabilities	748	1 404	1 906	676	2 769	1 688
Total liabilities	10 688	9 745	9 427	8 512	8 898	9 145
Financial ratios						
Return on shareholder's funds (%)	12,5	6,7	8,0	5,9	9,6	7,5
Return on assets (%)	6,1	3,2	3,7	2,6	4,5	3,5
Operating costs to income (%)	17,4	27,7	24,0	22,7	19,6	23,5
Interest cover (times)	2,4	1,8	1,8	2,0	2,1	1,9
Reserves to loans ratio (%)	71,9	75,0	68,5	69,9	72,5	71,5
Long-term debt to equity (%)	98,3	95,5	90,3	104,8	91,9	95,6
Cash and cash equivalents to total assets (%)	6,2	7,4	6,2	7,9	5,8	6,8
Issued capital to assets (%)	1,0	1,1	1,1	1,3	1,3	1,2
Total capital and reserves to assets (%)	48,9	47,7	46,9	46,8	42,8	46,1
Medium- and long-term financing to investment in development activities[1] (%)	69,5	69,5	61,1	72,6	66,1	67,3
Weighted average interest rate on development loans (%)	13,5	12,8	11,7	13,0	12,7	12,5
Provision for loan loss as percentage of development loans	6,1	7,5	7,3	7,3	6,3	7,1

1. Development activities include development loans and investments.

Namibia Water Corporation, Namibia

Contents

Abbreviations

CHF	Swiss franc
CORE	Corporate Operations Recording information system
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa Limited
€	Euro
GDP	Gross domestic product
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ISDA	International Swaps and Derivatives Association
ISMA	International Securities Market Association
NEPAD	New Partnership for Africa's Development
R	South African rand
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SADC	Southern African Development Community
Somoho	Soweto Mountain of Hope project
US$	United States dollar

Exchange rate

On 31 March 2003 the R/US$ and R/€ exchange rates were 7,885 and 8,619 respectively.

Financial year

The financial year of the Development Bank 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.

Board of Directors

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 Director as from:	1 August 2001

Name and designation:	**Ms Lucienne Abrahams** (42) Director: LINK Centre, Wits Graduate School for Public and Development Management, University of the Witwatersrand
Academic qualifications:	Postgraduate Diploma in Public and Development Management, University of the Witwatersrand (1995) BSc (Chemistry), University of Cape Town (1983)
DBSA Director as from:	1 June 1995

Name and designation:	**Prof. Brian de Lacy Figaji** (58) Vice-Chancellor: Peninsula Technikon
Academic qualifications:	MEduc (Administration, Planning and Social Policy), Harvard University (1989) Diploma in Tertiary Education, University of South Africa (1987) Graduate Diploma (Engineering), University of Cape Town (1985) BSc (Engineering), University of Cape Town (1972) BSc (Science), University of the Western Cape (1969)
DBSA Director as from:	1 August 1997

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 staff member as from:	1 October 1995
DBSA Director as from:	1 February 2001

Name and designation: **Dr Deenadayalen Konar** (49)
Consultant

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

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

Name and designation: **Mr Johannes Bhekumuzi Magwaza** (61)
Executive Director: Tongaat-Hulett Group Limited

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

DBSA Director as from: 1 June 1995

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

DBSA Director as from: 1 May 2000

Chairman of the DBSA Board from: 24 August 2000

Name and designation: **Prof. Wiseman Lumkile Nkuhlu** (59)
Chief Economic Advisor: President's Office

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

DBSA Director as from: 1 July 1983

Name and designation: **Ms 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 Director as from: 1 August 1997

Name and designation: **Ms Maria da Conceicao das Neves Calha Ramos** (44)
Director-General: National Treasury

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

DBSA Director as from: 1 August 1997

Name and designation: **Mr Ignatius Sehoole** (43)
Executive President: South African Institute of Chartered Accountants

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

DBSA Director as from: 1 August 2001

Name and designation: **Mr Nkululeko Sowazi** (40)
Director of Companies

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

DBSA Director as from: 1 August 2001

Name and designation: **Mr Zamindlela Titus** (46)
Advisor to the Minister: Provincial and Local Government

Academic qualifications: LLB, University of Fort Hare (1980)
BJuris, University of Fort Hare (1977)

DBSA Director as from: 1 August 1997

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 Director as from: 1 August 2001

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

This year the Development Bank of Southern Africa marks its 20th anniversary as a development finance institution. Established in 1983 to give economic support to the homeland system within the grand scheme of apartheid, it can now look back proudly at nearly a decade of transformation and an intensified commitment to dealing with the consequences of history. After the first democratic elections in 1994, the Bank was transformed to promote "economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the region".

Since then, the Development Bank has, in its triple role of investor, advisor and partner, contributed significantly to the pursuit of a better quality of life through poverty reduction, access to resources, services and opportunities, and the realisation of individual human potential. The Bank aims to maximise its impact on the lives of poor people through sustainable economic, social and environmental development for all in the region. In line with the emphasis on "people, planet and prosperity", the Directors' report highlights the Bank's achievements in each of these areas in the year under review.

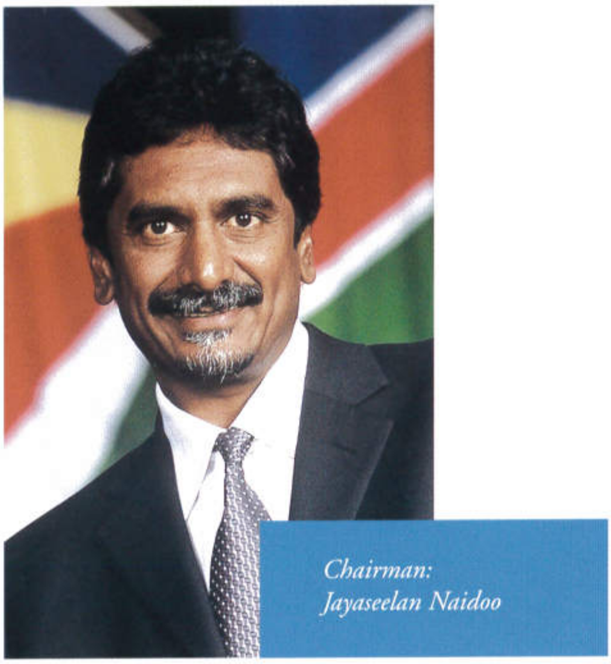
Economic conditions

Against the backdrop of a volatile global economy, the domestic economy has been resilient. Gross domestic product grew by 2,9 per cent, exceeding expectations, and fixed investment grew by 7,9 per cent. On the balance of payments front, the current account showed a modest surplus, while capital inflows were healthy as a result of the high differential between domestic and global interest rates. This contributed to the recovery of the exchange rate of the rand, after its decline in 2001. The appreciation of the currency has reduced the cost of imported intermediate and final goods, and enhances the prospects for lower inflation over the medium term. However, its stifling effect on exports is starting to contribute to a slowdown in manufacturing growth.

The government's sound policies and economic reforms over the past decade have contributed to a strong platform for future economic growth and development. Early indications are that the formal economy may now have reached a point at which increased growth is finally translating into greater job creation, and per capita income has started to increase.

The poor benefit

The delivery of basic services to poor communities in South Africa continued apace. It is estimated that almost 70 per cent of households now use electricity for lighting, 84,5 per cent have access to piped water, some 82,3 per cent of households have access to a flush, chemical or pit latrine, and 42,4 per cent have access either to a telephone in the dwelling or to a cellular phone. The Development Bank contributed significantly to the delivery of services; as outlined elsewhere in the Report, 762 000 households have gained access to basic services through projects co-funded by the Bank during the year under review.



Chairman: Jayaseelan Naidoo

Developments in Southern Africa

In the SADC region, economic growth and development have been hampered by drought, rising food prices and food shortages in a number of countries. The situation in Zimbabwe remains volatile, but notably positive developments have been the peace agreements reached between opposing parties in Angola and the Democratic Republic of Congo, resulting in a cessation of conflict in these countries. The region's share of international investment remains low – in the year under review, the subcontinent attracted only 4,9 per cent of net foreign direct investment in all developing countries or \$7 billion, of which South Africa received \$1 billion (0,7 per cent of the total). Notable exceptions, however, are Mozambique and Tanzania, which have recorded exceptionally high output figures. Mozambique has continued to build on the investor confidence established by the Maputo Development Corridor and the initial anchor projects such as Mozal aluminium smelter and the N4 toll road. A significant number of new investments have been made and others are under consideration. In Tanzania, the decision to transform to a market-led economy, backed by sound economic management, the adoption of the Strategic Development Initiative approach and the increasing emphasis on tourism, is now beginning to bear fruit. The manufacturing and agricultural sectors have been the first to respond and are driving the country's economic recovery.

Progress with the New Partnership for Africa's Development (NEPAD) has been promising. NEPAD is a strategic framework for the socio-economic development of Africa. Its primary objective is to eradicate poverty in Africa and place African countries, both individually and collectively, on a path of sustainable growth and development, thus reversing the marginalisation of the continent in the globalisation process. With its commitment to good governance, an improved investment climate and investment in people, NEPAD allows African countries to take charge of their own development. The Secretariat has completed its initial advocacy phase to establish the strategy internationally, on the continent and among the regional economic communities and their member states. Attention is now being focused on implementing the Short Term Action Plan and those projects that focus on regional integration. The United Nations Development Programme (UNDP) is also helping the Secretariat to establish the necessary capacity, especially to implement the African Peer Review Mechanism and the External Partnership Programme. In this regard, substantial financial assistance is flowing to the Secretariat to establish Funds committed to preparing projects, generating policy and strategy, and building capacity.

The Development Bank's mission and mandate dovetail neatly with those of NEPAD, and the Bank has taken up the challenge of playing a leading role in promoting this initiative. In order to exploit its resources fully in this regard, the Bank has established a dedicated Africa Partnerships Unit. The Bank's focus is on advocacy, capacity support, partnership building and investment in infrastructure-related projects to accelerate the pace at which the huge backlog of infrastructure requirements on the continent can be reduced. Substantial progress has already been made during these initial stages. The Bank has played a role in the first phase of establishing a dedicated Development Fund for the SADC, has established a number of partnerships in support of NEPAD. The Development Bank and the African Development Bank are moving into a sound partnership relationship in support of NEPAD's implementation. They have formed a task team to formulate a medium and long-term action plan for the continent's development. They are also jointly investigating the capacity needs of the Regional Economic Communities in terms of their responsibility to implement the NEPAD Short-Term Action Plan.

Partnerships for development

The development needs of the subcontinent cannot be met by institutions working in isolation. To leverage maximum development impact from its limited resources, the Development Bank has engaged in a range of national and international partnerships. The aim is to tap into existing networks and build new ones, and to benefit from international expertise while building the capacity of local partners. Within South Africa, the Bank works in close partnership with the various levels of government and other role players in the public and private sectors to explore synergies for sustainable development. It is also creating interactions with civil society in South Africa and beyond its borders. Internationally, the Bank has been engaged in formal projects to build partnerships in four countries in the SADC area. These and other key partnership initiatives are described in the rest of the Report. The Bank also undertakes a number of agency projects for a range of clients, to provide capacity to development and implementing agencies and act as a vehicle for partnerships with international development finance institutions.

Capacity building initiatives

Government, the private sector and civil society recognise that capacity constraints represent the biggest obstacle to service delivery by municipalities. The Bank has responded to this challenge by establishing the Development Fund, a section 21 company incorporated in December 2001 to address sustainable capacity building at municipal level, and to support municipalities in enhancing service delivery and local economic development. The Fund's vision is to be a leading catalyst for capacity building and to maximise the impact of development finance in South Africa.

The Fund is only 15 months old and its programmes are still at an input stage, but its accomplishments are already substantial. It was capitalised initially with R80 million from the Bank's surpluses, and in 2002/03 with another R150 million. An additional R230 million will be allocated during 2003/04. The Fund has also mobilised at least R6 million of grant funding from Agence Française de Développement and discussions are under way with other donors. With the Fund now fully operational in all nine provinces, it has contributed significantly to the increased delivery of services and capacity building in local government. The Fund has approved programmes to the value of R86 million. Its portfolio spread includes skills development, development planning and upgrading of municipal systems, and over 77 per cent of its clients are poor and under-resourced rural municipalities and nodes identified in the Integrated Sustainable Rural Development Strategy.

I would like to congratulate the Bank's management and staff on their success in increasing the delivery of services during the year. The Chief Executive Officer and Managing Director, Mandla Gantsho, has made great strides in revitalising the organisation, and the Bank's staff are passionate about finding new solutions to the challenges facing the region. Likewise, the Board of Directors have been particularly dedicated and supportive; I value their substantial contribution to the leadership of the Development Bank. A special word of thanks is also due to the Minister of Finance, Trevor Manuel, who played an active role in the continued transformation of the Bank, challenging us to think and act innovatively, and supporting us in his capacity as shareholder representative.

I am proud of the achievements of the Development Bank to date, and I believe that the organisation is geared to make an even more significant contribution to development in the year ahead, both in South Africa and in the wider Southern African region.

Jayaseelan Naidoo

Executive management

Name and designation: **Mr Jacob Henry de Villiers Botha** (54)
Executive Manager: Strategic Initiatives

Academic qualifications: Pr Eng (1978)
BSc (Eng) (Civil), University of Pretoria (1972)

DBSA staff member as from: 1 October 1988

Executive Manager as from: 1 October 1996

Name and designation: **Dr Snowy Joyce Khoza** (45)
Executive Manager: Knowledge Management

Academic qualifications: Economics and Public Finance Certificate, University of South Africa (1999)
PhD (Social Policy), Brandeis University (USA) (1996)
MA (Social Science), University of South Africa (1990)
BA Hons (Social Work), University of Fort Hare (1986)
BA (Social Work), University of the North (1981)

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

Name and designation: **Ms Zanele Joyce Matlala** (40)
Executive Manager: Private Sector and International Investments

Academic qualifications: CA (SA) (1997)
BCompt Hons, University of South Africa (1996)
BCom (Accountancy), University of South Africa (1993)

Executive Manager and DBSA staff member as from: 1 January 2002

Name and designation: **Mr Abdul-Kader Mohamed** (34)
Executive Manager: Corporate Finance and Administration

Academic qualifications: CA (SA) (1994)
Postgraduate Diploma in Accountancy, University of Cape Town (1991)
BCom, University of Cape Town (1990)

Executive Manager and DBSA staff member as from: 1 May 2003

Name and designation: **Mr Lewis Maxwell Musasike** (42)
Executive Manager: Treasury

Academic qualifications: MBA, University of Warwick (1995)
AMCT (UK) (1995)
ACMA (CIMA-UK) (1987)
CA (Zimbabwe) (1985)
BAcc Hons, University of Zimbabwe (1982)

DBSA staff member as from: 1 April 1998

Executive Manager as from: 1 October 2001

Name and designation: **Ms Jeanette Nhlapo** (32)
Executive Manager (Acting): South Africa Operations

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 February 2003

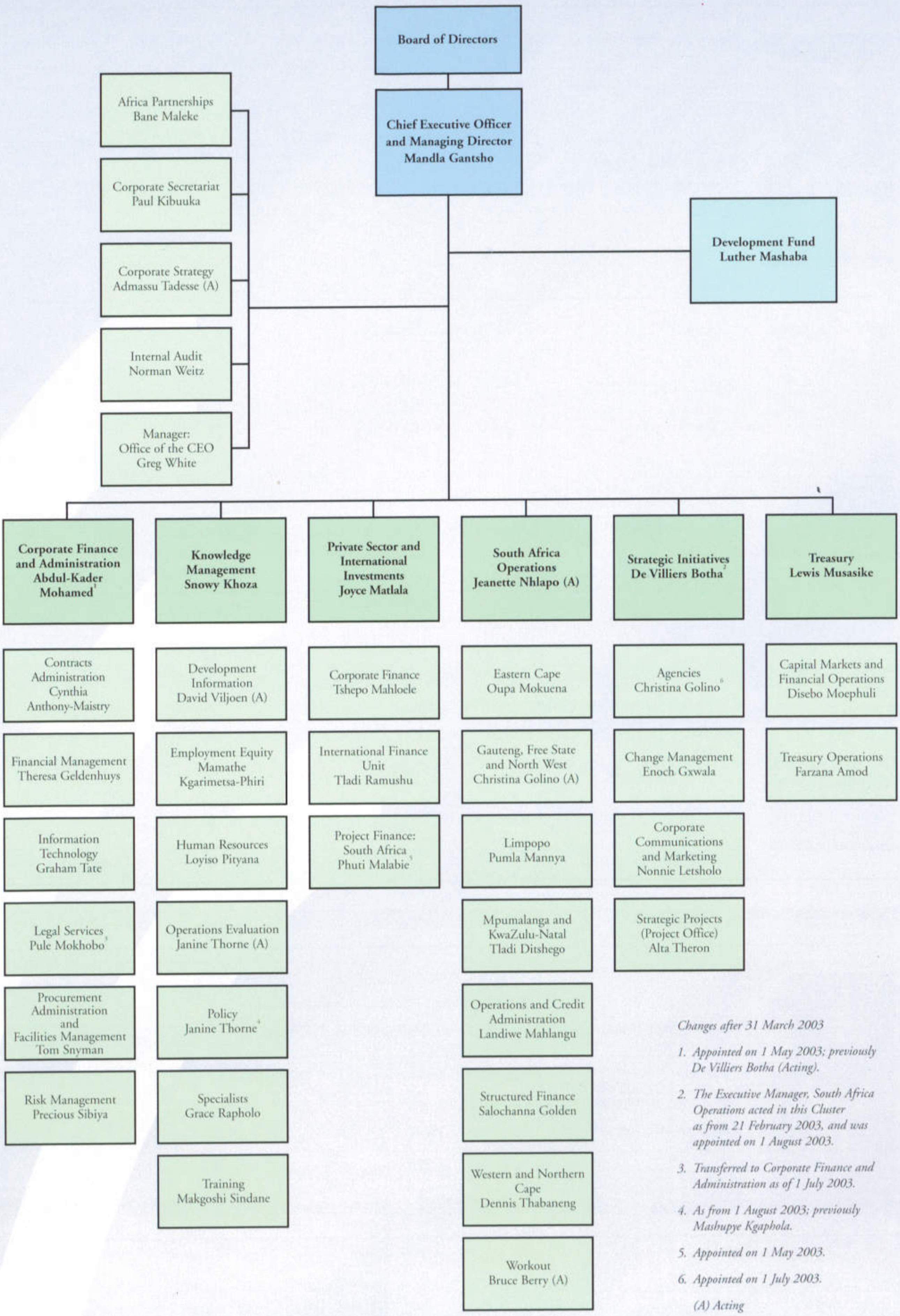
Development Fund

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



Changes after 31 March 2003

1. *Appointed on 1 May 2003; previously De Villiers Botha (Acting).*
2. *The Executive Manager, South Africa Operations acted in this Cluster as from 21 February 2003, and was appointed on 1 August 2003.*
3. *Transferred to Corporate Finance and Administration as of 1 July 2003.*
4. *As from 1 August 2003; previously Mashupye Kgaphola.*
5. *Appointed on 1 May 2003.*
6. *Appointed on 1 July 2003.*

(A) Acting

Msunduzi urban development programme, KwaZulu-Natal

Managing Director's report

The historic World Summit on Sustainable Development took place in Johannesburg in September 2002. Both the lead-up to the Summit and the proceedings themselves heightened global awareness on the vital importance of sustainable development, and made it clear that in the quest to achieve such development there is an inextricable relationship between people, planet and prosperity.

The challenge now facing governments, the private sector, development finance institutions and civil society around the world is to ensure that the consensus and progress achieved at the Summit are translated into programmes and projects that give life to the resolutions made by global leaders. This Annual Report accordingly takes further the theme of "sustainable development", which was also the focus of last year's Report. It highlights how the Development Bank has accelerated its contribution to sustainable development in general and to initiatives arising from the Summit in particular.

The past year saw continued volatility in the global political and economic arena. The effects of global recession, fears of armed conflict in the Middle East and the deepening economic malaise in certain emerging markets, such as Argentina, impacted negatively on investor confidence and foreign direct investment throughout the developing world.

Despite these constraints, the African continent has fared well in laying the foundations for accelerated economic growth and development. NEPAD has gained momentum, with African leaders broadly committed to the tenets and goals of the initiative, and the developed nations committed to supporting the process.

In South Africa, nine years of sound economic and political leadership and management, and significant progress in addressing the development challenges faced by the country, continue to bear fruit. Despite extraneous shocks, such as the rapid devaluation of the rand in the last quarter of 2001 and the impact of political and economic volatility elsewhere in the SADC region, the economy has done well: positive rates of economic growth were achieved in 2002, the rand regained lost ground during the year, and enhanced investor confidence in South Africa was expressed in improved sovereign credit ratings.

In the secure social, economic and political environment of South Africa the Bank was able to achieve unprecedented results in 2002/03. The total value of project approvals reached R3,8 billion, while disbursements reached a record high of R3,7 billion. This represented an increase of 106 per cent over disbursements in 2001/02, and exceeded targets by 42 per cent.

The financial and operational results attained during the year reflect inputs aimed at achieving sustainable development outcomes. How did the Bank fare in this regard?

As far as the people pillar of sustainable development is concerned, I am pleased to report that approximately 762 000 households benefited through enhanced access to basic services from the Bank's investment in infrastructure during 2002/03. This also led to the creation of an estimated 42 000 jobs.

Managing Director and Chief Executive Officer: Mandla Gantsho

With regard to the prosperity pillar, the Bank's investments will contribute an estimated R8,4 billion to GDP and an estimated R1,2 billion to the income of low-income households.

In respect of the planet pillar, the Bank continued to ensure through its environmental appraisals that all the projects it supported were environmentally sound and sustainable. In addition, the Bank cemented a number of partnerships with local and global stakeholders aimed at facilitating innovative, environmentally friendly technologies. Among these is an agreement with the World Bank, concluded at the World Summit, in terms of which the Development Bank will provide professional support for the management of the World Bank's Prototype Carbon Fund in the SADC region. The Development Bank also formalised a partnership with Eskom to test an innovative technology for generating solar energy.

Sustainable institutions are a key to unlocking the development potential of our region, and the Bank has continued to support capacity building through its technical assistance programmes. During the year, technical assistance disbursements reached a record high of R14 million, an increase of 42 per cent over 2001/02.

The Development Fund, which was established in 2001 with an initial capital commitment of R80 million by the Development Bank, became fully operational during the year, and has committed R86 million to initiatives that aim to establish sustainable capacity within under-resourced municipalities. As a result of the good progress made during the year, the Board of Directors approved a further tranche to the Development Fund of R150 million in 2002/03. Another R230 million will be provided in 2003/04.

