DBSA

Development Bank of Southern Africa

Annual Reports 2007/08

Development Bank of Southern Africa

DBSA Development Fund

Development Bank of Southern Africa Limited

Financier

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

Advisor

To build institutional, financial and knowledge capacity for development

Partner

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

Implementer

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

Integrator

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

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DBSA

Development Bank
of Southern Africa

Contents

Abbreviations

AFD	Agence Française de Développement
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BEE	black economic empowerment
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
DBSA	Development Bank of Southern Africa Limited
DMTN	domestic medium-term note
€	euro
EASSy	Eastern Africa Submarine Cable System
GDP	gross domestic product
GIS	geographic information system
GTZ	German Association for Technical Cooperation
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	information and communication technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IT	information technology
JBIC	Japan Bank for International Cooperation
JIPSA	Joint Initiative for Priority Skills Acquisition
KfW	Kreditanstalt für Wiederaufbau
KMA	Knowledge Management Africa
LED	local economic development
LGNet	Local Government Network
LGRC	Local Government Resource Centre
LGSETA	Local Government Sector Education and Training Authority
LOC	Local Organising Committee (FIFA World Cup)
MDG	Millennium Development Goals
MFMTAP	Municipal Financial Management Technical Assistance Project
MIG	Municipal Infrastructure Grant
MIIF	Municipal Infrastructure Investment Framework
NEPAD	New Partnership for Africa's Development
NOSS	New Operational Support System
NSDP	National Spatial Development Perspective
OECD	Organisation for Economic Cooperation and Development
PFMA	Public Finance Management Act
PPFS	Project Preparation and Feasibility Study
PPP	public-private partnership
R	South African rand
SADC	Southern African Development Community
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SMME	small, medium and microenterprise
US$	United States dollar
VIP	ventilated, improved pit (latrine)

Exchange rate

On 31 March 2008, the R/US$ exchange rate was 8,121 and the R/**€** rate was 12,801.

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 2007/08, are to the financial year ended 31 March.

Business performance overview

	5-year average	**2007/08**	2006/07	2005/06	2004/05	2003/04
Total capital cost of approvals (DBSA and co-funders) (R million)[1]	24 556	**34 212**	52 176[2]	22 939	7 917	5 535
South Africa	20 197	**28 979**	40 189	20 491	7 396	3 929
Other countries	4 359	**5 233**	11 987	2 449	521	1 606
Total DBSA contribution to approvals (R million)[1]	6 876	**10 767**	8 265	8 052	3 947	3 348
% of total capital cost funded by others	61,4	**68,5**	84,2	64,9	50,1	39,5
Average value per approval (R million)	59,8	**87,5**	50,7	55,5	45,9	57,7
Number of investment approvals in period	115	**123**	163	145	86	58
Disbursements (R million)[1]	3 734	**6 160**	3 703	3 077	2 999	2 729
Technical assistance grants (R million)	33,2	**46,3**	32,1	33,0	34,2	20,5
Total operating expenditure including technical assistance grants (R million)	493,4	**635,2**	536,1	491,0	422,2	382,5
Number of employees (excluding contractors, etc.)	515	**578**	514	506	490	489
Net contribution per employee to disbursements (R million)	7,3	**10,7**	7,2	6,1	6.1	5,6
% of employment equity managers at year-end	73,3	**74,0**	77,1	68,4	70,0	77,0
Impact on households benefiting from operations (thousands of households)[3]	1 229	**983**	1 586	1 164	1 948	463
Direct impact on employment (thousands of jobs)[4]	18,0	**29,6**	18,2	14,1	15,4	12,8
Impact on GDP (R million)[5]	2 485	**3 761**	2 440	2 133	2 029	2 064

1. *Excludes technical assistance grants.*
2. *Exceptionally high value resulted from the Bank's co-funding of the Gautrain project.*
3. *Refers to households benefiting from access to one or more services.*
4. *Based on the DBSA's disbursements within South Africa only.*
5. *Based on the DBSA's disbursements within South Africa only, at constant 2007 prices.*