Overall confidence in the Bank's financial strength and sustainability is reflected in the fact that its premier domestic credit ratings were reaffirmed, while its investor grade international credit ratings were improved to BBB with a stable outlook by Standard and Poor's and retained at Baa2 but upgraded to a positive outlook by Moody's Investors Service. This confidence has significantly enhanced the Bank's ability to mobilise funding on behalf of its clients on highly competitive terms.

Other key factors contributed to the Bank's record results in 2002/03. Organisational changes were implemented in 2001/02, aimed at aligning the Bank's organisational structure, systems and processes with the imperative of achieving accelerated and sustainable delivery of development. The Bank's medium-term Vision 2004 strategy was enhanced to include significantly increased targets for financial and development impact. A longer-term Vision 2010 strategic framework was also formulated during the year and endorsed by the Board of Directors. This outlines how the Bank will give effect to its vision of becoming a leading change agent for sustainable development on the continent in the current decade.

I view the Bank's achievements during 2002/03 as the beginning of a new era, in which the institution will make an ever-increasing contribution to turning the tide of poverty and underdevelopment on our continent.

These results could not have been achieved without the support and guidance given to management by the Bank's Governor, Minister Trevor Manuel, the Chairman of the Board, Mr Jayaseelan Naidoo, and fellow Board members, all of whom have been generous with their valuable time and wisdom. In conclusion, I would also like to acknowledge the contribution of all the Bank's "development activists", who seized with fervour and commitment the challenge of making 2002/03 a milestone in the Bank's quest to create a better life for all.

Mandla Gantsho

Maragra and Marromeu sugar projects, Mozambique

South Africa Operations

Executive Manager:
Jeanette Nhlapo (Acting)

Left to right:
Pumla Mannya (Limpopo)
Oupa Mokuena (Eastern Cape)
Bruce Berry (Workout) (A)
Jeanette Nhlapo (Executive Manager) (A)
Christina Golino (Gauteng, Free State and North West) (A)
Landiwe Mahlangu (Operations and Credit Administration)
Tladi Ditshego (Mpumalanga and KwaZulu-Natal)

Absent:
Salochanna Golden (Structured Finance)
Dennis Thabaneng (Western and Northern Cape)

The challenge of bringing the policies of our country and region to life lies at the core of the Development Bank's activities. The South Africa Operations Cluster is dedicated to the delivery of infrastructure to the people of South Africa, and has the primary responsibility of providing support to its public sector clients. The Cluster consists of eight Operational Units, five of which deliver support on a geographical basis, and three of which are functional – an Operations and Credit Administration Unit; a Structured Finance Unit, which provides structured finance tailored to specific support initiatives across all provinces; and a Workout Unit, which supports clients in South Africa who are finding it difficult to meet their financial obligations.

The five geographical Units were restructured this year in response to the Bank's "hotspots" initiative, which gives special attention to the Eastern Cape and Limpopo, where poverty levels are particularly acute. Two Units now focus on these provinces, to maximise the Bank's outreach through investment, advisory and capacity building support to accelerate infrastructure development and poverty reduction.

Overview of operations

Lending support: The Cluster approved new lending of R1,7 billion for the financing of infrastructure in South Africa during the year, bringing the net cumulative investment portfolio to R21,4 billion. The new approvals represent a total investment by the Development Bank and its co-funders of R9,1 billion.

Loans to the value of R0,3 billion were restructured and consolidated during the year. The transformation of local governments led in many cases to the transfer of debt from previous institutions to a single new municipality. Where it would make for easier administration and management, the Bank provided a consolidated loan to municipalities for past debt incurred for infrastructure, taking into consideration the risk profile of the amalgamated institution.

The focus of investments remained on public sector clients, with municipalities receiving 52 per cent of new investment support, compared to 87 per cent in the previous year. This shift was in favour of development corporations, utilities and other statutory institutions, indicating a broadening of the delivery base for public sector infrastructure in South Africa. It also signified the improving access of municipalities to wider sources of funding.

Together with the R0,6 billion approved by the Private Sector and International Investments Cluster for private sector clients in South Africa (detailed in the next section), the total new approvals of R2,3 billion for the country resulted in an estimated 42 000 employment opportunities being created or maintained over the life of the projects.

As part of the initiative to facilitate access by municipalities to capital markets, the Cluster, in conjunction with the Treasury Cluster, is implementing a Municipal Collateralised Debt Obligation structure. This initiative supplements a Bond Origination Programme that is designed to help a select number of municipalities issue their own bonds directly in the capital market.

Loans that showed problems or were non-performing were given particular attention. The Workout Unit made assessments to identify the main institutional and financial problem areas, and specific mitigation and support programmes were developed to restructure the debt and implement workout recovery strategies. During the year, substantial payments were made by clients in distress, as confirmation that they were committed to working with the Bank to address the defaulting situations. In addition, R4,4 million was recovered from municipalities and R35 million from parastatals who were in default, which amounts to a recovery rate of 10,3 per cent of non-performing loans under workout. An agency agreement with the Public Investment Commissioners also led to the recovery of a further R2,3 million for that institution.

Advisory role: With the DBSA Development Fund fully operational in all nine provinces, significant progress was made in helping local government institutions to build capacity and formulate integrated development plans. Such support was rendered through the Development Fund, to which certain staff members of the Cluster were contracted. This promoted the integration of technical support activities with the Cluster's investment activities, and as a result clients received a complementary, comprehensive support package. In the process, the Development Fund approved technical support grants to municipalities and provincial departments totalling R86 million since its inception in December 2001, and supported 134 municipalities in the same period (90 in 2002/03). In addition, the Cluster provided further financial technical support directly related to its lending and support portfolio of R14 million.

Partnerships: The Cluster is working closely with the National Productivity Institute, the Department of Provincial and Local Government, and the South African Local Government Association to promote performance management and productivity within municipalities. One of the products of this partnership is the Municipal Productivity Improvement Awards (known as the Vuna Awards), which were launched in June 2003. The first awards are scheduled for presentation during National Productivity month in October 2003, and the Minister of Provincial and Local Government will announce the final awards in December 2003.

Ithala rural commercial infrastructure programme, KwaZulu-Natal

Executive Manager:
Joyce Matlala

Left to right:
Tladi Ramushu (International Finance)
Joyce Matlala (Executive Manager)
Tshepo Mahloele (Corporate Finance)
Phuti Malabie (Project Finance: South Africa)

The Private Sector and International Investments Cluster was restructured at year-end. Prior to that, the Southern Africa and Private Sector Investment Cluster, as it was called, consisted of two Units, one attending to public sector support in the SADC (excluding South Africa), and the other to private sector support both in South Africa and in the broader SADC. In recognition of the fact that investments outside South Africa have specific requirements and require special expertise, the Cluster was reconstituted as Private Sector and International Investments, and the public and private sector support outside South Africa were consolidated. In addition, a Corporate Finance Unit was created to focus on balance sheet restructuring and black economic empowerment, using instruments such as loans, guarantees and equity. A special African Partnerships Unit was also established in the Office of the Chief Executive to mobilise the Bank's resources in support of NEPAD initiatives.

The Cluster aims to provide a full package of support to development initiatives within South Africa and in the SADC, in the realisation that infrastructure delivery has broader socio-economic and cross-border implications and impacts. The Development Bank is centrally concerned with promoting the economic integration of the SADC economies, enabling individual economies to use internal resources more effectively and the region to become more competitive in the global economy. NEPAD, which has been widely supported by the international community, provided the Bank with an ideal framework within which to promote macro and sectoral integration in its selection of projects for financing. This strategic framework duly informed the Bank's investment strategies towards individual countries and the region. The DBSA Development Fund is not operational outside South Africa at this stage, and the Cluster therefore provided technical assistance to SADC countries directly, in terms of its mandate.

Overview of operations

Lending support: The Bank is firmly committed to developing the region in line with the principles of NEPAD. The Cluster has deepened its understanding of the SADC market accordingly, and is co-financing larger projects with international funders, thereby mitigating the financial risk and sharing policy and operational experience. Through co-financing and loan syndication, the Cluster helped to attract much-needed long-term investment into the region. Investments in the public sector were made mainly through public utilities in the energy, telecommunications, water, transport, tourism, financial services, and agricultural sectors. New investment loans in the SADC to a total value of R1,5 billion were approved (25 per cent more than in 2001/02), resulting in a cumulative investment portfolio to both private and public sector clients of R7,4 billion. This represents 26 per cent of the Bank's total investment portfolio to date.

The Bank's private sector investments in South Africa and the region focused on co-financing of equity and debt funds. This included investments in a major cross-border project, namely, the SASOL natural gas project. The political risks inherent in these transactions have been mitigated by the involvement of other development finance institutions, multilateral agencies, export credit agencies, and political risk insurers. New investment approvals for private sector projects reached R1,1 billion, including R0,4 billion in respect of equity in projects. Of the total amount, R0,6 billion was for private sector projects in South Africa.

The Cluster adopted a rigorous risk assessment framework and employs mitigation measures in relation to country, sector and single transaction exposures, to ensure that its development support to the region is sustainable. The information gathered is shared with clients, helping them to strengthen their capacity to identify and implement sustainable projects.

As a development institution, the Bank has adopted the role of leading financier in some regional investments, like the SASOL project. The focus of such projects differs from those managed by the private sector, as the aim is to maximise development impact and promote black empowerment.

In total, the Cluster approved new investments of R2,1 billion during the year; the total investment value of these projects amounted to R4,7 billion.

Advisory role: A range of support services and advice was offered to various institutions in Africa. The Bank assisted the Tanzanian Development Corporation with the business planning and institutional arrangements for Spatial Development Initiatives; shared procedures and policies with the Rwanda Development Bank; supported initiatives to promote public-private partnerships and establish a development fund for the SADC; gave technical support to various institutions in developing communication and tourism strategies; offered advice on the establishment of the Namibia Development Bank; and acted as the professional secretariat for the SADC's Development Finance Institutions Network Committee. In addition to staff time and resources, the Cluster delivered technical assistance grant disbursements to the value of R1,7 million during the year. In conjunction with Agence Française de Développement, the Bank is paying particular attention to issues of good governance.

Partnerships: The Bank's partnership programme outside South Africa is driven by the need to build capacity in strategic areas so as to meet the development challenges facing the region. To fulfil its role as advisor, investor and partner, the Bank works with stakeholders such as regional economic communities, government utilities, and development finance institutions. A memorandum of understanding was signed with Banco de Poupança e Crédito on support for Angola, and a similar understanding was reached with the East African Development Bank to the benefit of Uganda, Tanzania and Kenya. An agreement was also reached with the African Development Bank to provide financial assistance for viability studies of projects that support the NEPAD objectives. The Development Bank of Southern Africa will resource this facility on a fifty-fifty basis with the African Development Bank, and will also manage it.

Kruger National Park presidential reconstruction programme, Mpumalanga

Executive Manager:
Lewis Musasike

Left to right:
Disebo Moephuli (Capital Markets and Financial Operations)
Lewis Musasike (Executive Manager)
Farzana Amod (Treasury Operations)

The key strategic objective of the Bank is to enhance the development impact of its operations and interventions. In order to deliver on its development mandate, the Bank, as an independent, self-funding institution, must ensure that it is financially sustainable.

The business of the Treasury is to:

- Mobilise the Bank's financial resources from domestic and international sources of funding at competitive costs
- Manage the financial risks arising from the business and financing operations
- Broaden the Bank's revenue base and strengthen its capital base
- Develop new products and financial instruments, which support effective development and financial sustainability

The environment in which the Treasury operated in the past year was characterised by volatility in interest and exchange rates, competition in the field of development finance, and the growing sophistication of borrowers. There were also changes in the regulatory and accounting environment, particularly as regards compliance with Accounting Statement AC133.

Short-term interest rates in South Africa rose by 400 basis points as domestic inflation pressures increased, while international developments such as the conflicts in the Middle East impacted negatively on oil prices and business confidence generally. The impacts on financial markets were reflected in the inversion of the yield curve, leading to attractive market conditions for long-term borrowers such as the Bank. The progressive decline in inflation pressures and lower government borrowing needs resulted in falling yields. The long-term benchmark government bonds, the R153 and R157, fell from highs of about 13,23 per cent and 13,22 per cent respectively on 1 April 2002, to about 10,20 per cent and 9,94 per cent respectively on 31 March 2003.

Overview of operations

Funds mobilisation: During the year, the Treasury sought to mobilise funds in the domestic and international capital markets and from bilateral and multilateral sources by:

- Borrowing at competitive rates
- Diversifying sources of funding and funding instruments
- Ensuring a prudent asset and liability match
- Complying with the prescribed debt to equity ratio of no more than 250 per cent

The Bank raised R2,24 billion under the approved borrowing programme of R2,50 billion. These borrowings consisted of capital market transactions and drawdowns on lines of credit from bilateral and multilateral institutions. The capital market funding comprised the R1,5 billion 20-year bond (DV23) issued under the Bank's R5 billion Domestic Medium-Term Note programme. It was issued at an "all-in" cost fixed rate of 10 per cent. The balance of R0,74 billion was drawn down from lines of credit at different but favourable terms and conditions. In the latter part of the year, the Bank also borrowed R1,39 billion in the short-term market to respond to urgent cash flow requirements. This was a clear indication of the Bank's flexibility in accessing capital markets to fund its operations. Following the implementation of the borrowing programme, total outstanding debt at 31 March 2003 stood at R9,94 billion, resulting in a debt to equity ratio of 98,3 per cent.

Asset and liability management: As part of strengthening its risk management, the Bank initiated a robust asset and liability management process, including the establishment of an Asset and Liability Management Committee, which reports to the Audit and Finance Committee of the Board. The broad thrust of the process is to manage market risks prudently and enhance the Bank's earning capacity, in order to strengthen financial sustainability and development impact.

A fair match was achieved between maturities, the currency and interest rate bases of development loans, and the Bank's liabilities. The average weighted maturities of development loans and liabilities were about 12 and 13 years, respectively. Although the Bank's funding is denominated in rands, Euros and US dollars, foreign currency liabilities are swapped into rands with approved counterparties. Any foreign currency not swapped is used to fund projects and programmes in the same currency. Fixed rate loans are funded by fixed rate liabilities, while floating rate loans are funded by floating rate liabilities.

Investment and liquidity management: The average liquidity amounted to about R1,0 billion, excluding an externally managed portfolio of R0,20 billion. The liquidity level was between 15 and 30 per cent of undisbursed loan commitments, as prescribed by policy. Total investment income for the year (excluding interest income on R150 bonds) amounted to R0,19 billion, compared to R0,18 billion earned in 2002. Investment income on the R150 bonds amounted to R0,4 billion.

Credit ratings: The rating agencies Fitch, Moody's Investors Service, and Standard and Poor's reaffirmed or upgraded the Bank's investment grade ratings. Fitch reaffirmed the AAA domestic ratings, while the international ratings were upgraded by Moody's in May 2002 from Baa3 to Baa2 with a positive outlook, and from BBB- to BBB with a stable outlook by Standard and Poor's. These ratings reflect, among other factors, strong shareholder support from the South African government, a solid financial position, and prudent risk management policies. The investment grade credit ratings put the Bank in a position to mobilise funds efficiently and cost-effectively, as the borrowings undertaken during the year demonstrate. As the Bank looks forward to raising its profile in international capital markets, these credit ratings underpin its borrowing strategy.

Loan products and financial instruments: The Bank offers fixed and floating loans, as well as Prime-linked loans, for medium- to long-term maturities. It also offers equity, quasi-equity and guarantees. These products can be denominated in rands, Euros or US dollars to reflect the characteristics of the investments. Through its Treasury operations, the Bank is capable of funding these investment instruments in a sustainable way. During the year, the Treasury and the South Africa Operations Cluster began to implement the Collateralised Debt Obligation structure, which is designed to facilitate the access of municipalities to capital markets. The Bank has also begun to utilise new instruments in its lending and investment operations, such as arranging syndication and underwriting.

Letsatsi Game Lodge, Free State

Executive Manager:
Abdul-Kader Mohamed

Left to right:
Tom Snyman (Procurement Administration and Facilities Management)
Theresa Geldenhuys (Financial Management)
Pule Mokhobo (Legal Services)
Graham Tate (Information Technology)
Precious Sibiya (Risk Management)
Abdul-Kader Mohamed (Executive Manager)
Cynthia Anthony-Maistry (Contracts Administration)

The aim of the Corporate Finance and Administration Cluster is to ensure that the Development Bank is financially sustainable, so that it can fulfil its development mandate, and to provide sound management of systems and logistical support for this task. The Cluster comprises the following Units: Contracts Administration, Financial Management, Information Technology, Legal Services, Procurement Administration and Facilities Management, and Risk Management.

Overview of operations

Financial Management: This Unit focuses on designing, maintaining and implementing sound financial policy controls and systems, and on ensuring full compliance with all accounting, statutory and legal requirements. It also provides financial information to management and stakeholders.

Risk Management: This Unit coordinates the Bank's enterprise-wide risk management framework, develops risk management policies and methodologies to quantify risk exposures, and reports on related matters. Importantly, it is required to provide an independent and objective opinion on risks arising from loan applications. Each Operational Unit, with assistance from this central Risk Management Unit, executes the risk management policies on projects being considered within each area of responsibility. Good progress was made with implementing risk management throughout the organisation. Particular attention was paid to crafting a risk strategy aligned to the corporate strategy and developing a capital-at-risk methodology. In the year ahead, the Unit will continue to refine these strategies and methodologies.

Contracts Administration: This Unit ensures that disbursements are made on projects and support activities, and administers the repayment of loans. The Unit has been strengthened in the year under review, and an increase of 106 per cent in investment disbursements was recorded in this period.

Information Technology: After a flurry of new systems and upgrades in previous years, this year was one in which the Bank's transactional information systems were consolidated and stabilised. These systems provide the platform for the ongoing Financial Business Intelligence and Customer Relationship Management projects, which will deliver effective information for managing the business and improving service delivery to the clients. The software for the Human Resources systems was also upgraded. The corporate operations recording (CORE) information system, which was developed in-house, was upgraded to accommodate new functions and incorporate the new municipal demarcation. The Bank's internal data network (last upgraded in 1996) was also completely overhauled, to bring it up to date technically and reduce the business risk of dependency on ageing technology. This upgrade will provide the platform for the Bank's Wide Area Network, which will be introduced to clients in the new financial year. The Network will support a number of strategic initiatives, including the Local Government Resource Centre portal and the Training Institute's e-learning project; carry socio-economic development information and the Bank's own marketing initiatives, including client access to transactional information; and make it possible to establish an e-community of local government stakeholders through an electronic messaging and conferencing system.

Procurement Administration and Facilities Management: During the year, the Bank's procurement policy was refined further to ensure that transformation and black economic empowerment are promoted.

Overview of financial results

The Bank aims to build adequate reserves and to strengthen the equity base, so that it can continue to provide development-oriented funding, while assuring the financial markets that its financial management practices are sound. The Bank is generally satisfied with its levels of profitability and capacity to absorb loan risks and fluctuations in investment income. The projected financial results for the foreseeable future indicate that the Bank will continue to be profitable. The following are some of the highlights of the year under review.

Surplus from operations: The surplus generated from operations before revaluation adjustments increased to R1,06• billion, a significant 46 per cent increase on 2001/02. This was mainly due to the following factors:

- Net interest income increased by 41 per cent to R1,3 billion. This was partly due to a decrease in the cost of funding of R0,2 billion (16 per cent), owing to the fact that the bulk of required funding (R1,5 billion) was only mobilised during February 2003. Interest income increased by R0,2 billion (10 per cent). However, this was offset by an increase in the movement in specific and general provisions, and actual bad debts written off of R7,8 million (a net credit to the income statement of R0,2 million in the current year, compared to R8 million in the previous year).
- Operating expenses increased by 12 per cent from R0,26 billion to R0,29 billion, mainly because staff costs increased by 20 per cent to R0,19 billion. This increase in staff costs can be ascribed to the fact that costs were R0,02 billion lower in 2001/02, due to the write-back of the provision for post-retirement medical benefits. If this write-back is excluded, staff costs were 7 per cent higher than in the previous period, mainly due to an increase in the total staff complement. In addition, technical assistance grants increased by 43 per cent. General and administration expenses decreased by 7 per cent, mainly as a result of the movement in the Medipref asset, shown as part of sundry expenses in the previous year (R0,02 billion).

Surplus for the year: This surplus comprises the surplus from operations, after taking into account: a grant of R0,08 billion to the DBSA Development Fund; and revaluation adjustments on derivative financial instruments, foreign assets and liabilities. The surplus for the year increased by 105 per cent from R0,59 billion to R1,28 billion.

- Derivative financial instruments are used to hedge against adverse movements in interest and exchange rates. Although the net result of the differences on the revaluations should approximate the costs of hedging strategies undertaken over the life of the

Capacity building of Bhambayi and Sobonakhona Development Committees, KwaZulu-Natal

underlying loan, significant fluctuations from year to year are expected. The extent of these fluctuations cannot be quantified with reasonable certainty, as they are dependent on local and foreign market movements, and on exchange rate movements. With the implementation of Accounting Statement AC133 from 1 April 2003, these fluctuations should be minimised in future years.

- Unrealised profits and losses, resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans, have had a significant impact on the financial results compared to the previous year. An unrealised profit of R3 million was recorded in respect of the revaluation of derivatives for the current financial year, compared to a loss of R0,05 billion in the previous year. In addition, an unrealised foreign exchange loss of R0,07 billion was reported for the current year, compared to a loss of R3 million in the previous year. The above revaluation adjustments have resulted in a net increase in profits of R0,36 billion compared to the previous year.

The ratio of operating costs to income decreased from 27,7 per cent to 17,4 per cent. Excluding the unrealised foreign exchange profits and losses and the fair value adjustment to derivatives, this ratio decreased from 26,2 per cent to 21,3 per cent. Stringent budgetary controls were maintained over the period, despite the fact that various strategic initiatives were undertaken to promote the Bank as a knowledge institution.

Assets: Total assets increased from R18,6 billion (restated) to R20,9 billion, and the return on average assets improved from 3,2 per cent (restated) to 6,1 per cent. Excluding the unrealised foreign exchange profits and losses and the fair value adjustment to derivatives, this ratio increased from 3,5 per cent to 4,7 per cent.

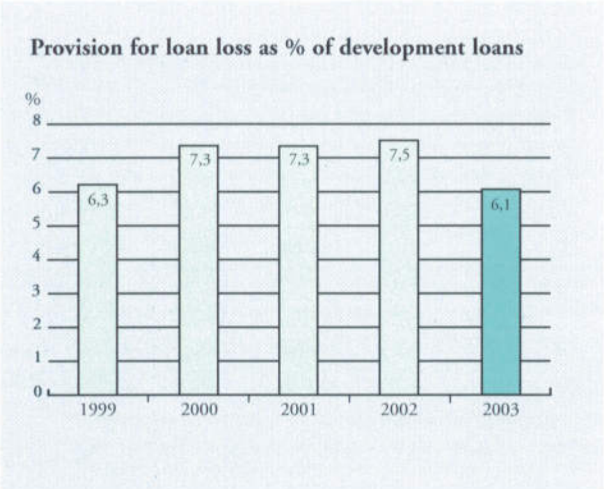
- Development loans increased by R2,3 billion (19 per cent) and investment in government bonds increased by R0,11 billion. This was offset by cash and cash equivalents, which decreased by R0,07 billion, and short-term securities, which decreased by R0,32 billion.

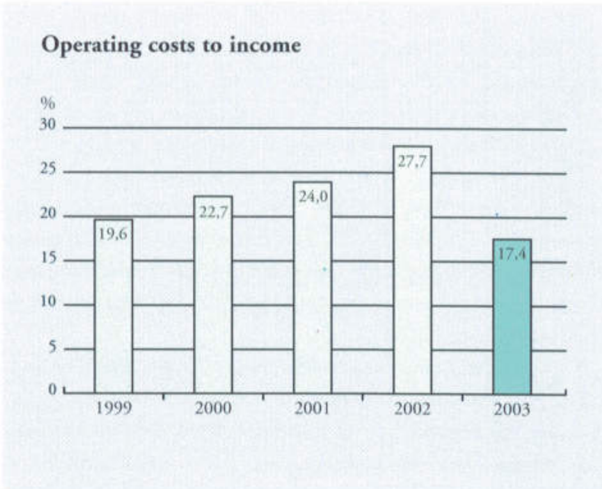
Letsatsi Game Lodge, Free State

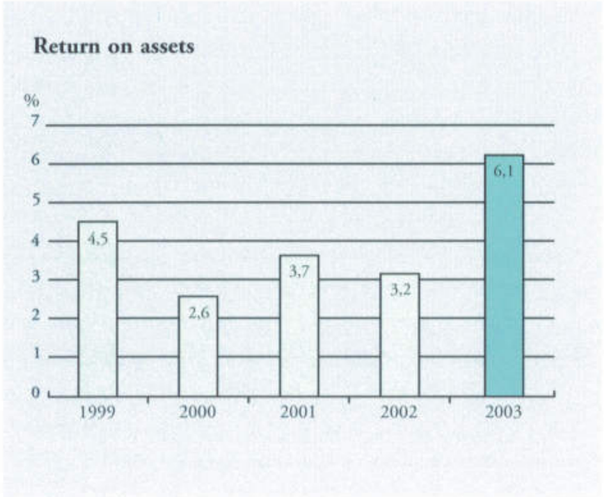
- The weighted average interest rate per year on development loans increased from 12,8 per cent to 13,5 per cent. The total book debt of non-performing loans decreased from R0,92 billion at 31 March 2002 (7,1 per cent of the total development loan portfolio) to R0,82 billion at 31 March 2003 (5,4 per cent of total book debt). The total instalments in arrears of non-performing loans increased from R0,47 billion to R0,48 billion for the same period.
- The loan loss provision decreased from 7,5 per cent of the total book debt at 31 March 2002 to 6,1 per cent at 31 March 2003. The specific provision decreased from R0,46 billion to R0,34 billion, and the general provision increased from R0,50 billion to R0,57 billion. The decrease in the loan loss provision as a percentage of total book debt is mainly due to an increase in book debt of R2,3 billion and a decrease in the total loan loss provision of R0,46 billion.
- Development investments increased by R0,027 billion, despite the repayment of R7,7 million by Lepelle Northern Water and R0,45 million by the Franchise Fund. This increase was due to an investment of R0,03 billion by the American International Group African Infrastructure Fund, and a new investment of R2,9 million in Millennium Consolidated Investments Equity.

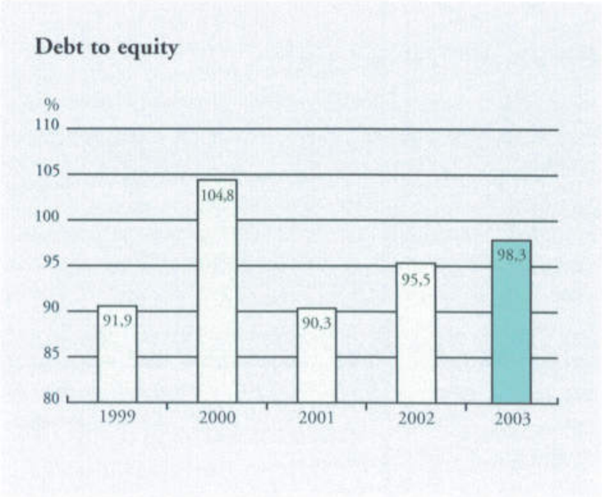
Liabilities: Total liabilities increased by R0,94 billion. Medium- and long-term financing increased by R1,60 billion, mainly due to the DV23 of R1,50 billion raised in February 2003. During the year an amount of R0,24 billion was raised as short-term funding. There were no short-term securities at 31 March 2003, compared to R0,83 billion at 31 March 2002. Other creditors decreased by R0,028 billion.

Accounting policies: All accounting policies have remained consistent with the previous year. However, there was a reclassification of reserves, which is detailed in the Statement of Changes in Equity and in Note 36 to the financial statements.









Executive Manager:
Snowy Khoza

Left to right:
Mamathe Kgarimetsa-Phiri (Employment Equity)
Janine Thorne (Policy; Operations Evaluation (A))
Makgoshi Sindane (Training)
Grace Rapholo (Specialists)
David Viljoen (Development Information) (A)
Snowy Khoza (Executive Manager)
Loyiso Pityana (Human Resources)

The Knowledge Management Cluster guides the Development Bank's efforts to become a knowledge-based institution, which is one of its strategic goals. The Cluster strives to be central to the Bank's developmental mission, and to enhance and maintain its competitive advantage. There are seven Units in the Cluster: Development Information, Employment Equity, Human Resources, Operations Evaluation, Policy, Specialists and Training. These Units have both internal and external functions, with the exception of the Human Resources Unit, which has an internal focus.

The Bank's competitive advantage derives from various sources, including the skills and competencies of its people, its internal systems and processes, and the unique knowledge base about development and finance that has been built up over time. The Bank also recognises the value of partnerships, and seeks out development partners as a matter of principle.

Review of strategic goals

To institutionalise Knowledge Management as one of the major strategic thrusts of the Bank: A comprehensive Knowledge Management strategy was developed through an interactive process, and approved by the Board. It aims to mobilise the skills, knowledge and human capital in the organisation optimally. It is recognised that the Bank is still at the conventional knowledge management stage. A Knowledge Strategy Committee and a Knowledge Management Committee were formed, and both have become strategic nodes for creating a seamless flow of knowledge within the organisation, involving staff, management and the Board.

To procure, build and maintain the Bank's diverse human capital base: The Bank has always recognised the fundamental importance of procuring, developing and retaining key skills and competencies to further its business. In the year under review, priority was given to recruiting appropriate staff, to formulating policies and strategies for their development and retention, and to creating an organisational climate that promotes diversity.

- The development of a corporate Employment Equity framework, which was endorsed by the Board, gave impetus to the organisational objective of diversity. The framework is supported by various programmes, concerned with Succession Management and Planning, Mentorship and Coaching, Young Professional Associates, Staff Exchange and Rotations, Internships, Learnerships, Induction, and so on. These programmes aim to accelerate skills development within the Bank, and are congruent with the South African National Skills Development Strategy.
- The Cluster promoted the establishment of sound internal systems to support a knowledge culture, and the development of an informed and responsive workforce, able to compete in the global business environment. Special attention was paid to staff empowerment programmes and to creating knowledge networks or "communities of practice", in collaboration with knowledge workers and other stakeholders elsewhere in the development fraternity. Communities of practice were established in the institutional, financial, social, economic, technical and environmental spheres, and an active Rural Development Forum was set up involving staff of the Bank and external practitioners in the field.
- An Integrated Rewards and Recognition framework was established to promote productivity and business growth. The Bank strives to create a rich environment that recognises and rewards performance, and allows for innovation and healthy competition.

To create, capture, audit and disseminate information and knowledge: In a large organisation like the Bank, staff members, clients and beneficiaries, along with associated partners and other stakeholders, possess a wealth of data, information and experience. A major part of knowledge management and sharing is about capturing, organising, auditing and disseminating this wealth of knowledge systematically. In this regard, the Bank maintains and manages several knowledge resource bases, covering the total range of socio-economic data and information. The Bank has also developed and piloted a Knowledge Portal, which deals with various themes, such as development, development finance and infrastructure. This portal consolidates and provides easy access to all the information and knowledge in the Bank, in line with the Promotion of Access to Information Act, No. 2 of 2000.

To integrate best practice and knowledge into the products and services offered to internal and external clients: To ensure that the Bank's clients receive quality products and services, the Knowledge Management Cluster continually seeks out the best international practice and knowledge, which then informs the Bank's own portfolio management and market positioning. The Cluster provides advice on policy and strategy, and offers development information and lessons of experience, based on local and international practice, to the Bank and its clients. Among the inputs made this year were country profiles and provincial perspectives; a policy framework on NEPAD; the publication of the journal *Development Southern Africa*; a proposal to introduce quality management in the Bank; and the strategy for the Bank's engagement with the issues of poverty, growth and development. The Cluster supports the Operations Clusters in various ways, for example, by assisting teams to capture the monitoring and evaluation arrangements at the appraisal stage of projects, and by evaluating projects after completion. During the year, the Cluster produced an overview of lessons learnt from completed projects; these lessons are fed back into the project cycle continuously to improve the quality of decision-making on new projects and programmes.

In line with the Bank's guiding principle of additionality, the Knowledge Management Cluster has grown its strategic partnership portfolio substantially. A wide range of projects was undertaken with development partners, including national, regional and international institutions. Among these were the World Bank, the United Nations Development Programme, international donor agencies, various government departments, and local parastatals. In all these undertakings, the Cluster deliberately sought to leverage the expertise, finance and capacity building opportunities offered by its strategic partners.

Msunduzi urban development programme, KwaZulu-Natal

Chief Executive's Office

Manager:
Greg White

Left to right:
Norman Weitz (Internal Audit)
Mandla Gantsho (Chief Executive Officer and Managing Director)
Bane Maleke (Africa Partnerships)
Admassu Tadesse (Corporate Strategy) (A)
Greg White (Manager: Office of the CEO)
Paul Kibuuka (Corporate Secretariat)

The Office of the Chief Executive houses a number of functions that are central in supporting the strategic management of the Bank and assuring good corporate governance. These Units include Corporate Strategy, Internal Audit, the Corporate Secretariat and the Africa Partnerships Unit. The Office is also closely linked to the DBSA Development Fund, with the Bank's Chief Executive Officer acting as Chief Executive of the Fund.

The year under review was challenging but rewarding. The Bank was placed firmly on an exciting new course with the introduction of Vision 2010. Some strategic organisational changes were also made, including the creation of dedicated Business Units to focus on the poorest provinces and the strengthening of the Bank's support role in relation to NEPAD.

Overview of operations

Corporate Strategy: The Bank engages in a decentralised but coordinated strategic planning process, which is medium-term in its outlook, market-sensitive, and focused on sustainable development and performance. The Corporate Strategy Unit reports directly to the Chief Executive Officer, and takes corporate responsibility for coordinating and facilitating the development and implementation of strategy in the organisation. The Unit leads a team that cuts across the entire organisation, and is responsible for fleshing out and communicating its long-term vision and strategy.

During 2002/03, the Unit conducted three reviews and was instrumental in preparing the Corporate Balanced Scorecard and the Corporate Strategic Plan for 2003/04. It led the development of systems and tools to support the continuous development and implementation of strategy, through business process renewal exercises, the design of a dynamic strategic management framework, the refinement of the Balanced Scorecard system and its planned automation. It also facilitated various strategic conversations, coordinated a development dialogue series on growth and development, and helped shape the Bank's response to and support for NEPAD.

Internal Audit: The Internal Audit Unit remained a centre for independent, objective assurance and consulting, and continued to add value to the Bank's operations. The Unit brings a systematic, disciplined approach to the evaluation of risk management, control and corporate governance processes. To this end, the Unit reports directly to the Chief Executive Officer and has unrestricted access to the chairpersons of the Board and the Audit and Finance Committee.

During the year, the Unit continued to assess the strategic impact of changes, both within the Bank and in its operating environment; to provide assurance through audits; and to add value through operational support. The Unit aims to enhance its skills and resources by forming strong alliances, and to improve internal audit processes by using relevant, up-to-date technology effectively, thus achieving high levels of assurance and cost effectiveness. Important activities during the year included:

- Continuing to revise the audit policy and the Unit's risk-based approach to auditing the systems of internal control
- Contributing to compliance, corporate governance and business planning processes
- Interacting with the external auditors to optimise the joint contribution of the external and internal audit processes
- Implementing a post-audit evaluation to gauge the efficiency and effectiveness of the internal audit
- Systematically reviewing the risk profiles of the various business processes, in conjunction with the Risk Management Unit
- Making preparations to register a learnership programme

Corporate Secretariat: This Unit continued to focus on protecting shareholder interests on behalf of the Board. The Unit ensured that the organisation complied with legislative requirements and the King II Code of corporate practice and conduct, and that statutory corporate reporting took place. It also saw to it that Board administration was effective, management information support was provided, and capacity building occurred in relation to the Board. The Unit facilitated five Board meetings of the Bank and three of the DBSA Development Fund. Services were rendered to the Development Fund in terms of a management agreement. There were also four meetings of the Audit and Finance Committee, three of the Credit Committee, and two of the Knowledge Management Committee, with improved turnaround times.

In line with corporate reporting to the shareholder and stakeholders, the Chairman of the Board, the Managing Director and the Executive Manager: Operations presented the Bank's annual report to the Portfolio Committee on Finance and to the Select Committee of the National Council of Provinces in September 2002.

The Unit complied with the requirements of the Promotion of Access to Information Act by compiling an information manual, which was submitted to the Human Rights Commission at the end of February 2003. The manual was compiled by the Corporate Secretariat Unit in partnership with the Development Information Business Unit, in line with section 32 of the South African Constitution.

Africa Partnerships: The Bank places great strategic value on future investments in Southern Africa and on its own contribution to regional economic development, and it therefore offers dedicated support to regional and continental initiatives. The Bank is playing a leading role in promoting NEPAD, which it regards as a crucial strategic initiative by Africans for Africa. The focus is on advocacy, building capacity, creating partnerships, and investment. As these elements are also an integral part of the Bank's long-term support to the region, a special Unit has been established to mobilise the Bank's resources in relation to NEPAD. This Unit will work closely with others in the Bank, and specifically with the Private Sector and International Investments Cluster.

Ithala rural commercial infrastructure programme, KwaZulu-Natal

Strategic Initiatives

Executive Manager:
De Villiers Botha

Left to right:
Nonnie Letsholo (Corporate Communications and Marketing)
De Villiers Botha (Executive Manager)
Christina Golino (Agencies)
Enoch Gxwala (Change Management)
Alta Theron (Strategic Projects)

The Strategic Initiatives Cluster was established in February 2003 in recognition of the strategic importance of managing, coordinating and integrating key cross-cutting initiatives; providing a permanent capacity for change management support in implementing these initiatives; centralising enterprise-wide programmes or agency services for enabling development; and bringing corporate marketing and communications under a dedicated executive management responsibility. This Cluster incorporated these functions, which had previously been housed in various other Clusters. Although the Cluster is relatively new, most of its functions are long standing.

Overview of operations

Project and change management services: The demands of transformation, along with the internal adaptation required to fulfil the Bank's evolving mandate and Vision 2010, present the organisation with particular challenges. A key way of dealing with them is through cross-cutting strategic initiatives, which draw on resources across the organisation. To mobilise these resources efficiently and spearhead the organisational change initiatives, a dedicated Strategic Project Office, which has the support of the Change Management Office, was established.

Strategic Projects will guide and manage the implementation of internal strategic projects that are aligned with the Bank's mission and vision on enterprise business improvement; that are cross-functional in nature and require central coordination and integration; that utilise staff from across the organisation; and that benefit organisational change.

Given the organisational philosophy and structure, the project management approach was considered the most appropriate way of harnessing the organisational capabilities for projects of this nature. Currently, the following strategic projects are on the agenda:

- Business Processes Renewal: Operations, Human Resources, Treasury and Audit Business Processes Renewal
- Management Information Systems: CORE Phase 3, Balanced Scorecard Automation, PeopleSoft – Phase 2, Systems Interface and Customer Relationship Management System
- Vision 2010: New Business Model
- Products and Services Innovation: LG-Net – Wide Area Network, Local Government Resource Centre portal, Innovation Implementation Framework, Quality Management and Value Innovation
- Marketing: Brand Repositioning, Marketing Strategy Implementation, International and National Relations
- Knowledge Management: Staff Exchange, Training Institute, Integrated Rewards and Recognition system, Employment Equity Framework, Human Capital, Knowledge Management Strategy Implementation
- Financial: Costing System, Financial Model and Cash Management

Agency services: As the Bank has become known for its institutional capacity, there have been more and more requests for it to play an agency role. These requests come from institutions such as governments, donors and other development stakeholders, who lack the specific capacity to implement programmes. The Bank, in turn, has increasingly recognised that it needs to play a more enabling role in development. The idea of providing agency services has therefore developed over time, and is now included in the Bank's range of standard products. Agency activities allow the Bank to enhance development in South Africa and the rest of the continent by negotiating new partnerships and strengthening existing ones with other development stakeholders.

Currently, the Bank has 22 agency projects on its books, with a funding value of some R0,50 billion. These projects are diverse in nature and include joint ventures, independent contractor assignments and management contracts. Some of the important agency functions are the African Connection project, the Carbon Finance Intermediary Agreement (with the World Bank), the International Development Research Council (sponsored by the Canadian Research Centre), the Environmental Capacity Building Unit (with the South African government), the Job Creation Trust, the Timbuktu Manuscript and Infrastructure Restoration Project (with the governments of Mali and South Africa), and the Low Cost Housing Infrastructure Fund (funded by Kreditanstalt für Wiederaufbau).

Local Government Resource Centre: The design and development of the Local Government Resource Centre portal was one of the Bank's key initiatives during the year. It is envisaged that the Centre will provide municipal institutions with a virtual source of information and knowledge on an extensive range of financial, institutional, legislative and economic issues related to local government.

Corporate communication and marketing services: The strategic role of the Corporate Communications and Marketing Unit is to communicate the vision and mission of the Bank, and to market the Bank as a partner, investor and advisor of choice. The Unit manages programmes dealing with marketing; relations with the media, the public and stakeholders; materials (publications and audio-visual presentations); and corporate social investment.

The Unit, in its effort to strengthen both the national and international relations of the Development Bank with its various stakeholders, supported the following international events: the World Summit on Sustainable Development, the Commonwealth Local Government Conference, and the ICC Cricket World Cup 2003.

National events in which the Bank participated included the centenary celebrations of the Emthonjeni Municipality; the NEPAD Conference; the National General Council of the South African Local Government Association; meetings of the Institute of Municipal Finance Officers, the Career Guidance Convention, and the National African Federated Chamber of Commerce Conference (NAFCOC); and the Conference on "365 Days of Impact of the King II Report".

Lekwa infrastructure programme, Mpumalanga

Chief Operating Officer: Luther Mashaba

Back, left to right:
Leo Sibanda (Programme Manager: Mpumalanga)
Mamarinyana Thulare (Programme Manager: Free State)
Admassu Tadesse (Senior Advisor: Strategy and Partnership)
Luther Mashaba (Chief Operating Officer)
Mandla Gantsho (Chief Executive Officer and Managing Director)
Wasnaar Hlabangwane (Programme Manager: Gauteng)
Cor van Rooyen (Programme Manager: Western Cape and Northern Cape)

Front, left to right:
Huni Phala (Programme Manager: Limpopo)
Reuben Matlala (Programme Manager: KwaZulu-Natal)
Tsakani Khosa (Programme Manager: North West)
Mathanda Mathenjwa (Programme Manager: Eastern Cape)

In February 2001, the Board of Directors of the Development Bank approved the establishment of 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 Development 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. This is done through a mix of products and services, including:

- *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.

Overview of operations

The Development Fund is now fully operational and employs 12 full-time staff members. The Bank provides logistical and other support to the Fund in terms of a management agreement. In addition to support on services and systems, operational staff are contracted to specific projects. The Fund was capitalised initially with an amount of R80 million, and another R150 million was approved in 2002/03. The Bank subsequently approved a tranche of R230 million, which will be funded in 2003/04.

In its first full year of operation, the Fund made rapid progress with the actual approval of technical support projects and programmes, and also laid the foundation for providing further technical support to capacitate its clients. Various systems and procedures, including guidelines for considering and appraising project applications, were brought into operation. Guidelines for monitoring and evaluating funded projects were completed as planned. This was a significant step, as it is critically important to obtain insight into the results achieved by different types of capacity building interventions. The log frame matrix was employed on all projects to ensure proper monitoring.

Strategic partnerships: Dedicated efforts were made to establish networks and build relationships with strategic partners, so that further resources for capacity building in development could be mobilised and the long-term sustainability of the Fund enhanced. A funding mobilisation strategy, which required targeted interaction with potential partners, was developed and approved by the Board, and subsequently implemented. In this regard, an important milestone was the signing of an agreement between the Development Fund, the Development Bank and Agence Française de Développement. In terms of this agreement, Agence will provide a line of credit of R6 million towards projects that meet the stipulated criteria for capacity development. The Fund also signed a memorandum of understanding with the provincial government of KwaZulu-Natal, via its Department of Traditional and Local Government Affairs, whereby a multi-year co-funding and cooperation arrangement was established. The Fund will continue to pursue such strategic partnerships in the new year.

Delivering development support: One of the Fund's strategic objectives is to provide development support to the rural nodes identified and prioritised in the national Integrated Sustainable Rural Development Strategy. These are areas that require specific support to overcome poverty and the lack of services. To date, five of the 13 nodes have been supported directly by the Development Fund.

The Development Fund has provided support to 134 municipalities since its inception in December 2001 (90 during 2002/03), in all nine provinces of South Africa. These interventions included technical assistance projects and programmes, dealing with planning, capacity building, training, and local government systems. Support was also provided to small, newly established municipalities, and ranged from the basic training of staff to issues of local economic development. In addition to development facilitation support geared to specific projects and programmes, the Fund has approved grants valued at R86,1 million since its inception. Of the municipalities that received support, 77 per cent were rural.