Financial performance overview

	5-year average	**2007/08**	2006/07	2005/06	2004/05	2003/04
Financial results (R million)						
Operating income[1]	1 648	**2 232**	1 837	1 535	1 262	1 376
Interest on development activities[2]	1 929	**2 312**	1 982	1 763	1 714	1 872
Interest on investments	571	**542**	564	477	607	663
Interest expense[3]	1 158	**1 338**	1 243	1 054	1 058	1 098
Operating expense	460	**589**	504	458	388	362
Surplus for the year	998	**1 266**	1 283	928	749	763
Financial position (R million)						
Cash and cash equivalents	1 716	**2 314**	890	1 454	2 007	1 913
Financial market assets	5 741	**5 078**	5 217*	6 556	6 132	5 723
Investment in development activities[2]	19 342	**25 330**	21 223	18 003	16 323	15 832
Other assets	391	**525**	548	406	258	216
Total assets	27 189	**33 246**	27 878*	26 419	24 720	23 684
Issued share capital	200	**200**	200	200	200	200
Total capital and reserves	13 339	**15 780**	14 538	13 219	11 962	11 197
Financial market liabilities	13 147	**16 781**	12 667*	12 467	12 083	11 736
Other liabilities	703	**686**	673	733	674	751
Total liabilities	13 850	**17 466**	13 340*	13 200	12 757	12 487
Financial ratios (%)						
Return on shareholder's funds	7,4	**8,0**	8,8	7,0	6,3	6,8
Return on assets	3,6	**3,8**	4,6	3,5	3,0	3,2
Operating expense to income[4]	31,6	**35,7**	33,8*	35,2*	28,7*	24,8*
Interest cover (times)	2,1	**2,1**	2,0	2,1	2,2	2,3
Total capital and reserves to loan ratio	72,9	**67,8**	72,0	76,4	76,6	72,0
Long-term debt to equity	99,8	**107,6**	88,3*	95,3	101,8	105,9
Cash and cash equivalents to total assets	6,4	**7,0**	3,2	5,5	8,1	8,1
Issued capital to assets	0,7	**0,6**	0,7	0,8	0,8	0,8
Total capital and reserves to assets	49,1	**47,5**	52,1	50,0*	48,4	47,3
Financial market liabilities to investment in development activities[2]	68,6	**66,2**	59,7*	69,2*	74,0	74,1
Non-performing book debt as a % of total book debt	5,3	**5,2**	4,9	5,4	6,2	4,7
Non-performing arrears as a % of total book debt	2,5	**2,1**	2,3	2,5	2,9	2,5

For a discussion of the financial results, see the financial overview on pages 61 to 63.

1. *Restated to exclude impairments.*
2. *Development activities include development loans and investments.*
3. *Restated to exclude fee expense.*
4. *Operating income excludes net foreign exchange gain/(loss), revaluation of financial instruments and impairments.*

* *Reflected as restated*

Governor's foreword

The prospects for accelerated and shared development in South Africa have never been better, but the risks we face are also greater.

On the positive side, South Africa continues to experience one of the longest periods of sustained real economic growth in its history, with the current rate of around 5% significantly above the 3% average for the past decade. Indeed, the region as a whole has been registering the highest growth levels seen in over two decades, sparking unprecedented global interest in the future of our continent and its economy. Africa's economic growth has averaged 4,8% since the turn of the century, reaching 5,2% in 2007, and it is now the only region in the world where growth is expected to accelerate in 2008.

While these favourable prospects are largely the result of substantially improved global terms of trade in favour of resources and commodities, this is not the whole story. The positive outlook is also the result of years of macroeconomic policy reforms, greater stability, lower and more stable inflation, manageable debt levels, sound fiscal policies and improved public financial management.

As we consider these successes and auspicious prospects, we must also take note of the growing risks in our environment. This past year in particular has highlighted our interdependence with the rest of the region and the world, and our vulnerability to international shocks, both economic and environmental, that could rapidly weaken our struggle against poverty. Most ominous is the alarming rise in oil and food prices, which has not only increased food insecurity, for individual households and the region at large, but caused inflationary and other pressures that threaten the well-being of vulnerable communities. Also worth noting are the power shortages that have affected more than 30 African countries, including South Africa, causing energy insecurity and constraining our growth path. This has been a sobering reminder of

“As we consider these successes and auspicious prospects, we must take particular note of the growing risks in our environment.”

the importance of basic services such as electricity, which millions of people still live without every day. It has also made the enormous task of eradicating poverty and inequality more challenging.

These circumstances require development finance institutions like the Development Bank of Southern Africa (DBSA) to reassess the materialising risks and vulnerabilities. At the same time, no effort should be spared to sustain this emergent economic growth and extend it into sustainable improvements in the standards of living of ordinary people. In this regard, the creation of jobs remains a priority, as does the expansion and improvement of infrastructure services such as water, sanitation, electricity and transport. Such infrastructure is critical not only to poverty reduction and social transformation, but also to higher economic growth and enhanced competitiveness.

The DBSA undoubtedly has an important role to play in deepening the impact of various infrastructure and public investment programmes. The organisation’s expanded development agenda and more hands-on engagement model are therefore most welcome, especially as they have led to greater implementation support for poor localities and high potential projects in the region.

I am once again pleased to note that the Bank has shown strong year-end results and a continued commitment to capacity building initiatives that support the poorest and least capacitated municipalities. The Bank’s high levels of investment in the priority areas of energy, social infrastructure and regional integration projects are quite appropriate. The good financial results and strong corporate performance are also commendable.

As the Development Bank celebrates its 25th Anniversary, it is apt that we reflect on the dynamic journey of change it has undertaken since its founding in 1983 and, more importantly, its restructuring in 1997. As reflected in the recent review of development finance institutions undertaken by the government, the Bank has reason to be proud of its success in transforming itself from an instrument of apartheid into the respected, self-sustaining organisation it is today. By going far beyond the role of a simple financier and adopting a deeply engaged, hands-on approach, the organisation has evolved into a champion of infrastructure development and facilitator of regional integration. There should be no doubt of its growing relevance in South Africa and the wider region.

The Board and the management team, under the leadership of the Chairman, Jay Naidoo, are to be congratulated on their contribution to sustainable development, locally and regionally. As the organisation looks ahead, it will be expected to redouble its efforts to overcome the persistent challenges of poverty and inequality. In the coming years, the Bank will have to expand its partnerships in a balanced and sustainable way to achieve greater synergies and impacts, thus ensuring that it remains a model for other development finance institutions.

Trevor Manuel

Board of Directors

Mr Jayaseelan Naidoo (53)

Director: J&J Group

DBSA Director as from:
1 May 2000

Chairman of the DBSA Board as from:
24 August 2000

Other directorships:
- Bill and Melinda Gates Foundation – Global Health Advisory Panel Member
- Clinton Global Initiative – Health Advisory Panel Member
- Consilience Technologies (Pty) Ltd – Non-executive Director
- Global Alliance for Improved Nutrition – Chairman of the Board (non-executive)
- International Telecommunication Union – Non-executive Director
- J&J Group Development Trust – Chairman of the Board (non-executive)
- Love Life Trust – Trustee and Deputy Chairman
- Macquarie First South (Pty) Ltd – Non-executive Director
- Old Mutual Life Assurance Company (SA) Ltd – Non-executive Director
- Old Mutual Life Holdings (SA) Ltd – Non-executive Director

Prof Brian de Lacy Figaji (63)

Company Director

DBSA Director as from:
1 August 1997

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)

Other directorships:
- Bovidae Investments – Non-executive Director
- Cape Lime – Non-executive Director
- DBSA Development Fund – Chairman of the Board (non-executive)
- Dormell – Chairman of the Board (non-executive)
- Gemini Moon Ltd – Non-executive Director
- HHO Africa – Chairman of the Board (non-executive)
- I&J Holdings – Chairman of the Board (non-executive)
- Marib Holdings – Chairman of the Board (non-executive)
- Nedbank Ltd – Non-executive Director
- PetroSA – Non-executive Director

Mr Paul Cambo Baloyi (52)

Chief Executive Officer and Managing Director: DBSA

DBSA Director and staff member as from:
1 July 2006

Academic qualifications:
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

Other directorships:
- Business Ventures – Non-executive Director
- Chrometco Ltd – Non-executive Director
- DBSA Development Fund – Chief Executive Officer and Managing Director
- Harith Fund Managers – Non-executive Director
- Nulane Investment Holdings (Pty) Ltd – Non-executive Director
- Pan African Investment Fund – Non-executive Director
- Platinum High Tech Park Development (Pty) Ltd – Non-executive Director
- TCX Investment Management Company – Non-executive Director