One of the Fund's priorities is to leverage other sources of funding, including contributions from clients and third parties. In the period under review, the contribution of clients and third parties was 28 per cent of the total finance provided, against a target of 20 per cent. The fact that the target was exceeded suggests that clients are very willing to contribute to their own capacity building.

Some municipalities are not in a financial position to take up loan financing for projects requiring capital investments. In response to this situation, the Fund has developed guidelines for a credit facility, which will provide development credit at low or zero interest rates. This should be finalised during 2003/04.

The Fund was concerned to develop and refine support programmes that would make it possible to deal with questions of effectiveness and efficiency on the municipal level in a coordinated and comprehensive way. Among the smaller programmes of this kind were 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. A specific breakthrough in this area was the Local Government Capacity Building Programme 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 61 municipalities in the province can apply in a cost-effective, consistent way.

Ingome Game Lodge capacity building project

Good corporate governance is the means of ensuring due and adequate control over the strategy, direction and operations of an organisation in achieving predetermined key objectives. Directors or their equivalents are responsible for the governance of companies and entities by providing direction, control and reporting. The Board of Directors of the Development Bank has exercised collective responsibility for the governance of the Bank, such that it best serves the interests of its shareholder, the government of the Republic of South Africa, and the broader stakeholder constituencies, including investors, business partners and civil society.

To strengthen the principles of good corporate governance in the Bank during 2002/03, the Board and management reviewed the organisational strategy, aligned structure and systems with the strategy, rationalised Board Committees, linked the budgeting and business planning processes, and audited and reviewed organisational policies.

Principles of corporate governance

In the course of promoting economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the region, the Board of Directors and management of the Development Bank are committed to the following principles of corporate governance:

- Ensuring ethical leadership, integrity and good judgement in directing the business of the Bank
- 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 in order to ensure that management and staff are appropriately recruited, trained, developed, recognised and rewarded
- 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 Bank 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 Bank 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 Bank operates

The regulations issued in terms of the Development Bank of Southern Africa Act, No. 13 of 1997 deal with the appointment and disqualification of Directors, their powers and their proceedings at meetings, including attendance and conflict of interest. These regulations prescribe that all principles of company law apply to the Bank as if it had been incorporated in terms of the Companies Act, that the Bank adhere to the South African Statements of Generally Accepted Accounting Practices, and that it endeavour to be in line with international corporate best practice. The regulations were given further effect in a charter adopted by the Board to guide its composition, powers and functions.

King Code

The King II Report on Corporate Governance has placed increased emphasis on standards of corporate governance. It presents a yardstick by which all affected companies and public entities should seek to be measured. The Code of Corporate Practices and Conduct is based on the principles of openness, integrity and accountability. The Bank subscribes to the principles enshrined in the Code. Having complied with the principles of the King I Code, the Bank has been working towards compliance with the King II Code. A compliance review of the Bank's practices with regard to the Code is planned for the next financial year.

An evaluation of the impact of the King II Report on Corporate Governance in South Africa and internationally was conducted towards the end of March 2003, under the auspices of the Institute of Directors. The Development Bank and 14 other institutions sponsored a successful conference that brought together Committee members and international speakers to share progress, experiences and best practice with Directors and practitioners.

Strategic planning and establishing a knowledge-based institution

In April 2002, the Bank's Board of Directors and management conducted a midterm review of the Vision 2004 strategy. The review indicated that good progress had been made, but that a "quantum leap" was required to give effect to the elements of Vision 2004. This led to the announcement of a new "quantum leap" strategy, in terms of which several enhancements to Vision 2004 were proposed. Consequently, the strategic objectives in the Corporate Balanced Scorecard were revised and streamlined to include, among other things, establishing the Bank as a knowledge-based institution. Financial targets and targets for stretched development impact were also identified in the light of the "quantum leap" strategy.

The highlight of the strategy formulation and review process was the finalisation of the Vision 2010 framework, which prepares the Bank to act as a leading change agent for socio-economic development in Africa south of the Sahara and outlines the organisational character of the Bank by the year 2010. One of the key tasks of the Strategic Initiatives Cluster will be to work out the details of the strategy for the framework during the course of the next financial year.

Business planning and performance assessment

The Board of Directors approved a three-year Corporate Balanced Scorecard in April 2002. The Balanced Scorecard was used as a basis for compiling business plans. 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, business plans and activity-based budgets were prepared in succession for the first time, successfully linking the business planning and budgeting processes.

The Chairperson evaluates the performance of Directors, and the Board has accepted the annual evaluation of its own performance and that of its supporting Committees. Corporate performance assessment against the predetermined objectives and targets in the Balanced Scorecard was conducted by executive management and approved by the Board. The Remuneration Committee of the Board evaluates the performance of the Managing Director and reviews the performance of the Executive Managers.

Structural governance

Shareholder linkages: The Development Bank, through its Board, is accountable to its sole 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 52 of the Public Finance Management Act, No. 1 of 1999, a Corporate Plan was submitted to the National Treasury in February 2002. The Corporate Plan serves as a shareholder compact between the Bank and the shareholder. The 2001/02 Annual Report was launched in the presence of the Minister of Finance at the Bank's headquarters in Midrand. The Report was tabled in Parliament in terms of the Public Finance Management Act. Organisational performance was also presented to the Parliamentary Portfolio Committee on Finance and the Select Committee of the National Council of Provinces in September 2002.

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 compliance with the stated mandate.

In line with Vision 2010, a submission has been made to the Minister to review regulation 3, which was issued in terms of the Development Bank of Southern Africa Act, to allow the Bank to extend its operations into Africa south of the Sahara.

Board of Directors: The strategic business focus, core governance values and organisational systems are directed and controlled by an independent Board of Directors. The Board is appointed by the shareholder representative and consists of not fewer than ten and not more than 15 members. The Directors have access to a website that provides all documentation required for meetings, as well as key corporate governance reference works such as the Development Bank of Southern Africa Act, strategic documentation, legal opinions on the impact of the Public Finance Management Act, and a synopsis of the King II Code. During the year, Directors attended a course on corporate governance run by the Institute of Directors and participated in selected side events of the World Summit on Sustainable Development.

Currently, the Bank has a unitary Board of 14 members, with a non-executive Chairperson. The Managing Director is the sole executive Director. The Director-General of the National Treasury, the Advisor to the Minister of Provincial and Local Government, and the Economic Advisor in the Office of the President serve on the Board. The Board is non-executive, and nine members of the Board are independent Directors. The Board appoints the Chairperson with the consent of the shareholder representative. As indicated earlier, the current incumbent, Mr Jayaseelan Naidoo, is a non-executive Director. As with the appointment of Directors of the Board, the statutory authority to appoint the Chief Executive Officer lies with the Minister of Finance (the shareholder representative) in terms of the Development Bank of Southern Africa Act. The Board assists the Minister with the recruitment of the Chief Executive Officer.

The Board reports to the shareholder by way of annual and interim reports, and regular meetings between the Chairperson of the Board, the Chief Executive Officer, and the Minister of Finance. During the last calendar year, the Board met five times, having combined the October 2002 and December 2002 meetings into a full-day strategic planning session in November 2002. In addition, one full Board round robin was conducted in October 2002.

As may be noted from the résumés of current Board members on pages 8 to 11, the terms of service of two Board members expired in August 2002 and were renewed for an extra year, while the three-year term of the rest of the Board will expire in August 2004, at which point the principle of rotation will apply.

Board Committees: The Board directs and controls the operations of the Bank through a number of Board Committees set up to deal with financial and risk management and control; knowledge management; credit extension and employment practices – including employment equity and remuneration policies. The current Committees, their functions and composition are outlined below.

Following a rationalisation exercise, in August 2002 the Board of Directors approved the amalgamation of the Audit and Finance Committees. As a result of the same exercise, in November 2002 the Board approved the reconstitution of the Employment Equity Committee as the Knowledge Management Committee.

- The Audit and Finance Committee was reconstituted in November 2002 after a review of complementarities and synergies between the Audit and Finance Committees. The Audit Committee had been in existence since the Bank commenced its business, while the Finance Committee was set up in February 2001. The Audit and Finance Committee is tasked with overseeing the financial reporting, internal financial and other control systems. In addition, the Committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen the Bank's financial position in pursuance of its development mandate.

  The Committee reviews internal and external auditing processes, and evaluates risk management, financial and compliance policies and reports. It reviews and approves the annual budgets, and annual and interim financial statements. The Committee is also responsible for advising the Board on appropriate financial policies, investment limits and funds mobilisation strategies; the annual income, expenditure and capital budget requirements of the Bank; and procurement policies.

  The Audit and Finance Committee currently consists of five non-executive Directors and one co-opted member. It met four times during the year. The current members of the Committee are Dr D. Konar (Chair), Mr M.S.V. Gantsho, Dr I. Abedian, Mr J. Naidoo, Mr N. Payne (co-opted), Mr I. Sehoole and Mr N. Sowazi. The Committee is supported by two Management Committees, namely, the Finance and Risk Management Committee and the Asset and Liability Management Committee.
- The Credit Committee was reconstituted in February 2001 to replace the Investment Committee, which had been established in 1997 to facilitate a quicker turnaround in the investment decision-making of the Board. The Credit Committee continues to facilitate credit extensions up to a value of R100 million and is further accountable to the Board of Directors for portfolio management and the review of significant credit exposures. To perform this function, the Committee reviews the Bank's credit strategy; the Bank's credit risk management programme; credit extension to legal entities in which officers or Directors of the Bank have an interest (including related policies); significant credit exposures; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board.

  There are five Directors on the Committee, namely, Dr I. Abedian (Chair), Mr M.S.V. Gantsho, Ms L. Abrahams, Mr N. Sowazi and Mr M. Vilakazi. It met three times and conducted two round robins during the year. The Credit Committee is supported by the Operations Committee of management.
- The Knowledge Management Committee was reconstituted in November 2002 to replace the Employment Equity Committee established in 1995. The Knowledge Management Committee carries an expanded mandate, which, in addition to the previous focus on employment equity policy and strategy, now includes human capital transformation, human resources development and knowledge management. The Committee serves as a sounding board to review all relevant knowledge management position papers and reports before submission to the Board.

  The Committee currently consists of four Directors, namely, Ms L. Abrahams (Chair), Mr M.S.V. Gantsho, Prof. B. Figaji and Mr J.B. Magwaza. It met twice during the year and is supported by the Knowledge Strategy Committee of management.
- The Remuneration Committee was constituted in 1998 to manage the remuneration of the Board. After the August 2002 rationalisation exercise it was charged with the remuneration of both staff and management, previously the purview of the Employment Equity Committee. It further assists the Chief Executive Officer with the appointment of executive managers and monitors their performance. It meets as required. The Committee consists of the Managing Director, the Chairperson of the Audit and Finance Committee, the Chairperson of the Knowledge Management Committee and the Chairperson of the Board, and is chaired by Mr J.B. Magwaza, an independent Director previously responsible for the Employment Equity Committee. The Committee met four times during the year.

The Chairpersons of the Committees are all non-executive Directors and are confirmed annually.

Chief Executive 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 Bank, and consulted regularly with the shareholder representative.

Internal Control: The Board recognises the need to oversee internal operational and financial controls. Executive Managers attend Board and Board Committee meetings as required. The Manager of Internal Audit reports directly to the Managing Director. A structured relationship has been formalised between the Internal Audit function, the Managing Director, and the Audit and Finance Committee. The Internal Audit function, external auditors, the Managing Director and the Chairperson of the Audit and Finance Committee meet regularly. In pursuit of good corporate governance, the Board agreed to exclude external auditors from providing non-audit or advisory services to the Bank.

Corporate Secretary: The Corporate Secretary resigned during July 2002. In line with regulation 119 issued in terms of the Development Bank of Southern Africa Act, the Board formally appointed a new Corporate Secretary. In terms of the same Act, the functions of the Corporate Secretary are in line with the requirements of the 1999 amendment of the Companies Act, No. 61 of 1973.

Code of Business Conduct

The Bank sets 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. The Code of Business Conduct was adopted following a thorough consultation process, in which every staff member could contribute to the requirements of the Code. The Code applies to all members of staff, including Directors, consultants and suppliers of services.

Declarations of interest have been made at Board and operational level to ensure that Directors and employees who may derive direct or indirect benefit from an activity of the Bank are excluded from influencing decision-making processes. 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 Development Bank operates within the South African statutory governance and regulatory framework, in terms of the Development Bank of Southern Africa Act promulgated in 1997. In 1999 the Public Finance Management Act was promulgated with effect from 1 April 2000 to increase the governance controls by the national government. The latter Act introduced generally recognised accounting practices; set uniform treasury norms and standards; prescribed measures to ensure transparency about expenditure in all spheres of government; and established the operational procedures for borrowing, guarantees and procurement of services. The Bank reports on a quarterly basis to the National Treasury in terms of the requirements of the Act.

The Development Bank is not subject to supervision by the South African Reserve Bank under the Banks Act, No. 94 of 1990, but provides information to the Reserve Bank related to its borrowing and currency management policies on a quarterly basis or as and when required. However, the Act under which the Bank was founded is based largely on the principles and provisions of the Companies Act of 1973. In addition, the Minister of Finance can incorporate some of the provisions of the Companies Act and the Banks Act, to the extent that such provisions are not inconsistent with those of the Development Bank of Southern Africa Act.

The listing of the Bank in terms of the Public Finance Management Act in 2000 requires stricter and more regular reporting to the National Treasury on the effectiveness and efficiency of the institution. Compliance with requirements in areas such as risk management, funding, business planning and industrial relations is monitored from time to time. The Bank is also listed in terms of the Financial Markets Control Act, No. 55 of 1989, and the Financial Services Board Act, No. 97 of 1990.

During February 2003, the Bank complied with the Promotion of Access to Information Act of 2000, by compiling and submitting an organisational information manual to the Human Rights Commission. It also complied with the Public Finance Management Act of 1999 by drawing up a framework for levels of materiality and significance, in consultation with the external auditors and Executive Authority (the Minister of Finance), for submission in the 2003/04 Corporate Plan.

The Public Finance Management Act of 1999 requires that measures be taken to prevent irregular, as well as fruitless and wasteful expenditure. To this end, the Bank's policies and procedures have been designed to improve internal control and adherence to good corporate governance. During the year, the Bank also formulated and approved a specific policy and related procedures for identifying and reporting on such expenditure. The accounting and auditing processes found no potentially irregular or fruitless and wasteful expenditure in the year under review.

Record of attendance at meetings

Directors	DBSA Board	Audit and Finance Committee	Credit Committee	Finance Committee	Knowledge Management Committee	Remuneration Committee
No. of meetings	5	4	3	1	2	4
Abedian, I.	3	3	3			
Abrahams, L.	4		2		2	
Figaji, B. de L.	4				1	
Gantsho, M.S.V.	5	4	1	1	2	4
Konar, D.	4	4				4
Magwaza, J.B.	3				0	4
Naidoo, J.	5	1				3
Nyasulu, H.	4					
Ramos, M. da C. das N.C.	0					
Sehoole, I.	3	2		1		
Sowazi, N.	4	0	2			
Titus, Z.	2					
Vilakazi, M.	4		3			

Risk-taking is inherent to the Bank's business as a development finance institution. In aligning its risk philosophy with its strategic objectives, the Bank balances the demands of development and financial sustainability through exercising responsible, proactive and sound risk management.

While individual Business Units retain primary responsibility for managing the risk originating from their operations, the Risk Management Unit develops appropriate risk management policies and procedures, and ensures, through independent oversight, that risk is identified, quantified, monitored and reported within the established risk management framework, and that it remains within the risk appetite boundaries approved by the Board of Directors.

The Unit is independent and reports to the Executive Manager: Finance, while the manager of the Unit has right of access to the Chief Executive Officer and the chairpersons of the Audit and Finance Committee and the Board. The Board of Directors remains accountable for the management of the Bank's risks and is assisted in this regard by subcommittees of the Board, including the Audit and Finance Committee, as well as the Credit Committee.

Enterprise-wide risk management

During the year, the Bank continued with the implementation of the integrated risk management framework approved by the Board in 2001/02. A comprehensive risk matrix, using risk self-assessment techniques, has been completed for all significant functional areas of the Bank. The matrix identifies and quantifies risk exposures, and documents risk mitigation and control measures to enhance the management of risk by individual Business Units. The risk matrix complements the critical risk analysis that Internal Audit produces and uses to plan internal audit programmes.

The Bank has invested significant resources over the past year to improve its risk management capabilities, particularly with respect to its enterprise-wide risk management framework. It will continue to devote considerable effort to ensuring that its risk management practices are maintained at best-practice levels, particularly as the Bank's strategy evolves in response to external developments.

Major risk exposures

The Development Bank, like all development finance institutions, assumes substantial risk in the natural pursuit of its business objectives. The most significant of these are credit risk, interest rate risk, currency risk, liquidity risk, and operational risk.

Credit risk

Credit risk is the risk of financial loss arising from the failure of a borrower or other financial counterparty to meet its contractual obligations to the Bank. The pursuit of the Bank's development objectives renders substantial credit risk an unavoidable and necessary consequence of its business operations. Credit risk is the major part of the Bank's overall risk, and, in ensuring that the institution remains financially sustainable and is therefore able to achieve its objectives, managing this risk takes precedence.

The Board of Directors and its subcommittee, the Credit Committee, authorise larger credit decisions, while the operations executives are authorised to approve smaller credits. All credit decisions, irrespective of nominal size, are based on a comprehensive and documented appraisal process. In evaluating and monitoring credit risk, the Bank employs a well-tested internal rating model that ensures a thorough and all-embracing risk assessment of each client. Loans and guarantees provided are classified in accordance with the Bank's associated risk classification system and all clients are reassessed on a semi-annual basis, as part of the ongoing risk monitoring process. The semi-annual risk classification process is documented in the form of a credit risk migration matrix, which forms the basis for determining the Bank's loan loss provisioning. Credit decisions are further subject to both single obligor limits and the appraised debt service capacity of the borrowers. As part of the credit risk mitigation process the Bank also requires collateral in the form of eligible assets or third-party guarantees, when deemed prudent. Assets held as security against loans are revalued at prescribed intervals, which vary according to the nature and liquidity of these assets.

Country risk arises from the Bank's lending operations in other countries of the Southern African Development Community (SADC). Country risk is managed through an all-inclusive risk assessment process, which takes cognisance of the political, economic and legal factors that determine the risk profile of individual countries. Investments are further governed by approved country limits aimed at managing concentration risk at the country level, as well as single obligor limits that address the risk of client concentration. In addition, aggregate investment in other SADC countries is limited to one third of the Bank's total investment portfolio.

Credit risk also arises in the form of financial counterparty risk from Treasury operations, primarily through the Bank's cash and liquidity management activities, and from in-the-money derivative positions entered into as hedges against undesired currency risks and interest rate risks. Both derivative and cash transactions are restricted to reputable and primarily top-rated financial institutions, and all transactions are governed by approved counterparty limits, and subject to ISDA and ISMA master agreements, where applicable. Counterparty credit limits are also supported by instrument limits. All counterparties are monitored continuously, and downward adjustments in limits are effected when deemed prudent. Limits are otherwise reviewed semi-annually, subject to an exhaustive analysis of each approved counterparty.

Interest rate risk

Interest rate risk arises from the adverse impact of interest rate movements on the net interest income and the assets and liabilities of the Bank. This risk stems from the Bank's funding and lending operations, and occurs mainly in the form of repricing risk caused by mismatches in the amount of assets and liabilities maturing at any one time. Other forms of interest rate risk include yield curve risk, basis risk, and, to a lesser extent, embedded options risk. The Treasury Cluster, under the guidance of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk within acceptable boundaries. To this end, the Bank strives to match the interest rate basis of assets and liabilities as far as possible, and makes use of interest rate derivatives structured to eliminate undesired risk of this kind.

Currency risk

Currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk arises from the Bank's foreign currency funding and lending activities. The Bank employs a conservative policy that requires all currency risk to be hedged. As a result, all currency exposures are hedged either naturally through offsetting asset and liability positions, or through the use of approved currency derivatives.

The Bank recognises that in employing derivative instruments to hedge undesired market risk it exposes itself to the credit risk of the various derivative counterparties. As such, transactions in derivatives are limited to high-rated, reputable institutions, and subject to ISDA master agreements. The resultant credit risk is monitored and managed within the Bank's financial counterparty credit risk management framework.

Liquidity risk

Liquidity risk is the risk of failure to fund a cash shortfall as and when required, without incurring financial loss. It therefore encompasses both the risk of failing to borrow sufficient funds at prevailing market rates, and the risk of failing to liquidate an asset in a timely manner, and without significant deviation from the prevailing market price. Liquidity risk at the Bank is managed within the framework of a conservative policy, which requires that the Bank at all times retain liquid assets to an amount ranging between 15 and 30 per cent of total undisbursed loan commitments. Integral to the Bank's asset-liability management, liquidity risk management is centralised in the Treasury Cluster and takes place under the oversight of the Asset and Liability Management Committee, which in turn reports to the Audit and Finance Committee of the Board. The liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptances, as well as liquid debt issues from government, parastatals, and other approved issuers. Investments are guided by instrument limits aimed at ensuring sufficient liquidity, consistent with the Bank's requirements from time to time. In addition to ensuring that an adequate level of liquidity is maintained, the Bank further seeks to ensure a diverse range of funding sources, supported by credit lines with bilateral and multilateral development finance institutions. The Bank also maintains committed credit facilities with selected domestic commercial banks. Additional methodologies used to assess and monitor the Bank's liquidity requirements and risk levels include cash flow forecasts and cumulative maturity gap analyses.

Operational risk

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is managed through a system of internal controls that govern all operations to ensure sufficient preventative measures and an adequate flow of information. Controls include policies and procedures for transacting, monitoring of transactions, timely verifications and reconciliation, effective internal audit programmes, and the appropriate delineation of incompatible responsibilities within each of the Bank's Business Units. As part of the Bank's integrated risk management framework, operational risk has received growing attention, and constant efforts are made to improve and refine its management. Significant risk areas addressed within the Bank's operational risk management framework include:

- Business continuity planning
- People risk
- Data risk
- Fraud prevention
- Legal risk
- Regulatory and compliance risk
- Reputation risk

Capital adequacy

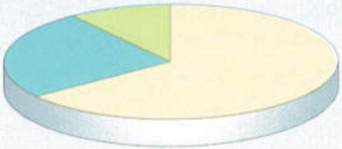
Although not required to comply with the capital adequacy regulations of the South African Reserve Bank, the Development Bank has implemented a capital management policy conservatively modelled on the Basle Accord. As at 31 March 2003, the Bank remained sufficiently well capitalised to support the accelerated delivery on its development mandate envisaged in the Vision 2004 strategy and beyond.