Mr Andrew Boraine (49)

Chief Executive Officer: Cape Town Partnership

DBSA Director as from:

1 August 2005

Academic qualifications:

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

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

Other directorships:

Accelerate Cape Town – Non-executive Director

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

Convenco – Chairman of the Board (non-executive)

DBSA Development Fund – Non-executive Director

SA Cities Network – Non-executive Director

St Patrick's Trust – Trustee

Mrs Thembisa Dingaan (34)

Director: Skweyiya Investment Holdings (Pty) Ltd

DBSA Director as from:

1 August 2007

Academic qualifications:

H Dip Tax, University of the Witwatersrand (2000)

LLM, Harvard University (1997)

LLB, University of KwaZulu-Natal (1995)

BProc, University of KwaZulu-Natal (1994)

Other directorships:

Borzov Investments (Pty) Ltd – Non-executive Director

Centric (Pty) Ltd – Non-executive Director

Identity Corporate Advisors (Pty) Ltd – Non-executive Director

Personify (Pty) Ltd – Non-executive Director

Pikit-up (Pty) Ltd – Non-executive Director

Placécol – Non-executive Director

Rivalo Investments – Non-executive Director

Thermico (Pty) Ltd – Non-executive Director

Zeigler Investments (Pty) Ltd – Non-executive Director

Mr Trevor Fowler (57)

Chief Operating Officer: Office of the Presidency

DBSA Director as from:

1 August 2004

Academic qualifications:

Pr Eng (1982)

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

Board of Directors (continued)

Mr Lungisa Fuzile (43)
Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA Director as from:
1 August 2006

Academic qualifications:
MCom (Economics), University of Natal (1995)
BCom Hons (Economics), University of Natal (1991)
Higher Diploma in Education, University of Transkei (1988)
BCom, University of Transkei (1987)

Ms Nomboniso Gasa (40)
Chairperson: Commission on Gender Equality

DBSA Director as from:
1 August 2003

Academic qualifications:
Certificate in Women's Studies, University of the Western Cape (1996)
BA (Political Science), University of the Western Cape (1990)
Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1989)

Other directorships:
DBSA Development Fund – Non-executive Director
Human Sciences Research Council – Non-executive Director
Ploughback Initiative, St Mark's, Cofimvaba – Non-executive Director

Dr Lulu Gwagwa (49)
Director: Lulu Gwagwa Development Consulting

DBSA Director as from:
1 August 2004

Academic qualifications:
PhD (Economics), University College London (2003)
MSc (Economics), London School of Economics and Political Science (cum laude) (1990)
Certificate in Gender Planning, University College London (1989)
BA (Geography), University of Fort Hare (1978)

Other directorships:
Amasondo Fleet Services – Non-executive Director
DataPro – Non-executive Director
FirstRand – Non-executive Director
Gwagwa Training and Development – Executive Director
Lereko Investments – Executive Director
Lereko Mobility – Executive Director
Massmart – Non-executive Director
Mbane Power – Executive Director
Ninham Shand – Non-executive Director
Real Africa Holdings Ltd – Non-executive Director
Rivas Consulting – Non-executive Director
Siphiwo Sethu Family Trust – Trustee and Beneficiary
South Point Property Investments (Pty) Ltd – Non-executive Director
Sun International – Non-executive Director

Dr Deenadayalen Konar (54)

Consultant

DBSA Director as from:

1 August 2001

(co-opted to Audit Committee: 1 June 1995)

Academic qualifications:

DCom, University of South Africa (1989)

MAS, University of Illinois (1981)

CA (SA) (1978)

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

BCom, University of Durban-Westville (1975)

Other directorships:

Automobile Association of South Africa – Non-executive Director

Credit Management Solutions Group (Pty) Ltd – Non-executive Chairman

Illovo Sugar Ltd – Non-executive Director

J D Group Ltd – Non-executive Director

Exxaro Resources Ltd – Non-executive Director

Macsteel Holdings (Pty) Ltd – Non-executive Director

National Horseracing Authority – Non-executive Director

Old Mutual Life Assurance Co. (SA) Ltd – Non-executive Director

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

Sappi Ltd – Non-executive Director

SA Reserve Bank – Non-executive Director

Securities Regulation Panel – Member

Steinhoff International Holdings Ltd – Non-executive Director

Prof Omar Aboobaker Latiff (54)