Approved risk management policies

In managing the Bank's risk exposures, the Board of Directors has approved the following policies:

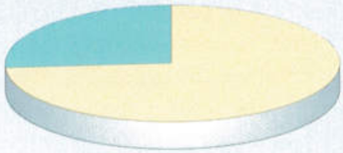
- Treasury counterparty limits
- Interest rate risk
- Approved financial instruments
- Foreign currency risk
- Liquidity risk
- Single obligor limits
- Country exposure limits
- Capital adequacy
- Loan loss provisioning
- Exposure to high-risk clients
- Core vs non-core limits
- Loan risk spread and pricing
- Security for loans
- Country risk pricing

Risk profile of total book debt, March 2003



Low	65%
Medium	25%
High	10%

Total book debt in South Africa and other SADC countries, March 2003

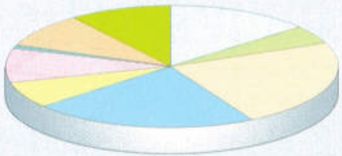


South Africa	74%
SADC	26%

Net exposure in other SADC countries,[1] March 2003

Botswana	5%
Lesotho	13%
Malawi	1%
Mauritius	21%
Mozambique	27%
Namibia	14%
Seychelles	1%
Swaziland	5%
Zambia	13%

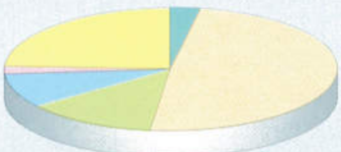
Portfolio per province, March 2003



Eastern Cape	14%
Free State	5%
Gauteng	23%
KwaZulu-Natal	22%
Limpopo	7%
Mpumalanga	9%
Northern Cape	1%
North West	9%
Western Cape	10%

1. Including loan agreements signed, amounts still to be disbursed and loans approved but still in the negotiation phase

Portfolio by sector, March 2003



Educational institutions	3%
Local government	49%
Parastatals	13%
Private companies	9%
Public utilities	2%
Other	24%

Annual financial statements

Financial year

The financial year of the Development Bank 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.

Directors' responsibility for financial reporting

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

In preparing the financial statements:

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

To enable the Directors to meet their financial reporting responsibilities:

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

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

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

The financial statements that appear on pages 48 to 87 were approved by the Board of Directors on 3 July 2003 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Mandla Gantsho
Managing Director

Deenadayalen Konar
Chairman of the Audit and Finance Committee

Report of the independent auditors to the Minister of Finance

We audited the annual financial statements of the Development Bank of Southern Africa Limited set out on pages 48 to 84 for the year ended 31 March 2003. These financial statements are the responsibility of the Directors of the Development Bank of Southern Africa Limited. 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 48 to 84. This performance information is the responsibility of the Directors of the Development Bank of Southern Africa Limited. 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 South Africa, read in conjuction with subsection 60(1)(b) of the same Act, is fair in all material respects and consistent with that of the preceding year.

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 South Africa 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 Development Bank of Southern Africa Limited at 31 March 2003, and the results of its operations and cash flow 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, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act of South Africa and its regulations and the Public Finance Management Act of South Africa.
- The performance information provided in terms of subsection 55(2)(a) of the Public Finance Management Act of South Africa fairly presents, in all material respects, the performance of the Development Bank of Southern Africa Limited, for the year ended 31 March 2003 against predetermined objectives and is, where applicable, consistent with that of the preceding year.
- The transactions of the Development Bank of Southern Africa that came to our attention during our audit were, in all material respects, in accordance with the mandatory functions of the Development Bank of Southern Africa Limited, as determined by law or otherwise.

Gobodo Inc.

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

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)
Pretoria
3 July 2003

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2003. The report deals with the performance of the Development Bank and meets the relevant statutory information requirements.

The Directors draw attention to the fact that this report contains certain performance information on the impact of the Bank's participation in the South African economy through the funding of various infrastructure projects. This information is generated by an economic model, developed with the assistance of economists and academics, using various assumptions in respect of the development and social impact of the Bank's investments.

The inputs into the economic model are obtained from the Bank's information systems and statistical reports published by various external bodies. It is therefore acknowledged that the resulting performance information, in this regard, is subjected to the limitations of the assumptions and information used by the model.

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 2003 and the results of its operations and cash flow information for the year then ended. The financial statements were approved on 3 July 2003. 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 Bank complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

The functions of the Bank and nature of the business

The Bank is a development finance institution wholly owned by the South African government, and it supports mainly infrastructure development in the entire Southern African Development Community. The Bank supports economic development and growth, human development and institutional capacity building in Southern Africa. It is one of the five national development finance institutions tasked with promoting development, the others being the Land and Agricultural Development Bank, Khula Enterprises, the Industrial Development Corporation and the National Housing Finance Corporation. The Development Bank supplements the flow of development funds by forming partnerships with the private and public sectors for projects that develop socio-economic infrastructure.

The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and the Development Bank of Southern Africa Act, No. 13 of 1997. The regulations of the latter Act require that the annual financial statements comply with sections 284 to 303 of the Companies Act, No. 61 of 1973, as amended.

Objectives

The Bank's corporate strategy and business planning activities occur within a five-year business cycle, the current one being Vision 2004. This is being revisited and expanded in Vision 2010, which maps the strategic path for the Bank over the next six years. Annually, based on the Balanced Scorecard approach, strategic objectives and targets for the organisation are set and approved by the Board. The Board approved the strategic objectives on 25 April 2002.

These objectives were set from the following four perspectives of the Corporate Balanced Scorecard:
- Sustainable development impact
- Effective business processes
- Learning and growth
- Financial sustainability

The Corporate Balanced Scorecard employed during the previous reporting period contained a customers and beneficiaries perspective and a stakeholders perspective, but in the current period these have been merged into a single perspective, namely, sustainable development impact. This rationalisation has eliminated overlapping definitions and made it possible to address the needs of customers, beneficiaries and stakeholders in a comprehensive way through a consolidated objective.

The strategic objectives aim to maximise the development impact of the Bank's investment; to ensure its financial sustainability by mobilising funds and leveraging strategic partners; to deliver services through effective internal business processes; to achieve the optimal development of its human resources; and to deliver customer-oriented products and services in a sustainable manner.

Six-monthly review reports and submissions to the Board monitored and measured progress in relation to the objectives. The budget, as approved by the Board, was aligned with the corporate planning process, and monthly monitoring and reporting took place.

Specific attention was given to streamlining and integrating the Bank's planning processes further. The Corporate Strategy Unit and the Financial Management Unit developed a corporate planning and budgeting framework and a procedure manual, in order to improve the alignment of Balanced Scorecards at the various levels and to link the annual business planning and budgeting process with the review of Balanced Scorecards. The framework will also further enhance the alignment of the Bank's planning processes with the requirements of the National Treasury and the Public Finance Management Act.

The Directors subscribe fully to the principles and practices of good governance. This report accordingly evaluates the Bank's performance in the economic, environmental and social spheres. The high-level strategic objectives and performance results for the year are highlighted in the table, followed by more detailed comments on progress in relation to the "triple bottom line".

High-level performance in 2002/03

Strategic objectives	Targets	Results	Results in 2001/02
		Sustainable development impact	
1. To grow the lending and investment portfolio	Approvals: R3,3 billion	R3,8 billion +15,2% of target +18,8% of 2001/02	R3,2 billion
	Commitments: R3,1 billion	R3,4 billion +9,7% of target +30,8% of 2001/02	R2,6 billion
	Disbursements: R2,6 billion	R3,7 billion +42,3% of target +105,6% of 2001/02	R1,8 billion
2. To broaden the menu of products and services to customers	Revenue generated from new products: 5% Growth in scope of services: 10%	Measurement systems not yet set up; DBSA played a new role as arranger/underwriter of strategic projects	New targets set in current year
3. To improve the management and delivery capacity of clients	Technical assistance disbursements: R11,0 million	R13,9 million +26,4% of target +40,4% of 2001/02	R9,9 million
	Development facilitation: 10% of professional time	Approximately 16,6% +66,0% of target +1,2% of 2001/02	Approximately 16,4%
4. To enhance smart development partnerships	Leveraging of funds: 1:3,0	1:2,6 -13,3% of target -18,8% of 2001/02	1:3,2
	Customer/partner satisfaction: 75%	Indicators not developed; part of value innovation strategic project	Research done; measurement tools developed
5. To optimise the benefits of interventions	Growth in GDP in South Africa	R8,4 billion contribution to GDP by DBSA and co-funders (estimated) -5,6% of 2001/02	R8,9 billion (estimated)
	Additional jobs created and maintained in South Africa	10 200 jobs created by DBSA funding for projects (estimated) 42 000 jobs (estimated) created by DBSA and co-funders -1,6% of 2001/02	13 700 jobs created by DBSA funding for projects (estimated) 43 000 jobs created by DBSA and co-funders (estimated)
	Increased investment in emerging contractors	Measurement systems not yet fully developed; specific targets set for 2003/04	Not reported
6. To ensure the sustainability of interventions	Percentage of projects monitored during implementation: 60%	Monitoring processes revised; measurement to be done in new reporting period	Ongoing monitoring of projects undertaken; percentage not reported
7. To become a knowledge-based institution	Planned knowledge interventions implemented: 20% over 5 years	Knowledge management policy and strategy approved	New objective set in current year

High-level performance in 2002/03

Strategic objectives	Targets	Results	Results in 2001/02
		Effective business processes	
1. To implement business processes that support business objectives	Business processes renewed and benchmarked	Business processes reviewed; second phase of business process renewal being implemented	Initiated and in progress
	One innovation programme established per Business Unit	Value innovation workshops held with subject specialists and project managers; current programme elevated to a corporate implementation framework for innovation, which will be developed during 2003/04	Second phase of market segmentation study started
2. To develop an information technology strategy that supports business processes	Integrated framework established	Strategy for management information system developed and approved	Integrated information system implemented
3. To monitor, evaluate and modify business processes	Quality assurance system developed	Terms of reference for formalising a quality management system approved	Quality assurance standards developed
	Adherence to specifications for well-defined data ownership and data stewardship: 70%	Business case study developed for appointing data stewards in all Business Units	New target set in current year
		Learning and growth	
1. To attract, develop and retain core competencies	Reduction in staff turnover	4,7% staff turnover 22 terminations 44,0% reduction in turnover ratio	8,4% staff turnover 36 terminations
	Investment in training as percentage of budgeted payroll: 5%	4,5% -10,0% of target +46,7% of 2001/02	3%
2. To achieve a balanced staff complement within the employment equity framework	Staff falling into designated groups at all job levels: 58%	76,2% +31,4% of target +6,7% of 2001/02	71,4%
	Vacancies filled by (external) black candidates: 90%	77% black -14,4% of target 86,9% from designated groups	Not reported
	Fast-track programme for designated employees established	Fast-tracking programmes implemented	New target set in current year
3. To establish a performance-based culture and a climate conducive to the achievement of objectives	Staff Satisfaction Index established	Survey conducted and results being analysed; index still to be developed	Qualitative climate audit conducted
	Planned change management initiatives achieved: 80%	Strategic Initiatives Cluster established to develop and implement a programme; progress against targets to be measured in new reporting period	New target set in current year

High-level performance in 2002/03

Strategic objectives	Targets	Results	Results in 2001/02
		Financial sustainability	
1. To maintain sound financial health	Budget variance on operating expenses: 10,0%	Operating expenses exceeded budget by 4,6% (within variance parameters)	Operating budget exceeded expenses by 3,0%
	Cost to income ratio: 26,0%	17,4% +33,1% of target +37,2% of 2001/02	27,7%
	Growth in gross income: 10,0%	40,9% +309,0% of target +734,7% of 2001/02	4,9%
	Return on assets: 3,7% – 4,0%	6,1% +52,5% of target +90,6% of 2001/02	3,2%
	Return on capital: 7,5% – 8,0%	12,5% +56,3% of target +86,6% of 2001/02	6,7%
	Loan loss provision as percentage of loan book: 8,0%	6,1% (considered adequate)	7,5%
	Currency match: 95,0%	88,2% -7,2% of target	Not reported
	Interest rate match: 87,0%	86,5% -0,6% of target	Not reported
	Debt to equity ratio: less than 250,0%	98,3% well within target -2,9% of 2001/02	95,5%
	AAA local rating	AAA	AAA
	International ratings maintained	Baa2/BBB	Baa3/BBB-

1. No specific targets were set, pending further development of measurement tools. The broad aim was to exceed the previous year's results.

The Directors are pleased with the progress and achievements reflected in the table. Once again, the Development Bank succeeded in optimising the benefits of its investments by contributing to GDP and employment creation in South Africa. The 2001/02 results regarding approvals, commitments and disbursements of loans were exceeded by 19, 31 and 106 per cent, respectively. The Bank successfully retained its customer base and further developed its staff and competency levels as a knowledge institution, while following sound business practices and maintaining financial sustainability. The Bank also continued to fulfil its social responsibilities and sought to limit the environmental impact of its operations.

In the sections below, the main activities of the Bank during the year are discussed in relation to the three pillars of sustainable development: economic, social and environmental development.

Economic report

The Development Bank supports programmes and projects that seek to address the social, economic and environmental needs of the people of South Africa and Southern Africa, thereby improving their quality of life. Sustainable development is a core value, having emerged during the process in which the Bank was transformed from being solely a financial provider into being a key national development institution, with a triple role as lender, advisor and partner.

Investment in the SADC region

The South African government has mandated the Development Bank to operate in the whole of the Southern African Development Community. The South African economy is inextricably linked to the economies of its neighbours, and closer interaction and cooperation with them is central to the promotion of sustainable socio-economic development throughout the region. As the development of infrastructure plays a pivotal role in and gives impetus to socio-economic development, the extension of South Africa's infrastructure networks into the rest of Africa is a core element of regional integration. The Development Bank plays a crucial role in this process.

Since the Bank supports NEPAD as part of its socio-economic development strategy, its operations in the broader SADC have gained in strategic significance. The vision of NEPAD is to put Africa on a path of sustainable growth and development through partnerships. Towards this end, a programme of action has been drawn up, in which priority projects are identified. The Bank has responded to the challenge of implementing this programme by establishing an Africa Partnerships Unit. The mission of this Unit is to maximise the Bank's contribution to NEPAD by facilitating and providing appropriate finance and expertise, and by forming partnerships for infrastructure development. The Unit will focus on advocating the NEPAD strategy; facilitating and providing capacity support; building partnerships with national, continental and international finance institutions; and investing in short-term action-plan projects.

The Bank's investment in the region has expanded. Its investment portfolio grew by R1,53 billion in 2002/03 (compared to R0,60 billion in 2001/02), and its cumulative support programme in the SADC, excluding South Africa, now stands at R7,43 billion. Total loan approvals for this region grew by 26 per cent for the year, and the region now accounts for 26 per cent of the total cumulative approvals by the Bank to date.

Investment in South Africa

Within South Africa, the challenge remains to accelerate the delivery of basic services, especially in the poorest provinces. In response, the Development Bank has reallocated management responsibility and resources, in order to focus on those provinces where poverty and backlogs require concerted attention. Additional Business Units have been established, specifically mandated to promote development interventions in the Eastern Cape and Limpopo. As this is a new initiative, it may be some time before the results of the Bank's investments in these two provinces become apparent.

In the year under review, the Bank made new approvals within South Africa worth R2,3 billion (2001/02: R2,6 billion). The total cumulative approvals for South African clients reached R21,4 billion. Although approvals in South Africa were slightly lower than during 2001/02, a similar number of clients were reached, albeit with smaller programmes. The increased focus on technical support and capacity building will provide further growth. KwaZulu-Natal, with its acute development challenges and economic potential, received R1,02 billion of new approvals, followed by Gauteng (R0,67 billion) and the Western Cape (R0,23 billion). The Directors believe that the increased focus on capacity building through the DBSA Development Fund and the dedicated attention to certain provinces will ensure that an even distribution of investment support evolves over time.

Additional support measures

Various interventions contributed to the Bank's positive performance in the country and the region.

- *Marketing:* After a thorough review, a new marketing strategy was formulated and promoted within the Bank. Three of the operational Units appointed dedicated marketing and business development officers to market and develop new investment opportunities.
- *Innovation:* The Bank began to implement a number of innovative initiatives, including a value innovation strategy aimed at adding more value to its operations and development initiatives, and thus delivering better products and services to its clients. Workshops were held to discuss value innovation with relevant stakeholders, and teams were formed to steer its implementation throughout the organisation. The development and implementation of this strategy is ongoing.
- *DBSA Development Fund:* The Development Fund became fully operational during the current year. The Fund provides grant funding to help overcome human, institutional and financial capacity constraints in rural and urban development. The Bank also continued to offer development facilitation support to clients, devoting approximately 16,6 per cent of its professional staff time to such activities (16,4 per cent in 2001/02). In addition to disbursements by the Development Fund, the Bank disbursed technical assistance grants to a value of R14 million (42 per cent more than in 2001/02).

Partnerships

The Bank seeks to increase its development impact by leveraging strategic alliances and building strong strategic partnerships. In order to gauge its success in enhancing smart development partnerships, the Bank measures its ability to leverage funding from other sources on its funded projects. A leverage ratio of 1:2,6 was achieved, which is slightly lower than the target, due to a smaller proportion of approvals above R100 million (72 per cent versus 77 per cent during 2001/02) and the impact of the exchange rate. Customer or partner satisfaction indices will also be valuable measurement tools. The development of such indices was targeted for 2002/03, but will only be completed during 2003/04.

As a public entity, the Development Bank works in close partnership with the various levels of government, exploring synergies that will contribute to sustainable development. Among the partnerships concluded in South Africa were:

- *Agreements with provincial governments:* New memoranda of understanding were concluded with the Mpumalanga and KwaZulu-Natal provincial governments on the nature of the support programmes they require, regarding both investment and technical assistance. A cooperation agreement was also concluded with the Gauteng Tourism Authority.
- *Municipal Task Team:* A Municipal Task Team was formed with Standard Corporate Merchant Bank to stimulate municipal funding. Working groups have been established, and will focus on joint initiatives to build the capacity of local authorities; to rejuvenate the South African municipal bond market; to develop structured finance and securitisation proposals; and to improve municipal creditworthiness in general.
- *Black economic empowerment partnership:* The Development Bank and Sanlam have formed a partnership to support black economic empowerment financing. The intention is to establish and capitalise a private equity fund, which will be managed by an empowerment fund management company and focus primarily on financing for black economic empowerment.
- *Multi-purpose community centres:* For the past two years, the Bank, in partnership with various levels of government, parastatals and other role players, has been involved in establishing multi-purpose community centres, which provide a wide range of services that communities can use for their own empowerment.
- *Africa Energy Fund:* This initiative was launched to develop and harness reliable regional and pan-African energy and telecommunications infrastructure projects, drawing on the technical resources of Eskom and the financial strength of the Bank and the Industrial Development Corporation. A steering committee, comprising representatives of the three partners, has been established to investigate the appropriate structure, framework and related operational issues.

The Bank's partnership programme outside South Africa is aimed at building capacity in strategic areas to manage investments and to mitigate investment risks. The Bank has identified target areas in which it can further the aims of NEPAD by creating partnerships that build capacity and promote investment. It also advocates the objectives of NEPAD to its existing clients. The following partnerships have been concluded:

- *Agence Française de Développement:* The Development Bank and Agence Française de Développement have entered into an agreement to provide financial assistance for viability studies of projects in support of the NEPAD objectives. Both parties will contribute equally to the grant facility, which will be managed by the Development Bank. In addition, a fourth credit line of €20 million was signed, providing grants for capacity building, among other things.

Letsatsi Game Lodge, Free State

- *Banco de Poupança e Crédito:* A memorandum of understanding was signed, setting out the parameters within which the Development Bank will render development support to the Republic of Angola, through the Banco de Poupança e Crédito.
- *Banque Rwandaise de Développement:* The governments of South Africa and Rwanda have agreed that South African institutions will assist Rwanda with development issues. The Development Bank undertook to share procedures, policies and principles with the Banque Rwandaise de Développement, and signed a memorandum of understanding on the institutional and financial strengthening of the Rwandan bank.
- *Government of Namibia:* The Namibian government is in the process of establishing a Development Bank for Namibia. The Development Bank of Southern Africa provided advice on key issues, including products and services; the financial structure and funding model; the information systems platform; and an overview of organisational structure.
- *Regional workshop:* Several agencies active in the SADC agreed to support a regional workshop to share experience, transfer skills and build capacity among local authorities in the region. These include the Development Bank of Southern Africa, the Municipal Infrastructure Investment Unit, the UNDP's Public-Private Partnerships for the Urban Environment, the Multilateral Investment Guarantee Agency, the Public-Private Infrastructure Advisory Facility, the Work Bank, the Carl Duisberg Gesellschaft, and the Municipal Development Programme based in Harare.
- *Tanzania National Development Corporation:* The Tanzanian government gave the Corporation the responsibility for managing the Spatial Development Initiative in the country. The Bank assisted with developing a Business Plan and with capacitating a new Unit.

Ithala rural commercial infrastructure programme, KwaZulu-Natal

Risk management

Risk management is critical if the Bank is to make sustainable support interventions. The Risk Management Unit is responsible for developing appropriate risk management policies and procedures, and for ensuring, through independent oversight, that risk is identified, quantified, monitored and reported, within the established risk management framework and risk appetite boundaries. The Unit is independent and reports to the Executive Manager: Corporate Finance, while the manager of the Unit has right of access to the Chief Executive Officer and the chairpersons of the Audit and Finance Committee and the Board.

During the year under review, an exercise was undertaken to update the understanding of major risks throughout the Bank, and the ten most critical risks were identified and presented. In terms of the integrated risk management framework adopted by the Board, special priority was given to the formalisation of a risk strategy and the development of a capital-at-risk methodology. These processes should be completed by June 2003, and will be refined and updated continuously thereafter.

Monitoring and evaluation

The Bank continued to monitor its operational activities and funded projects, and to evaluate completed interventions, so as to determine lessons of experience, impact and best practice.

The policy and guidelines for monitoring and evaluating projects, and for drawing up completion reports, were revised and incorporated into the new operational procedure manual. The logical framework was adopted as a compulsory element of all project monitoring and evaluation. Three training courses on monitoring and evaluation were conducted to enhance the Bank's capacity in this regard.

During the year, 17 projects in different economic sectors were evaluated. There were eight full evaluations and nine rapid assessments, and three of these were reported on in the new financial year.

Knowledge management

One of the Bank's strategic objectives is to become a world-class knowledge-based institution. In the course of the year, the Knowledge Management Vision was developed and approved, the institutional arrangements and implementation plan were drawn up, and opportunities for knowledge management were identified. The Directors believe this will enable the Bank to position itself as a centre of development excellence, which contributes to capacity building as identified in the National Skills Development Strategy, especially in regard to local authorities.

Preparatory work was also done on establishing a Local Government Resource Centre and the associated network, linking the local authorities with key stakeholders such as the Bank and provincial and central government. Both these initiatives are far advanced.

Black economic empowerment

Black economic empowerment remains a strategic imperative. The Bank has formulated a strategy for bringing this imperative to life. The intention is to channel 30 per cent of investments towards emerging contractors, and to use such contractors on 80 projects.

Effective business processes

Effective business processes play an important role in any organisation. In the year under review, the Bank embarked on the second phase of a business process renewal programme.

The first phase of the programme, which was completed in December 1999, documented the Bank's business process architecture – the value chain and major business processes. The study also indicated core business processes in the value chain that could be improved, suggested measures to monitor the performance of the core business processes, and examined key requirements for instituting an enterprise-wide renewal initiative.

The second phase of the programme entails investigating the need to effect changes in the business process architecture and, where appropriate, to redesign business processes that are crucial to implementing the Bank's strategy. During the year, a review of the Bank's business processes was completed, examining them in relation to the requirements of Vision 2010 and the prioritisation of opportunities for improvement. The priorities identified include the need to differentiate the product and service delivery processes; to innovate products and services; to establish and maintain a network of strategic alliances and partners; and to build, share and transfer knowledge.

A number of interventions were completed during the year to promote the integration of the Bank's management information systems with business requirements. A management information strategy was developed, executive management information requirements were investigated, and possible software solutions for building a data warehouse were assessed.

Impact on development

The Development Bank participates indirectly in the economy through the funding of various infrastructure projects, and the development impact of this activity can be measured by applying economic and statistical models. These models take into account the linkages created with other economic role players, for instance through the buying of materials or through the salaries and profits ploughed back into the economy in the form of private consumer spending. The table shows the estimates of the most important economic and socio-economic impacts of operations within South Africa for the year under review.

As investments during the year were more capital-intensive, these impacts are slightly more modest compared to 2001/02, although the total value of approvals in South Africa by the Bank and its co-funders rose by approximately 21 per cent and disbursements by the Bank in South Africa increased by 169 per cent.

Development impacts of total investment (2002/03)

Indicator	Estimated impact
Funding of investments in infrastructure by the DBSA and co-funders (R billion)	10,3
Impact on GDP due to approvals, disbursements and commitments by the DBSA and co-funders (R billion)	8,4
Total employment created (000)	42
Skilled (%)	15,0
Semi-skilled (%)	46,4
Unskilled (%)	38,6
Income to low-income households (R billion)	1,2
Capital employed (R billion)	23,6

In sectoral terms, the funding portfolio of the Bank and its co-funders in South Africa continued to be dominated by water infrastructure (27 per cent of total investments, against 26 per cent the previous year) and commercial infrastructure (25 per cent). The rest of the funding went to infrastructure for transport (13 per cent), electricity (13 per cent) and sanitation (16 per cent).

Capital is one of the basic production factors, along with labour, resources and entrepreneurship, needed for a functioning economy. In order to support the economic activity activated by the loan funding, an annual amount of approximately R23,6 billion in capital stock could be employed. This would constitute 1,2 per cent of the total capital stock of South Africa.

Environmental report

Although separate strategic objectives have not been set for environmental impact, and environmental reporting has not previously featured in the Directors' report, the Development Bank has always placed particular emphasis on the impact of its operations on the environment.

All the Bank's investment decisions are subject to an environmental appraisal, so as to ensure that projects are environmentally sound and sustainable, and that alternatives which might enhance their environmental benefits are considered. In this process, environmental risks are identified and evaluated, and mitigation measures are negotiated with clients. The process is detailed in the Bank's approved environmental appraisal guidelines. The Bank has taken a policy decision (effective from 1 January 2003) to ban the use of materials containing asbestos from the projects it invests in.

At present, the Bank is considering investments in several projects that have clear environmental benefits, such as the Darling Wind Farm and an environmental education facility in the Kruger National Park.

The Bank signed a Carbon Finance Intermediary Agreement with the World Bank, as part of its overall drive to establish an "environmental investment portfolio". One aim of this Agreement is to see whether the Development Bank might play a role in establishing financial incentives around environmental issues and begin to "monetarise" environmental benefits.

In the short to medium term, the Bank is supporting various feasibility studies and other activities relating to project development that might issue in "environmental investments". These include feasibility studies on the development of landfill gas and mini hydroelectricity projects in KwaZulu-Natal; transaction development support to the Western Cape Nature Conservation Board; and technical support in developing transfrontier conservation areas in the SADC.

Partnerships

The Bank has been building partnerships with other stakeholders in the environmental arena at international, regional and local levels. Some examples of support and formal arrangements include:

- Support for *DANIDA* in implementing projects in Southern Africa, such as the Environmental Capacity Building Unit situated in the Department of Environmental Affairs and Tourism (South Africa) and the NGO Yonge Nawe (Swaziland).
- Support for the *Subtropical Thicket Ecosystem Project* (STEP), which aims to develop a plan for conserving South Africa's thicket biome. The project is managed by the University of Port Elizabeth and co-funded by the Global Environmental Facility.
- Continued involvement with the *United Nations Environment Programme's Finance Initiative*, specifically through its Africa Task Group.
- Advice and technical assistance grants to *local governments*, for projects such as the development of the environmental management systems in the Buffalo City Municipality and the Nelson Mandela Metropolitan Municipality; the strategic environmental assessment process in uMngeni; and the waste management plan in Greater Marble Hall.
- Staff members of the Bank serve on the steering committees of a number of *national environmental programmes*, including the National Action Programme for Combating Land Degradation to Alleviate Rural Poverty; the Community Based Natural Resource Management Programme; and the National Project Steering Committee working to develop minimum requirements for training, upgrading waste disposal facilities and auditing waste management facilities.
- Technical assistance, via the Regional Tourism Organisation of Southern Africa, to the Okavango Upper Zambezi International Tourism Spatial Development Initiative (OUZIT) Unit. The SADC has tasked this Unit with planning and preparing the investment programme for the *transfrontier conservation areas* and their associated tourism areas.
- Signing of the *Carbon Finance Intermediary Agreement* with the World Bank. This will help the Bank's clients in Southern Africa to access this new source of finance, in order to support their sustainable development initiatives in areas like renewable energy.
- Assistance to the Gauteng Department of Agriculture, Conservation, Environment and Land Affairs in implementing their *feasibility study* of a provincial "Cleaner Production and Remediation Fund".

World Summit on Sustainable Development

The World Summit on Sustainable Development was a highlight of this financial year. The Bank developed a formal programme for the Summit, with a budget of R5,2 million. In line with one of the key themes of the Summit, that of partnerships for sustainable development, the Bank showcased the ongoing work it does with its partners.

- A number of *issue papers* were developed in response to the focus areas identified for discussion at the Summit, namely, energy, water and sanitation, health, food security, information technology, and education.
- A *supplementary programme of events* and displays was organised at the Bank, highlighting the work of the Bank and its partners in sustainable development.
- *Grant support* was given to various projects whose activities were linked to the Summit, including some that had been designated as sustainable development showcases. These included the Greenhouse urban renewal project in Joubert Park; the Ivory Park Eco-Village; the Soweto Mountain of Hope (Somoho); the African mayors' initiative; the South African multi-stakeholder initiative in response to the Report of the World Commission on Dams; and the zero waste plan at the Nasrec Expo Centre.
- A "*DBSA Bus Tour*" took participants at the Summit to projects that reflect best practice and demonstrate the Bank's involvement.
- Support was given to the *Johannesburg Climate Legacy Project* to offset the greenhouse gas emissions associated with the Summit.

During the Summit, existing partnerships were consolidated and new ones established. The Bank signed a memorandum of understanding with the International Council for Local Environmental Initiatives, pledging cooperation on environmental projects in the region.

Social report

The impact of activities on the social environment

The reduction of poverty and inequality has been a central concern of the South African government since 1994. The Development Bank's own mission statement emphasises the attempt to reduce poverty. A modelling exercise was therefore undertaken to determine the impact of the Bank's funding on poverty alleviation in South Africa.

It was estimated that R1,2 billion of the household income generated by the loan funding, that is, the total loans approved by the Bank and its co-funders, is destined for low-income households. It is estimated that the average low-income household benefits by at least R150 per year. Most of this additional income derives from the multiplier effects in the economy.

The Bank has an indirect social impact through additional government spending, as the fiscus receives added revenue arising from the funding of projects, in the form of taxes and other income at various levels of the economy. The model was used to estimate the potential impact of this increase in revenue if the government maintains its current spending patterns. Currently, government expenditure on the four social services comprises 46,5 per cent of the total, with education receiving 20,6 per cent, health 10,1 per cent, social security and welfare 11,1 per cent, and housing and community services 4,7 per cent. The fiscal impact of the Bank's funding amounts to an estimated R2 billion per year. The additional spending on social services is calculated at R1 billion per year. If government were to spend the additional income according to the pattern outlined above, it is estimated that annually it could fund the salaries of approximately 4 600 extra educators and 70 extra doctors; service 700 additional hospital beds; build 7 500 additional houses; and spend an extra R130 per person on welfare grants.

Social appraisal of potential projects

The Bank has long recognised that if development is to be enduring, a balance must be struck between the economic, environmental and social dimensions of projects. Accordingly, in addition to appraising the financial, institutional and technical aspects of an application for financing, the Bank's analysts also investigate the economic, environmental and social aspects. As far as the social aspects are concerned, the two main considerations are social risk and social impact.

Social risk has the following components:

- *Social soundness:* What is the fit between the project and the social context in which it will operate? Fit is assessed with regard to the broad socio-political dynamics of the environment and to the desirability or acceptability of the project in relation to local development needs.
- *Communication with all significant stakeholders:* In order to participate fully and make informed choices among different options, the beneficiaries especially must know what a project involves and what is at stake.
- *Community participation:* The investment risk of a project is lessened and the likelihood of its being sustained is enhanced if the beneficiaries are involved as much as possible in its planning and implementation.

Where any of these are found to be insufficient, mitigation measures are identified.

Social impact is assessed by examining the project's anticipated effect on:

- Quality of life
- Human capital formation
- Gender equity
- Empowerment

The direct impact of a project on the *quality of life* of beneficiaries is measured according to whether it:

- Improves income or creates a more equitable income distribution
- Creates better access to services e.g. provides new water connections
- Improves health standards e.g. lowers the incidence of water-borne diseases
- Suits the financial situation of the beneficiaries i.e. the services provided are affordable

The indirect impact of a project on quality of life is assessed in relation to the local social and economic opportunities that are expected to result; for example, electrification may facilitate access to information or allow for the establishment of income-generating local industries or home-based enterprises.

During the implementation and operational stages of projects, the Bank aims for the optimal utilisation and promotion of local resources, knowledge, skills, capacities and opportunities. The *formation of human capital* is a critical part of this. During appraisal, the anticipated impact of the project on the building of human capital is assessed in relation to:

- The creation of local training opportunities, disaggregated by gender
- The creation of temporary and permanent jobs, disaggregated by gender
- The content and extent of project management training
- The involvement of local and emerging contractors
- The stimulation and support of local entrepreneurs, by providing access to funding, resources and technical assistance

The Bank is committed to advancing *gender equity*, especially as the majority of the poorest people in the region are women, who face particular constraints in development. During appraisal, an assessment is made of the project's anticipated impact on women's practical needs (arising from the societal roles assigned to them, such as childcare responsibilities) and their strategic needs (relating to their empowerment and to overcoming their subordinate position in society).

Regarding practical gender needs, the Bank seeks to:

- Promote equal access of women and men to project-related opportunities and resources

- Minimise any limits on the effectiveness of a project because of the division of labour by gender

Regarding the more controversial issue of strategic gender needs, the Bank strives to:

- Ensure that women as well as men participate actively in decisions that affect their lives e.g. by serving on project steering committees
- Create a conducive social and economic environment in which both men and women can achieve their potential unhampered by gender stereotyping

In appraising the social dimensions of development projects, *empowerment* is conceptualised as the progressive growth in the capacities of community groups to bring about social change through increased exposure to knowledge and skills. A project's anticipated impact on empowerment is assessed according to whether it:

- Increases the opportunities and capacities of civil society to participate in and influence local decision-making processes
- Enhances the ability of the beneficiaries to make social choices

The social appraisal guidelines were recently revised to ensure that they are applicable not only to South Africa but to the wider SADC, and not only to public sector but also to private sector investments.

Social sector work

Besides appraising the social dimensions of the projects and programmes it finances, the Development Bank also undertakes development work with respect to human resource development, gender equity and health.

The Bank has long been active in *human resource development*, primarily through support provided to tertiary educational institutions. In the past financial year, it had ongoing interaction with universities, technikons, further education institutions and training colleges, the national and provincial departments of education, as well as education and training providers in the private sector. This interaction helped to promote and disseminate best practice policies and approaches to education and training. It also resulted in the Board approving various investment loans in the fields of higher education, further education and training.

Regarding *gender equity*, the Bank is involved with the Gender Advocacy Programme in the Western Cape. The aim is to advance the image of women in local government through a systematic capacity building programme and a partnership programme with the media.

The Bank also contributes to a development programme for women in construction, the Women in Construction Trust. The objectives of the programme are to help women to protect themselves against discrimination and oppression; to access contracts, create jobs and grow their businesses; to enhance their entrepreneurial skills; and thus to survive and thrive in the construction industry, which has traditionally been dominated by men.

In the past year, this programme achieved some noteworthy successes. Members were included on the Construction Industry Development Board, won awards for their housing projects in the Northern Cape and Mpumalanga, and were active in a large number of projects. These included the Habitat for Humanity housing projects in KwaZulu-Natal; the Zenzeleni Children's Village in Orange Farm, which cares for HIV/Aids orphans; and the World Summit's Greenhouse and Somoho projects, which used environmentally friendly and innovative construction methods. As part of the Emerging Contractor Development Programme run by the Department of Public Works, members were also involved in repairing roads damaged by floods, constructing new stadiums, schools, colleges and offices, and upgrading prisons and magistrates' courts throughout South Africa.

The Bank's work in the social sector also covers health matters, particularly *HIV/Aids*. The Bank is responsible for managing a voluntary counselling and testing project, which is funded by Kreditanstalt für Wiederaufbau and the South African Department of Health. The project aims to construct and upgrade voluntary counselling and testing facilities in selected government health care institutions and non-governmental organisations. Improving access to quality voluntary counselling and testing has been proven to reduce HIV risk behaviour. The implementation of this project is currently being planned in Integrated Sustainable Rural Development nodes and urban renewal sites in KwaZulu-Natal, Mpumalanga and the Eastern Cape.

Through the DBSA Development Fund, the Bank is also participating in a programme designed to strengthen home-based care initiatives around HIV/Aids in Mpumalanga. This programme aims to improve home-based care services; to form an umbrella body for such initiatives, which can provide training and support to members; to establish a monitoring and evaluation system; and to replicate the programme in other districts.

Staff profile at 31 March	Africans	Coloureds	Asians	Whites	Total
Male	103	5	8	122	238
Female	128	7	11	86	232
Total: end 2002/03[1]	231	12	19	208	470
% of total: end 2002/03	49,1	2,6	4,0	44,3	100,0
Total: end 2001/02	194	12	17	207	430
% of total: end 2001/02	45,1	2,8	3,9	48,1	100,0

1. This includes 12 employees who have been contracted to the DBSA Development Fund during the year and excludes 41 staff employed on a contract basis (24 on 31 March 2002).

Human resources
As a knowledge-based institution, the Bank regards its personnel as its major asset. The Bank is proud to report that it has been able to achieve a balanced and diverse staff complement within an employment equity framework.

Training
The organisation continued to focus on training and improving the competency levels of staff. In total, 4,5 per cent of the remuneration budget was used for training, slightly lower than the budgeted target but 46,7 per cent higher than 2001/02. Each staff member was expected to prepare a personal development plan, and a number of Integrated Rewards and Recognition workshops were conducted where staff were sensitised and trained in the application of this approach.

Staff satisfaction
A new rewards and recognition policy was implemented to reward staff for excellence in performance. The Bank is aware that rewards are an organisational issue and have a direct impact on performance and culture. A staff satisfaction survey was completed; the results will be analysed by June 2003 and a follow-up plan developed thereafter.

Staff turnover
That the organisation offers an attractive working environment is shown in the reduction of staff turnover from 8,4 per cent in 2001/02 to 4,7 per cent. During the year, 22 staff members resigned and 62 new staff members were appointed. Of these new appointments, 77 per cent were black. Staff grew by 9,3 per cent to a total complement of 470.

Employment equity
The Bank continued to strive for a balanced staff complement within the employment equity strategic framework approved by the Board. Employment equity strategies are being implemented to accelerate the achievement of targets (according to which 75 per cent of staff should be from designated groups and 53 per cent black by 2004/05). At present, 55,7 per cent of staff are black, coloured and Asian. Detailed progress in this regard is reported annually to the Department of Labour.

Staff well-being
The Bank continued to provide support services catering to the total well-being of its staff. As a free service to all staff, the Bank has subscribed to the Employee Assistance Programme, which offers a comprehensive advice and counselling service on life issues. With regard to HIV/AIDS, the Bank provides counselling and referrals, as well as awareness drives and the dissemination of information to staff. There is a first-aid clinic for all minor medical problems, staffed by a professional nurse. "Health days" are held annually, in association with the medical aid service provider, to encourage staff to improve their health. The Bank maintained its status as a safe environment, with only six minor on-site incidents reported during the year in terms of the Compensation for Occupational Injuries and Diseases Act of 1983.

Information required under Schedule 4 of the Companies Act

- *Share capital and dividends:* The callable capital of the Bank is R4,8 billion and the paid-up capital R200 million. A nil dividend has been declared for the current financial year.
- *Events after balance sheet date:* Refer to note 37 in the annual financial statements.
- *Directorate and Secretariat:* The names of the members of the Board of Directors and the Secretariat appear on pages 8 to 11. Board Committee memberships are reflected in the corporate governance statement on page 41.
- *Directors' emoluments:* Details appear on page 84.

Kruger National Park presidential reconstruction programme, Mpumalanga

Balance sheet

at 31 March

	Notes	2003 R 000	2002 R 000
Assets			
Cash and cash equivalents	2	**1 305 768**	1 375 868
Short-term securities	3	**870 234**	1 186 176
Other debtors	4	**24 866**	12 856
Investment in government bonds	5	**3 361 162**	3 253 000
Medipref investment	6	**46 795**	48 540
Home ownership scheme loans	7	**17 604**	14 833
Development investments	8	**170 769**	143 965
Development loans	9	**14 125 274**	11 859 830
Property, plant and equipment	10	**120 955**	115 229
Derivative instruments – asset		**875 721**	632 454
Total assets		**20 919 148**	18 642 751
Equity and liabilities			
Total equity		**10 231 348**	8 897 881
Share capital	11	**200 000**	200 000
Permanent government funding	12	**3 792 344**	3 792 344
Grant Fund	13	**70 000**	–
Revaluation reserve on land and buildings		**77 682**	77 682
Future cash flow hedge		**18 017**	(31 650)
Accumulated surplus		**6 073 305**	4 859 505
Total liabilities		**10 687 800**	9 744 870
Short-term financing	14	**236 550**	–
Short-term securities	15	**–**	825 796
Other creditors	16	**396 092**	424 276
Provision for post-retirement medical benefits	17	**66 095**	79 027
Long-term liabilities	18	**18 100**	21 924
Medium- and long-term financing	19	**9 940 105**	8 340 900
Derivative instruments – liability		**30 858**	52 947
Total shareholder's equity and liabilities		**20 919 148**	18 642 751

Income statement

for the year ended 31 March

	Notes	2003 R 000	2002 R 000
Operating income		**1 345 419**	979 407
Interest income	20	**2 282 553**	2 083 230
Interest paid	21	**(966 962)**	(1 149 564)
Net interest income		**1 315 591**	933 666
Movement in specific and general provisions	22	**38 731**	8 027
Debts written off	23	**(38 491)**	–
		1 315 831	941 693
Other income	24	**29 588**	37 714
Operating expenses		**(286 876)**	(255 024)
Technical assistance grants		**(13 852)**	(9 703)
Staff costs	25.1	**(193 813)**	(161 544)
General and administration	25.2	**(72 426)**	(77 540)
Depreciation	10.1	**(6 785)**	(6 237)
Surplus from operations		**1 058 543**	724 383
Grant to Development Fund	26	**(80 000)**	(80 000)
Surplus before revaluation adjustments		**978 543**	644 383
Foreign exchange loss	27	**(73 541)**	(2 528)
Profit/(loss) on fair value adjustments to derivatives	27.1	**378 798**	(49 219)
Surplus for the year		**1 283 800**	592 636

Cash flow statement

for the year ended 31 March

	Notes	2003 R 000	2002 R 000
Net cash inflow from operating activities		**1 178 562**	1 422 994
Interest received from development loans	31.1	**1 827 732**	1 483 510
Interest received from development investments	31.1	**13 524**	11 085
Interest received from investments	31.2	**666 189**	516 519
Interest paid	31.3	**(1 089 071)**	(1 111 410)
Cash (utilised by) generated from other operations	31.4	**(239 812)**	523 290
Net cash (outflow) inflow from development activities		**(2 952 014)**	586 932
Development loan disbursements	9	**(3 660 750)**	(1 781 447)
Development loan principal repayments	31.1	**747 646**	2 402 548
Development investments		**(25 058)**	(24 466)
Technical assistance grants paid		**(13 852)**	(9 703)
Net cash outflow from investment activities		**(15 232)**	(6 799)
Replacement of property, plant and equipment		**(12 757)**	(3 999)
Proceeds from disposals of property, plant and equipment		**296**	309
Home ownership scheme advances to employees		**(2 771)**	(3 109)
Net cash inflow (outflow) from financing activities		**1 718 584**	(1 719 405)
Short-term financing raised (repaid)		**236 550**	(1 225 771)
Decrease in long-term liabilities		**(1 174)**	(2 378)
Medium- and long-term financing repaid		**(730 391)**	(724 998)
Medium- and long-term financing raised		**2 213 599**	233 742
Movement in cash and cash equivalents		**(70 100)**	283 722
Cash and cash equivalents at the beginning of the year		**1 375 868**	1 092 146
Cash and cash equivalents at the end of the year		**1 305 768**	1 375 868

Statement of changes in equity

for the year ended 31 March

	Notes	Share capital R 000	Permanent government funding R 000	Grant Fund R 000	Revaluation reserve on land and buildings R 000	Future cash flow hedge R 000	Accumulated surplus R 000	Total R 000
Balance at 1 April 2001		200 000	3 792 344	80 000	77 442	(8 238)	4 186 869	8 328 417
– reported previously						555 492	3 623 139	
– reclassification of reserves	36					(563 730)	563 730	
Financial instruments fair value movements recognised in equity						(23 412)		(23 412)
Surplus for the year							592 636	592 636
Transfer to accumulated surplus				(80 000)			80 000	–
Transfer to revaluation reserve					240			240
Balance at 31 March 2002		200 000	3 792 344	–	77 682	(31 650)	4 859 505	8 897 881
Balance at 1 April 2002		200 000	3 792 344	–	77 682	(31 650)	4 859 505	8 897 881
Financial instruments fair value movements recognised in equity						49 667		49 667
Surplus for the year							1 283 800	1 283 800
Transfer to Grant Fund	13			70 000			(70 000)	–
Balance at 31 March 2003		200 000	3 792 344	70 000	77 682	18 017	6 073 305	10 231 348

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for property, plant and equipment, and financial instruments, as described in the relevant notes. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice. The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous year, except where indicated otherwise.

Fair value information is not provided for insignificant financial instruments, where it is impractical to obtain such information. The principal characteristics of those underlying financial instruments are, however, disclosed.

1.2 Financial instruments

All financial instruments are initially measured at cost, which is the fair value of the consideration given or received for them. Transaction costs are included in the initial measurement of all financial assets and financial liabilities.

The application of the initial measurement and recognition policies, in relation to specific financial assets and financial liabilities, as well as details of their subsequent measurement are included in the accounting policies that follow.

All financial instruments are initially recognised when the Bank becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights. Financial liabilities are derecognised when they are extinguished.

Impairments of financial assets are recognised in separate provision accounts.

Accounting policies for development investments and development loans are detailed under notes 1.3, 1.4 and 1.5.

1.2.1 Bonds issued not for trading

Capital market bonds and euro-rand bonds are initially measured at the issue price net of the unexpensed portion of discounts, premiums, other bonds or financing costs, as at the balance sheet date.

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

1.2.2 Derivative financial instruments

The Bank is party to a variety of forward exchange contracts and swaps in its risk management activities.

The Bank does not currently fully comply with AC133, but the present policy is designed so that compliance is possible when the Accounting Statement becomes effective. As a result of this partial compliance, the underlying hedged liability related to the financial instrument is not fair valued with respect to interest rates.

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

Cash flow hedge accounting is only applied for hedges of interest in foreign liabilities, where the principal terms of the hedged instruments match the terms on the hedged items as listed in schedules A, B and C.

Fair value hedge accounting is only applied for hedges of currency movements on foreign liabilities, where the principal terms of the hedged instruments match the terms on the hedged items as listed in schedules A, B and C.

Hedge accounting is not applied for hedges of local debt and interest, and therefore revaluations on these derivatives are reflected separately in the income statement.

Gains and losses relating to designated cash flow hedges, hedging against currency or interest rate risks associated with future anticipated cash flows, are recognised as a component of equity, and are recognised in the income statement, when the related transaction takes place.

Gains and losses relating to designated fair value hedges, hedging against currency risk directly associated with foreign currency denominated liabilities, are recognised in the income statement.

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

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

Fair value adjustments on non-hedging derivatives are recognised in the income statement when they occur.

The Bank will be fully compliant with AC133 with effect from 1 April 2003.

1.2.3 Cash and cash equivalents

The Bank's liquid assets comprise cash and money market instruments with a maturity of less than three months.

These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

1.2.4 Short-term securities and other debtors

Short-term securities are carried at market value. Other debtors are stated at cost less provision for doubtful debts. If the fair value of the asset is less than the carrying amount, the asset is impaired. Refer to note 1.2.6 for resale agreements.

1.2.5 Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal repayments plus amortisations, using the interest rate method, except for derivatives, which are stated at fair value.

Loans that are payable within twelve months are classified as short-term.

1.2.6 Repurchase and resale agreements

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

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

1.3 Development investments

This represents equity extended to unlisted institutions for financing of development programmes or projects.

Investments are stated at cost, subject to an impairment test. Where the Directors are of the opinion that an impairment of an investment has occurred, the investment is written down and the related diminution charged to the income statement.

1.4 Development loans

A development loan is credit extended to institutions for the financing of development programmes or projects repayable over a specified loan period at agreed terms and conditions.

Development loans are stated at carrying value, which comprises the principal amount outstanding and unpaid interest. The treatment of revenue recognition is described in note 1.9.

1.5 Provision against development loans

Development loans are classified as non-performing when the payment of principal and interest has become 180 days past due or when, in the opinion of the Directors, the recovery of the whole loan or a portion thereof becomes doubtful. Once these loans have been identified as irrecoverable, they are provided for. Interest is suspended on non-performing development loans.

Development loans are stated net of specific and general provisions. Specific provisions are made against identified doubtful loans. Factors that mitigate risk, such as the presence and quality of securities, are taken into consideration.

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

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

1.6 Property, plant and equipment

Items of property, plant and equipment which qualify for recognition as an asset are initially measured at cost. An impairment test is performed annually. If the recoverable amount is less than the carrying amount, the asset is impaired, and recognised in the income statement.

Where an asset is carried at a revalued amount, revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Surpluses (deficits) on the disposal of property, plant and equipment are credited (charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

Any revaluation surplus is included in equity.

1.6.1 Land

Land is stated at fair value. No depreciation is provided.

1.6.2 Buildings

The head-office building was constructed on land donated by the South African government.

The building, including improvements, is stated at fair value at the date of revaluation, less any subsequent accumulated impairment losses.

The revaluation surplus will be realised at the time of sale. The buildings are depreciated over their estimated useful life.

1.6.3 Other fixed assets

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

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

1.6.4 Rates of depreciation

The annual rates used to depreciate property, plant and equipment are as follows:

Buildings	4%
Furniture and fittings	10%
Motor vehicles	20%
Computer equipment	33,3%
Office equipment	20%

1.7 Other provisions

Provisions are recognised when the Bank has a present legal or constructive obligation, as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the closing rates ruling at the date of the transaction. Monetary assets and liabilities are translated at the closing rates at year-end. Foreign exchange gains or losses are recognised in the income statement. The Bank has no foreign subsidiaries.

1.9 Revenue recognition

Interest on development loans is recorded as income on the accrual basis, using the effective interest rate method. The Bank does not recognise income on development loans that have been classified as non-performing.

Subsequent receipts from non-performing debts are recognised as income to the extent that they relate to interest not previously recognised. Refer to note 1.5.

Guarantee fees and commitment fees charged on development loans are recorded as income on the accrual basis as services are rendered.

Fees received in advance on the commencement of development loans are deferred and recognised as income over the lifetime of the loan.

Interest on other investments is recorded as income on the accrual basis.

Dividends are recognised when the Bank's right to receive payment is established and are incorporated in other income, which is separately disclosed in the notes to the income statement.

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

1.10 Borrowing costs

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

1.11 Retirement benefits

1.11.1 Post-retirement medical benefits

Provision is made for post-retirement benefits in the form of health care plans for eligible employees and pensioners. This is a defined benefit plan.

The Bank has adopted the policy of accelerating the recognition of actuarial gains and losses by recognising them when they arise. Refer to notes 6 and 29.

1.11.2 Provident fund

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

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

1.12 DBSA Development Fund

The DBSA Development Fund is a section 21 company that was incorporated on 21 December 2001. This fund is not consolidated as the definition of control is not met.

A full set of financial statements for the fifteen-month period 21 December 2001 to 31 March 2003 has been prepared in a separate Annual Report for the Development Fund. Refer to note 35.

1.13 Offsetting

Assets and liabilities are not offset except when offsetting is required or permitted by another South African Accounting Statement.

Items of income and expenses are only offset when a South African Accounting Statement requires or permits it, or the gains, losses and related expenses arising from the same or similar transactions and events are not material.

1.14 Contingent assets and liabilities

Contingent assets and liabilities are disclosed when a possible obligation arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Bank.

1.15 Events after balance sheet date

All adjusting events, both favourable and unfavourable, that occur between balance sheet date and the date when the financial statements are issued have been reported.

Those events that are indicative of conditions that existed after balance sheet date are not adjusted for.

1.16 Comparative figures

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

1.17 Funds administered on behalf of third parties

The Bank has entered into agreements with a number of development entities to administer funds on their behalf. The activities of these entities relate to development and include development research, policy formulation, grants and loans.

These funds are not included in the balance sheet of the Bank. Refer to note 34.

	2003 R 000	2002 R 000
2. Cash and cash equivalents		
Fixed deposits	**237 000**	457 473
Call deposits	**613 252**	658 766
Cash at bank	**379 999**	129 775
Accrued income on deposits and securities	**75 517**	129 854
	1 305 768	1 375 868

The average annual interest rate on cash and cash equivalents detailed above was 12,0% (2002: 10,4%).

	2003 R 000	2002 R 000
3. Short-term securities		
Resale agreements	**315 778**	841 384
Trade securities (government and parastatal traded stock)	**554 456**	344 792
	870 234	1 186 176

The weighted average interest rate on resale agreements was 11,8% (2002: 9,3%).
The weighted average interest rate on trade securities was 12,0% (2002: 10,4%).

	2003 R 000	2002 R 000
4. Other debtors		
Staff loans	**2 007**	1 815
Other receivables	**27 934**	13 753
Provision for doubtful debts (refer to note 9.10)	**(5 075)**	(2 712)
	24 866	12 856

	2003 R 000	2002 R 000
5. Investment in government bonds		
Government stock (R150)	**3 361 162**	3 253 000
Market value	**3 340 532**	3 230 964

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

	2003 R 000	2002 R 000
6. Medipref investment	**46 795**	48 540

This investment represents the market value of funds provided by the Bank to fund post-retirement medical benefits for eligible employees and pensioners. Medipref Management Limited invests in funds that consist of cash, interest-bearing investments, equities and international assets. Refer to notes 17 and 30.

	2003 R 000	2002 R 000
7. Home ownership scheme loans	**17 604**	14 833

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

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

At 31 March 2003 the effective interest rate was 14,80% per year (2002: 11,25%).

8. Development investments

	2003 R 000	2002 R 000
Unlisted investments:		
Lepelle Northern Water Capital Project Bills	**37 940**	45 591
Franchise Fund	**2 400**	2 850
Commonwealth Africa Investments Limited	**52 523**	52 523
American International Group African Infrastructure Fund	**70 164**	38 110
Proparco Investments	**4 891**	4 891
Millennium Consolidated Investments Equity	**2 851**	–
Directors' valuation of unlisted investments	**170 769**	143 965

Based on the Directors' valuation, there is no indication that the fair value of these investments is below cost.

Unlisted investments comprise the following:

	2003 R 000	2002 R 000
8.1 Lepelle Northern Water Capital Project Bills	**37 940**	45 591
Capital Project Bills of R37,9 million (2002: R45,6 million) with a nominal value of R156,7 million and maturities varying from 30 April 2000 to 31 October 2005.		
8.2 Franchise Fund	**2 400**	2 850
50 000 (2002: 50 000) ordinary shares at cost	**50**	50
1 700 000 (2002: 1 700 000) 8% redeemable cumulative preference shares at cost	**1 700**	1 700
650 000 (2002: 1 100 000) 15% redeemable debentures at cost	**650**	1 100

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

	2003 R 000	2002 R 000
8.3 Commonwealth Africa Investments Limited	**52 523**	52 523
900 (2002: 900) ordinary shares at cost	**5**	5
900 (2002: 900) redeemable preference shares at cost, which represents 15,75% of the total preference shareholding.	**52 518**	52 518

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

	2003 R 000	2002 R 000
8.4 American International Group African Infrastructure Fund	**70 164**	38 110
The Bank has contributed US$8 102 544 (2002: US$4 993 565) to the AIG Infrastructure Fund, which represents 6,1482% of the total shareholding. The percentage shareholding has not changed from the previous year, due to the fact that all shareholders have contributed in equal proportions.		
8.5 Proparco Investments	**4 891**	4 891
This investment consists of 49 500 (2002: 49 500) shares and is denominated in Euros.		
8.6 Millennium Consolidated Investments Equity	**2 851**	–
The Bank has made a commitment of R100 million to the MCI Value Partners Fund 1. The Bank's interest in the Fund at 31 March 2003 was 33% of the total Fund of R303 million.		
	170 769	143 965

9. Development loans

9.1 Analysis of development loans		
Balance at the beginning of the year	**12 818 741**	13 110 296
Movements during the year:	**2 219 150**	(291 555)
Loans disbursed	**3 660 750**	1 781 447
Interest accrued	**1 673 072**	1 494 116
Development loans written off	**(44 072)**	(43)
Revaluation of foreign loans	**(495 222)**	318 983
Gross repayments	**(2 575 378)**	(3 886 058)
Gross development loans	**15 037 891**	12 818 741
Provision against development loans (refer to note 9.10)	**(912 617)**	(958 911)
Net development loans	**14 125 274**	11 859 830

The weighted average return on the loan book was 13,5% (2002: 12,8%).

Carrying value of development loans where interest was reversed	**492 025**	603 832

	2003 R 000	2002 R 000
9.2 Maturity analysis of development loans		
2003	–	1 469 361
2004	**2 470 378**	609 565
2005	**825 406**	687 356
2006	**1 138 617**	846 430
2007	**716 150**	491 783
2008–2012	**5 300 438**	3 839 431
2013–2017	**3 593 132**	3 514 219
2018 and thereafter	**993 770**	1 360 596
	15 037 891	12 818 741
9.3 Sectoral analysis		
Commercial infrastructure	**2 185 389**	1 477 219
Communication and transport infrastructure	**646 638**	329 521
Energy	**2 090 118**	1 983 380
Human resources development	**730 469**	473 923
Institutional infrastructure	**44 172**	30 480
Residential facilities	**156 387**	197 520
Roads and drainage	**2 259 473**	2 193 639
Sanitation	**1 661 668**	1 795 346
Social infrastructure	**384 902**	366 299
Water	**4 878 675**	3 971 414
	15 037 891	12 818 741
9.4 Geographical analysis		
Eastern Cape	**779 283**	812 117
Free State	**686 189**	689 293
Gauteng	**3 337 906**	2 611 160
KwaZulu-Natal	**2 833 451**	2 104 128
Limpopo	**461 656**	392 225
Mpumalanga	**915 202**	945 365
North West	**543 255**	520 639
Northern Cape	**144 858**	154 142
Western Cape	**1 334 396**	1 140 761
Multi-regional – South Africa	**272 281**	325 479
SADC (excluding South Africa)*	**3 729 414**	3 123 432
Botswana	**285 428**	264 027
Lesotho	**656 785**	643 556
Malawi	**50 509**	51 940
Mauritius	**202 376**	78 451
Mozambique	**1 099 320**	1 225 281
Namibia	**447 846**	264 474
Seychelles	**63 080**	46 782
Swaziland	**154 155**	90 814
Zambia	**307 206**	251 983
Multinational	**462 709**	206 124
	15 037 891	12 818 741
*Amount in US$ included in the above SADC loans	**199 090**	85 880

	2003 R 000	2002 R 000
9.5 Client classification		
Development finance institutions	**258 874**	82 015
Educational institutions	**705 962**	441 921
Local government	**7 531 506**	6 731 833
National and provincial government	**371 165**	283 629
Private sector	**2 829 739**	2 587 567
Public utilities	**3 340 645**	2 691 776
	15 037 891	12 818 741
9.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**8 611 287**	8 438 046
Variable interest rate loans	**6 426 604**	4 380 695
	15 037 891	12 818 741

Variable rate loans are assumed to be at fair value as interest rates are influenced by market rates.

9.7 Non-performing loans	**818 998**	915 897
9.7.1 Sectoral analysis		
Commercial infrastructure	**536 564**	555 169
Communication and transport infrastructure	**206**	175
Energy	**63 665**	74 907
Human resources development	**4 014**	15 639
Institutional infrastructure	**901**	1 467
Residential facilities	**1**	1
Roads and drainage	**49 269**	46 093
Sanitation	**75 682**	85 074
Social infrastructure	**2 142**	7 144
Water	**86 554**	129 928
	818 998	915 597
9.7.2 Geographical analysis		
Eastern Cape	**49 399**	66 141
Free State	**153 898**	140 302
Gauteng	**58 770**	75 631
KwaZulu-Natal	**5 382**	4 861
Limpopo	**128 216**	127 571
Mpumalanga	**62 768**	160 282
North West	**282 170**	262 669
Northern Cape	**23 522**	29 330
Western Cape	**17 926**	16 283
Multi-regional – South Africa	**23 095**	20 583
SADC (excluding South Africa)	**13 852**	11 944
Malawi	**6 595**	5 276
Swaziland	**7 257**	6 668
	818 998	915 597

	2003 R 000	2002 R 000
9.7.3 Client classification		
Development finance institutions	–	–
Educational institutions	**1 209**	735
Local government	**250 710**	262 477
National and provincial government	**8 597**	7 799
Private sector	**103 753**	93 746
Public utilities	**454 729**	550 840
	818 998	915 597
9.8 Client concentration		
One client as percentage of total loan book	**7,2%**	7,7%
Seven clients as percentage of total loan book	**29,4%**	28,9%
9.9 Provision against development loans		
Balance at the beginning of the year	**958 911**	958 911
Amounts written off during the year	**(5 579)**	–
Income statement movement (refer to note 22)	**(40 715)**	–
Specific provision	**(113 556)**	(20 488)
General provision	**72 841**	20 488
Balance at the end of the year	**912 617**	958 911
Comprising:		
Specific provision	**339 468**	458 604
General provision	**573 149**	500 307
	912 617	958 911

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

9.10 General and specific provision		
Provision against development loans	**912 617**	958 911
Provision for doubtful debts (note 4)	**5 075**	2 712
	917 692	961 623

10. Property, plant and equipment

10.1 Reconciliation of property, plant and equipment

	Revalued land R 000	Revalued buildings R 000	Computer equipment R 000	Furniture and fittings R 000	Motor vehicles R 000	Office equipment R 000	Total R 000
Cost or revaluation							
At the beginning of the year	18 800	95 893	21 419	999	437	2 116	139 664
Additions	–	3 177	8 402	195	522	461	12 757
Disposals	–	–	–	–	(296)	–	(296)
At the end of the year	18 800	99 070	29 821	1 194	663	2 577	152 125
Accumulated depreciation							
At the beginning of the year	–	3 809	18 554	358	181	1 533	24 435
Disposals	–	–	–	–	(50)	–	(50)
Total depreciation for the current year	–	3 904	2 372	124	117	268	6 785
Depreciation on buildings – historical cost	–	1 454	2 372	124	117	268	4 335
Depreciation on buildings – revalued	–	2 450	–	–	–	–	2 450
At the end of the year	–	7 713	20 926	482	248	1 801	31 170
Net book value (March 2003)	18 800	91 357	8 895	712	415	776	120 955
Net book value (March 2002)	18 800	92 084	2 865	641	256	583	115 229
Historical book value (March 2003)	–	32 762	8 895	712	415	776	43 560

10.2 Valuation

10.2.1 Land

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent valuator (a quantity surveyor), on 31 March 2001, using the sales comparison approach.

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

10.2.2 Buildings

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R3,2 million were effected during the 2003 financial year (2002: R0,89 million).

The buildings are valued every three years and were last valued at R95 million on a replacement value basis by Davis Langdon Farrow Laing, an independent valuator (a quantity surveyor), on 31 March 2001, using the income capitalisation approach.

	2003 R 000	2002 R 000

11. Share capital

Authorised		
500 000 (2002: 500 000) ordinary shares at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares at a par value of R10 000 each	**200 000**	200 000
Callable capital		
480 000 (2002: 480 000) ordinary shares at a par value of R10 000 each	**4 800 000**	4 800 000

The Development Bank of Southern Africa Limited Act, No. 13 of 1997, section 18, allows directors to issue shares from time to time and to call upon the shareholders in respect of any moneys to be paid to the Bank.

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

12. Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994.

Received to date	**3 792 344**	3 792 344

13. Grant Fund

The Board of Directors approved the transfer of an amount of R70 million from the current year's surplus to the Grant Fund.	**70 000**	–

14. Short-term financing

This loan is repayable on 20 August 2003. The interest rate is 6 months libor plus 50 basis points.	**236 550**	–

15. Short-term securities

Repurchase agreements	**–**	825 796

16. Other creditors

Trade creditors and sundry accruals	**257 529**	103 449
Accruals for leave pay and bonuses (see below)	**43 108**	23 082
Current portion of long-term liabilities (Société Générale)	**1 032**	1 182
Accrued interest	**164 423**	296 563
	466 092	424 276

16.1 Accruals for leave pay and bonuses

Leave pay accrual	**11 666**	7 591
Bonus accrual	**31 442**	15 491
	43 108	23 082

	2003 R 000	2002 R 000
17. Provision for post-retirement medical benefits	**66 095**	79 027

Refer to note 6.

18. Long-term liabilities

	2003 R 000	2002 R 000
The loan with Natexis Banque is repayable in 16 equal, semi-annual instalments, with the first instalment falling due on 31 March 2011. Interest payments fall due three-monthly and commenced on 31 March 2001. The applicable interest rate is 0,1% per year.	**9 846**	11 282
The loan with Société Générale is repayable in 20 equal, semi-annual instalments, with the first instalment falling due on 11 September 2002. Interest payments fall due six-monthly and commenced on 11 September 2000. The applicable interest rate is 4,67% per year.	**8 254**	10 642
	18 100	21 924

The above loans consist of € 1,143 million and € 1,078 million, and relate to on-lending agreements with Natexis Banque and Société Générale respectively.

19. Medium- and long-term financing

19.1 Summary

	2003 R 000	2002 R 000
Public bonds (refer to schedule A.1)	**6 180 337**	4 633 806
Balance in issue	**13 395 321**	11 895 321
Unamortised issue discounts on registered bonds	**(7 214 984)**	(7 261 515)
Private placements (refer to schedule A.2)	**559 544**	516 721
Balance in issue	**715 000**	715 000
Unamortised issue discounts on registered bonds	**(155 456)**	(198 279)
Other loans (refer to schedule C)	**3 200 224**	3 190 373
Balance in issue	**3 217 462**	3 210 286
Unamortised issue discounts	**(17 238)**	(19 913)
Total medium- and long-term borrowings	**9 940 105**	8 340 900

19.2 Sources and denominations

	2003 R 000	2002 R 000
Foreign funding	**5 028 444**	4 642 898
Rand denomination	**2 382 123**	2 166 326
Foreign denomination	**2 646 321**	2 476 572
Domestic funding		
Rand denomination	**4 911 661**	3 698 002
	9 940 105	8 340 900

	2003 R 000	2002 R 000

19.3 Derivative instruments

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

	2003 R 000	2002 R 000
Fair value hedges	**(266 904)**	(412 876)
0 – 1 year	**(22 402)**	(32 808)
1 – 5 years	**(94 923)**	(140 527)
Thereafter	**(149 579)**	(239 541)
Cash flow hedges relating to cross-currency hedging (refer to statement of changes in equity on page 63)	**(18 017)**	31 650
0 – 1 year	**27 678**	18 234
1 – 5 years	**25 147**	34 713
Thereafter	**(70 842)**	(21 297)
Derivatives*	**(559 942)**	(198 281)
0 – 1 year	**(147 332)**	(45 235)
1 – 5 years	**(395 920)**	(149 888)
Thereafter	**(16 690)**	(3 158)
	(844 863)	(579 507)
Maturity		
0 – 1 year	**(142 056)**	(59 809)
1 – 5 years	**(465 696)**	(255 702)
Thereafter	**(237 111)**	(263 996)
	(844 863)	(579 507)

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

Refer to the risk management section of the Annual Report on pages 42 and 43 for the Bank's risk management policies.

20. Interest income

	2003 R 000	2002 R 000
Development loans (refer to note 20.1)	**1 672 836**	1 494 116
Development investments	**13 133**	10 497
Government stock	**403 568**	390 360
Money market	**105 203**	114 214
Capital market	**85 039**	71 695
Housing scheme	**2 067**	1 587
Other interest received	**707**	761
	2 282 553	2 083 230

	2003 R 000	2002 R 000
20.1 Client classification		
Development finance institutions	**18 759**	9 900
Educational institutions	**60 948**	46 683
Local government	**933 903**	836 766
National and provincial government	**41 810**	30 126
Private sector	**215 854**	250 898
Public utilities	**401 562**	319 743
	1 672 836	1 494 116

21. Interest paid

	2003 R 000	2002 R 000
Registered bonds	**563 871**	673 406
Foreign loans	**355 516**	445 492
Other	**47 575**	30 666
	966 962	1 149 564

22. Movement in specific and general provisions

	2003 R 000	2002 R 000
Other debtors (refer to note 4)	**2 363**	455
Lepelle Northern Water	**(379)**	1 737
Development investments	**–**	(10 262)
Development loans (refer to note 9.9)	**(40 715)**	43
Provision reversed in the current year	**(46 294)**	–
Write-offs during the current year	**5 579**	43
	(38 731)	(8 027)

23. Debts written off

	2003 R 000	2002 R 000
Development loan write-offs	**38 491**	–

24. Other income

	2003 R 000	2002 R 000
Non-interest income:		
Fees and sales	**20 380**	18 541
Dividend income	**3 158**	8 193
Less recovered expenses:	**(756)**	(410)
Consultants	**(300)**	(168)
Travel and subsistence	**(456)**	(242)
	22 782	26 324
Sundry income	**6 806**	11 390
	29 588	37 714

	2003 R 000	2002 R 000

25. Operating expenses

25.1 Staff costs

	2003 R 000	2002 R 000
Post-retirement medical benefits provision (refer to note 25.1.1)	**(11 187)**	8 302
Other staff costs	**205 000**	153 242
	193 813	161 544

Included in other staff costs are Directors' emoluments and Executive management remuneration as detailed below:

	2003 R 000	2002 R 000
Directors' emoluments	**2 975**	3 538
Executive management remuneration	**7 036**	4 655
	10 011	8 193

For full details, refer to note 38 – Schedule of Directors' emoluments.

25.1.1 Movement in post-retirement medical costs provision

	2003 R 000	2002 R 000
Reversal of provision	**–**	(22 185)
Medipref investment (refer to note 30)	**1 745**	(48 540)
Present value of obligation (refer to note 30)	**(12 932)**	79 027
	(11 187)	8 302

25.2 General and administration expenses

are arrived at after taking into account:

	2003 R 000	2002 R 000
Auditors' remuneration	**4 630**	3 406
audit fee – current year		
– audit	**3 466**	3 043
– disbursements	**97**	147
under-provision – previous year	**1 034**	118
other services – current year	**33**	98
Technical services	**9 931**	9 026
Communication costs	**3 230**	3 066
Information technology	**14 437**	10 566
Regional Service Council levies	**4 152**	3 530
Subsistence and travel	**12 571**	12 850
Other	**23 475**	35 096
	72 426	77 540

26. Grant to Development Fund

	2003 R 000	2002 R 000
Grant to Development Fund	**80 000**	80 000

The Board of Directors approved a grant of R380 million, of which R300 million was approved subsequent to year-end. R80 million was expensed during the current year and R70 million has been appropriated from the current year's surplus and will be expensed in the 2003/04 financial year (refer to note 35).

	2003 R 000	2002 R 000
27. Foreign exchange gain/(loss)		
Foreign exchange gain/(loss) relating to interest paid	**519 338**	(421 059)
Unrealised foreign exchange gain	**–**	418 531
Unrealised foreign exchange loss	**(592 879)**	–
	(73 541)	(2 528)
27.1 Profit/(loss) on fair value adjustments to derivatives	**378 798**	(49 219)

28. Taxation

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

29. Retirement benefits

29.1 Defined contribution plan

The Development Bank of Southern Africa Provident Fund was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The fund, which is governed by the Pension Fund Act, No. 24 of 1956, is a defined contribution plan for employees on the permanent staff of the Bank.

The number of employees covered by the plan: 507 (2002: 438).

	2003 R 000	2002 R 000
Total amount expensed during the year (including Group Life Assurance and Income Continuity Benefits)	**24 036**	20 363

29.2 Medical aid

Number of employees: 445 (2002: 407).

	2003 R 000	2002 R 000
Company contributions	**12 147**	9 591

30. Post-retirement medical benefits

This benefit is in respect of current and past employees who are currently members of Discovery Health.

Pensioners include retired employees and widow(er)s. The liability is in respect of pensioners who continue to belong to Discovery Health after retirement.

In respect of these employees, 100% of the medical aid contributions are paid by the Bank.

The investment in Medipref has been disclosed in the balance sheet. The related obligation, which was actuarially valued at 31 March 2003 and 31 March 2002, has also been disclosed in the balance sheet.

It is the opinion of the actuary that the plan is in a sound financial position. Refer to note 6.

	2003 R 000	2002 R 000
Present value of obligation at 31 March 2002	**79 027**	66 198
Interest cost	**7 806**	7 954
Current service cost	**6 814**	3 270
Membership change	**–**	(3 297)
Benefits paid	**(1 888)**	(1 018)
Actuarial (profit)/loss for the year	**(25 664)**	5 920
Present value of obligation at 31 March 2003	**66 095**	79 027
Market value of Medipref at 31 March 2002	**48 540**	44 013
Decrease in market value for the year	**(1 745)**	4 527
Market value of Medipref at 31 March 2003	**46 795**	48 540

The principal assumptions in determining the post-retirement medical benefit obligation are as follows:

Discount rate (net of taxation)	**13,0%**	12,5%
Medical aid inflation rate	**11,0%**	10,5%

The projected unit credit method has been used to determine the actuarial valuation.

31. Cash flow statement

31.1 Interest received from development activities

Gross development loan repayments (refer to note 9)	**2 575 378**	3 886 058
Principal repayments	**(747 646)**	(2 402 548)
Interest repayments from development loans	**1 827 732**	1 483 510
Interest received from development investments	**13 524**	11 085
	1 841 256	1 494 595

31.2 Interest received from investments

Accrued interest at the beginning of the year	**129 854**	67 756
Accrued interest	**145 514**	84 004
Accrued interest on development investments	**(15 660)**	(16 248)
Credited to income for the year	**596 584**	578 617
Accrued interest at the end of the year	**(60 249)**	(129 854)
Accrued interest	**(75 518)**	(145 514)
Accrued interest on development investments	**15 269**	15 660
	666 189	516 519

	2003 R 000	2002 R 000
31.3 Interest paid		
Accrued interest at the beginning of the year		
Other creditors (refer to note 16)	**296 563**	238 428
Charged to income for the year		
Interest expense (excluding unrealised foreign exchange gains and losses)	**956 931**	1 169 545
Accrued interest at the end of the year		
Other creditors (refer to note 16)	**(164 423)**	(296 563)
	1 089 071	1 111 410
31.4 Cash (utilised) generated by other operations		
Surplus for the year	**1 283 800**	592 636
Adjustments for:		
Provisions	**8 864**	8 824
Technical assistance grants paid	**13 852**	9 703
Interest expense	**68 826**	1 619 842
Interest received on investments	**(596 584)**	(578 617)
Interest received on development loans and investments	**(1 685 969)**	(1 504 614)
Depreciation	**6 785**	6 237
Foreign exchange revaluation	**1 092 396**	(99 476)
Payment to Development Fund	**80 000**	80 000
Decrease in short-term securities (receivable)	**315 942**	(199 829)
Increase in other debtors	**(83 978)**	(6 925)
Decrease in short-term securities (payable)	**(825 796)**	510 632
Increase in other creditors	**82 050**	84 877
	(239 812)	523 290

32. Commitments

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

	2003 R 000	2002 R 000
32.1 Loan commitments		
Loans approved by the Board of Directors but not signed	**2 991 982**	2 581 432
Loans signed but not disbursed	**2 845 297**	3 690 910
	5 837 279	6 272 342

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable.

	2003 R 000	2002 R 000
32.2 Technical assistance grants		
Grants approved by the Board of Directors but not signed	**3 321**	1 885
Grants signed but not disbursed	**25 695**	15 118
	29 016	17 003

The above loan and grant commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

33. Contingent liabilities

33.1 Employee loans

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

	2003 R 000	2002 R 000
Loan balances secured	**870**	623

33.2 Guarantees

	2003 R 000	2002 R 000
The Bank has approved and issued a guarantee on behalf of one borrower amounting to	**275 000**	275 500

It is the opinion of management that this borrower is unlikely to default, and therefore this guarantee was not recognised in the balance sheet as a liability.

	2003 R 000	2002 R 000
Total value of credit line (principal amount) and current exposure	**250 000**	250 000

The Bank guarantees the payment of any sum of principal, interest, commission, damages, expenses and any other sum to a maximum aggregate of 110% of the principal amount. This guarantee is uncollateralised.

	2003 R 000	2002 R 000
33.3 Regional Services Council	**1 091**	–

At 31 March 2003, there was a contingent liability in respect of interest payable to the Regional Services Council. This matter is under dispute.

34. Funds administered on behalf of third parties

	2003 R 000	2002 R 000
Balance at the beginning of the year	**411 029**	606 039
Funds received	**152 084**	166 442
Funds disbursed	**(311 342)**	(361 452)
Balance at the end of the year	**251 771**	411 029

35. Related parties

The Bank has made a grant to the Development Fund of R150 million in the current financial year (2002: R80 million). Refer to note 26.

In addition, a management contract exists whereby the Bank provides certain administrative services to the Development Fund.

36. Reclassification of reserves

An amount of R563,7 million was previously classified as a future cash flow hedge. This has subsequently been reallocated to accumulated surplus, and the movement is shown on the statement of changes in equity.

37. Events after balance sheet date

The Board of Directors approved an additional grant of R300 million to the Development Fund. No other material events occurred between the balance sheet date and the date on which the annual financial statements were approved.

38. Schedule of Directors' emoluments

	Salaries/ fees R	Performance bonuses[1] R	Other R	S & T R	Recoveries[2] R	Total 2003 R	Total 2002 R
Non-executive Directors							
I. Abedian	59 631	–	1 000	786	–	61 417	12 401
L. Abrahams	61 803	–	7 500	1 258	–	70 561	21 650
B. Figaji	33 335	–	7 500	–	–	40 835	36 938
D. Konar	69 102	–	580	1 258	–	70 940	22 144
J.B. Magwaza	48 988	–	–	–	–	48 988	31 646
J. Naidoo (Chair)	168 000	–	–	314	–	168 314	224 272
H. Nyasulu	25 183	–	–	–	–	25 183	44 448
I. Sehoole	25 980	–	–	1 572	–	27 552	27 317
N. Sowazi	20 800	–	–	393	–	21 193	20 658
M. Vilakazi	28 604	–	7 500	1 913	–	38 017	24 523
	541 426	–	24 080	7 494	–	573 000	465 997
Executive Director							
M.S.V. Gantsho	1 710 000	1 162 800	320 610	–	(791 500)	2 401 910	3 072 594
Executive managers	4 182 606	2 448 195	405 623	–	–	7 036 424	4 654 831
J.H. de V. Botha	1 140 000	822 624	125 434	–	–	2 088 058	1 770 404
J.Z. Matlala	825 000	702 746	86 212	–	–	1 613 958	226 869
L.M. Musasike	990 000	618 235	86 212	–	–	1 694 447	957 106
N.G. Nika[3]	815 106	-	64 659	–	–	879 765	1 700 452
S.J. Khoza[4]	412 500	304 590	43 106	–	–	760 196	–
Total	6 434 032	3 610 995	750 313	7 494	(791 500)	10 011 334	8 193 422

1. *Performance Bonuses are in respect of the year ended 31 March 2003, but will be paid during the year ending 31 March 2004.*
2. *Recovery for services rendered to the Rand Commission of Enquiry.*
3. *Resigned 31 December 2002*
4. *Appointed 1 October 2002*

Schedule A.1

Public bonds at 31 March 2003

	Authorised value 2003 R million	Authorised value 2002 R million	Coupon rate %	Market yield during the year % High	Market yield during the year % Low	Repayment date	Nominal balance in issue 2003 R million	Unamortised discount 2003 R million	Balance in issue 2002 R million	Unamortised discount 2002 R million
(i) Local										
DV07	**5 000**	5 000	14,5	13,67	10,58	2010	**1 895,3**	**51,7**	1 895,3	55,0
DV20	**500**	500	Jibar + 50bp	14,09	10,70	2004	**500,0**	**0,7**	500,0	1,3
DV21	**1 000**	1 000	15,0	13,56	10,16	2016	**1 000,0**	**5,1**	1 000,0	5,5
DV23	**1 500**	–	10,0	10,15	9,84	2023	**1 500,0**	**–**	–	–
Subtotal	**8 000**	6 500					**4 895,3**	**57,5**	3 395,3	61,8
(ii) Foreign										
Euro-rand bond	**7 500**	7 500	0,0			2027	**7 500,0**	**7 109,3**	7 500,0	7 151,2
Euro-rand bond	**1 000**	1 000	13,5			2028	**1 000,0**	**48,2**	1 000,0	48,5
Subtotal	**8 500**	8 500					**8 500,0**	**7 157,5**	8 500,0	7 199,7
Total	**16 500**	15 000					**13 395,3**	**7 215,0**	11 895,3	7 261,5

Schedule A.2

Private placements at 31 March 2003

	Authorised value 2003 R million	Authorised value 2002 R million	Coupon rate %	Repayment date	Nominal balance in issue 2003 R million	Unamortised discount 2003 R million	Balance in issue 2002 R million	Unamortised discount 2002 R million
(i) Local								
0% Private placement	**500**	500	0,0	16 Nov 2006	**500**	**155,5**	500	198,3
13,5% Coupon note private placement	**215**	215	13,5	03 Apr 2015	**215**	**–**	215	–
	715	715			**715**	**155,5**	715	198,3

Schedule B

Hedging instruments

	Risk hedged	Foreign capital amount outstanding on swap	
Agence Française de Développement I	Currency	€13,45m	Capital and interest due thereon swapped for a single rand payment.
		€1,75m	Capital and interest due thereon covered by forward exchange contracts.
Agence Française de Développement II	Currency	€13,3m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Agence Française de Développement III T1	Currency	€ 7,8m	Capital and interest due thereon swapped for rand payments at a floating interest rate.
Agence Française de Développement III T2	Currency	€ 5,7m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Agence Française de Développement III T3	Currency	€ 3,7m	Capital and interest due thereon swapped for rand payments at a floating interest rate.
Chiao Tung Bank Co. Ltd	Currency	US$6,8m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
European Investment Bank II.1	Interest		Fixed interest swapped for a floating rate based on a notional amount of R200m.
European Investment Bank II.2	Interest		Fixed interest swapped for a floating rate based on a notional amount of R100m.
European Investment Bank II.3	Interest		Fixed interest swapped for a floating rate based on a notional amount of R100m.
European Investment Bank III.2	Interest		Fixed interest swapped for a floating rate based on a notional amount of R100m.
Euro-rand bond (private placement)	Interest		Fixed interest swapped for a floating rate based on a notional amount of R200m and cash inflow of R300m on maturity.
Kreditanstalt für Wiederaufbau I T1	Currency	€ 5,16m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau I T2	Currency	€ 7,94m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau I T3	Currency	€ 6,63m	Capital and interest due thereon swapped for rand payments at a fixed interest rate.
Kreditanstalt für Wiederaufbau I T4	Currency	€ 6,54m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau I T5	Currency	€ 0,81m	Capital and interest due thereon swapped for rand payments at a fixed rate.
Kreditanstalt für Wiederaufbau I T6	Currency	€ 2,16m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau II T1	Currency	€ 2,24m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau II T2	Currency	€ 9,29m	Capital and interest due thereon swapped for rand payments at a fixed rate.
Kreditanstalt für Wiederaufbau II T3	Currency	€ 2,25m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau III T1	Currency	€ 2,82m	Capital and interest due thereon swapped for rand payments at a floating rate.
Kreditanstalt für Wiederaufbau III T2	Currency	€ 9,68m	Capital and interest due thereon swapped for rand payments at a fixed rate.
DV21	Interest		Fixed interest swapped for a floating rate based on a notional amount of R500m.
DV21	Interest		Fixed interest swapped for a floating rate based on a notional amount of R500m.

Schedule C

Other loans at 31 March 2003

	2003 ZAR million		Foreign million	2002 ZAR million		Foreign million	Interest rate % on loan	Swapped interest rate	First capital repayment	Remaining instalments
African Development Bank US$	524,4	US$	66,5	796,8	US$	70,0	Note 1	–	February 2003	19 Equal semi-annual payments of US$3,5m
African Development Bank ZAR 2	400,0		–	200,0		–	Note 2	–	August 2004	20 Equal semi-annual payments of R20m
Agence Française de Développement I	131,3	€	15,2	150,4	€	15,2	3,5	16,75%	April 2004	26 Equal semi-annual payments of € 0,58m
Agence Française de Développement II	114,9	€	13,3	169,2	€	17,2	3,5	Fixed 12,13%	October 2000	7 Equal semi-annual payments of € 1,9m
Agence Française de Développement III	147,7	€	17,2	197,4	€	20,0	3,5	Note 6	April 2001	12 Equal semi-annual payments of € 1,43m
Chiao Tung Bank Co. Ltd	53,6	US$	6,8	84,4	US$	7,4	3,0	Fixed 2,6052%	March 2000	11 Equal annual payments of US$0,62m
European Investment Bank I.1	–			100,0			14,95	–	April 2002	Single payment of R100m
European Investment Bank I.2	50,0			50,0			14,3	–	August 2007	Single payment of R50m
Unamortised discount	(0,5)			(0,6)						
European Investment Bank II.1	200,0			200,0			15,25	3m Jibar -202bp	January 2004	Single payment of R200m
Unamortised discount	(1,2)			(2,5)						
European Investment Bank II.2	100,0			100,0			13,75	3m Jibar -120bp	May 2009	Single payment of R100m
Unamortised discount	(4,1)			(4,4)						
European Investment Bank II.3	100,0			100,0			15,0	3m Jibar -100bp	February 2009	Single payment of R100m
Unamortised discount	(2,2)			(2,4)						
European Investment Bank III.1	100,0			100,0			13,25	–	August 2010	Single payment of R100m
Unamortised discount	(6,3)			(6,7)						
European Investment Bank III.2	100,0			100,0			13,25	3m Jibar +4bp	August 2010	Single payment of R100m
Unamortised discount	(3,2)			(3,3)						
European Investment Bank III.3	126,0	US$	15,9	182,0	US$	15,9	Note 3	–	September 2005	22 Equal payments of US$0,727m
European Investment Bank IV.A	105,2	US$	13,3	–			Note 3	–	September 2006	16 Equal payments of US$0,833m
European Investment Bank IV.B	249,8	US$	31,7	–			Note 3	–	September 2006	16 Equal payments of US$1,98m
Kreditanstalt für Wiederaufbau I	251,8	€	29,2	288,5	€	29,2	2,0	Note 4	June 2008	40 Equal semi-annual payments of € 0,73m
Kreditanstalt für Wiederaufbau II	118,7	€	13,8	136,0	€	13,8	2,0	Note 5	June 2009	40 Equal semi-annual payments of € 0,345m
Kreditanstalt für Wiederaufbau III	107,6	€	12,5	27,9	€	2,8	2,0	Note 7	June 2010	40 Equal semi-annual payments of € 0,313m
Nordic Investment Bank I	78,9	US$	10,0	113,8	US$	10,0	Libor + 0,4	–	August 2003	20 Equal semi-annual payments of US$0,5m
Nordic Investment Bank II	78,9	US$	10,0	113,8	US$	10,0	Libor + 0,6	–	June 2003	17 Equal semi-annual payments of US$0,588m
Nordic Investment Bank III	78,9	US$	10,0	–	US$	0,0	Libor + 0,6	–	June 2004	17 Equal semi-annual payments of US$0,588m
Total	3 200,2			3 190,3						

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

Note 2 6-month Jibar, plus 50 basis points, plus AFDB's lendings spread determined 2x per year.

Note 3 Variable $ rate reset every 3 months.

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

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

Note 4

	Euro amount
- KfW 1t1 Fixed rate 11,24%	5 155 130,05
- KfW 1t2 3m Jibar - 6,23%	7 942 005,15
- KfW 1t3 Fixed rate 7,57%	6 627 707,41
- KfW 1t4 3m Jibar - 6,30%	6 535 732,66
- KfW 1t5 Fixed rate 6,88%	813 745,03
- KfW 1t6 6m Jibar - 4,67%	2 162 224,22
	29 236 544,52

Note 5

	Euro amount
- KfW 2t1 3m Jibar - 6,30%	2 238 760,01
- KfW 2t2 Fixed rate 6,88%	9 291 995,73
- KfW 2t3 6m Jibar - 4,77%	2 253 839,04
	13 784 594,78

Note 6

	Euro amount
- CFD 3t1 6m Jibar - 0,08%	7 750 066,85
- CFD 3t2 Fixed 11,64%	5 710 528,70
- CFD 3t3 6m Jibar - 2,52%	3 689 918,89
	17 150 514,44

Note 7

	Euro amount
- KfW 3t1 6m Jibar - 4,86%	2 827 111,25
- KfW 3t2 Fixed rate 5,95%	9 672 889,68
	12 500 000,93

Geographical areas of operation