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

DBSA Director as from:

1 August 2007

Academic qualifications:

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

H Dip Tax, University of Natal (1992)

CA (SA) (1981)

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

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

Other directorships:

373 Loop Street, Pietermaritzburg cc – Member

Bellewan (Pty) Ltd – Executive Director

HASMA Investments (Pty) Ltd – Non-executive Director

Jodya cc – Member

LMD Africa Chartered Accountants Inc – Executive Director

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

Styleprops 104 (Pty) Ltd – Executive Director

Ubunye Consortium – Executive Director

Mrs Wendy Lucas-Bull (55)

Executive Director: Peotona Capital

DBSA Director as from:

1 August 2005

Academic qualifications:

BSc, University of the Witwatersrand (1976)

Other directorships:

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

Dimension Data Holdings Plc – Non-executive Director

Eskom Holdings Ltd – Non-executive Director

Lafarge – Non-executive Director

Nurcha – Non-executive Director

Partners for Housing – Non-executive Director

Peotona Group Holdings – Director

Board of Directors (continued)

Dr Claudia Manning (41)

Executive Director: Sangena Investments

DBSA Director as from:

1 August 2005

Academic qualifications:

DPhil, University of Sussex (1996)

MPhil, University of Sussex (1992)

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

Other directorships:

Roadcrete Africa (Pty) Ltd – Non-executive Director

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

Mr Ivan Mzimela (46)

Group Human Resources Director: Hollard Insurance

DBSA Director as from:

1 August 2007

Academic qualifications:

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

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

Project Management Certificate, IBM (1998)

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

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

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

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

Other directorships:

Financial Sector Charter ( ) – HR Committee Member

Insurance Institute of South Africa (IISA) – Non-executive Director

Insurance Sector Education and Training Authority (INSETA) – Non-executive Deputy Chairperson

National Student Financial Aid Scheme (NSFAS) – Non-executive Deputy Chairperson

South African Insurance Association (SAIA) – Non-executive Chairperson, HR Committee

Ms Tryphosa Ramano (36)

Chief Financial Officer: WIPHOLD Group

DBSA Director as from:

1 August 2007

Academic qualifications:

Executive Leadership Development Programme, Harvard Business School (2002)

CA (SA) (1994)

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

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

Other directorships:

Adcorp Holdings – Non-executive Director
Afrisun Leisure (Pty) Ltd – Non-executive Director (Alternate)
Emfuleni Resorts (Pty) Ltd – Non-executive Director (Alternate)
Ixia Coal (Pty) Ltd – Non-executive Director
Legae Securities (Pty) Ltd – Non-executive Director
Legae Securities Trust – Trustee
National Casino Resort Manco (Pty) Ltd – Non-executive Director (Alternate)
National Credit Regulator – Chairperson, Audit Committee
New Women Mining (SPV) – Non-executive Director
Sasria Ltd – Non-executive Director
South African Institute of Chartered Accountants – Audit and Risk Committee Member
USB Executive Development Ltd – Non-executive Director
Wipcapital – Executive Director
WIPCoal Investments (SPV) – Non-executive Director
Women Investment Portfolio Holdings (WIPHOLD) Ltd – Executive Director

Prof Edward Charles Webster (65)

Professor of Sociology: University of the Witwatersrand

DBSA Director as from:

1 August 2007

Academic qualifications:

PhD, University of the Witwatersrand (1983)

BPhil, University of York (1972)

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

University Education Diploma, Rhodes University (1964)

BA Hons (History), Rhodes University (1964)

Other directorships:

Chris Hani Institute – Non-executive Board Member

DBSA Development Fund – Non-executive Director

Human Sciences Research Council – Member of the Council

Labour Job Creation Trust – Trustee

Board members during the year under review

Dr Iraj Abedian (52)
Chief Executive Officer and Chief Economist: Pan-African Advisory Services

DBSA Director between:
1 August 2001 and 31 July 2007

Ms Thenjiwe Pamela Claudia Chikane (42)
Chief Executive Officer: MGO Consulting

DBSA Director between:
1 August 2004 and 31 July 2007

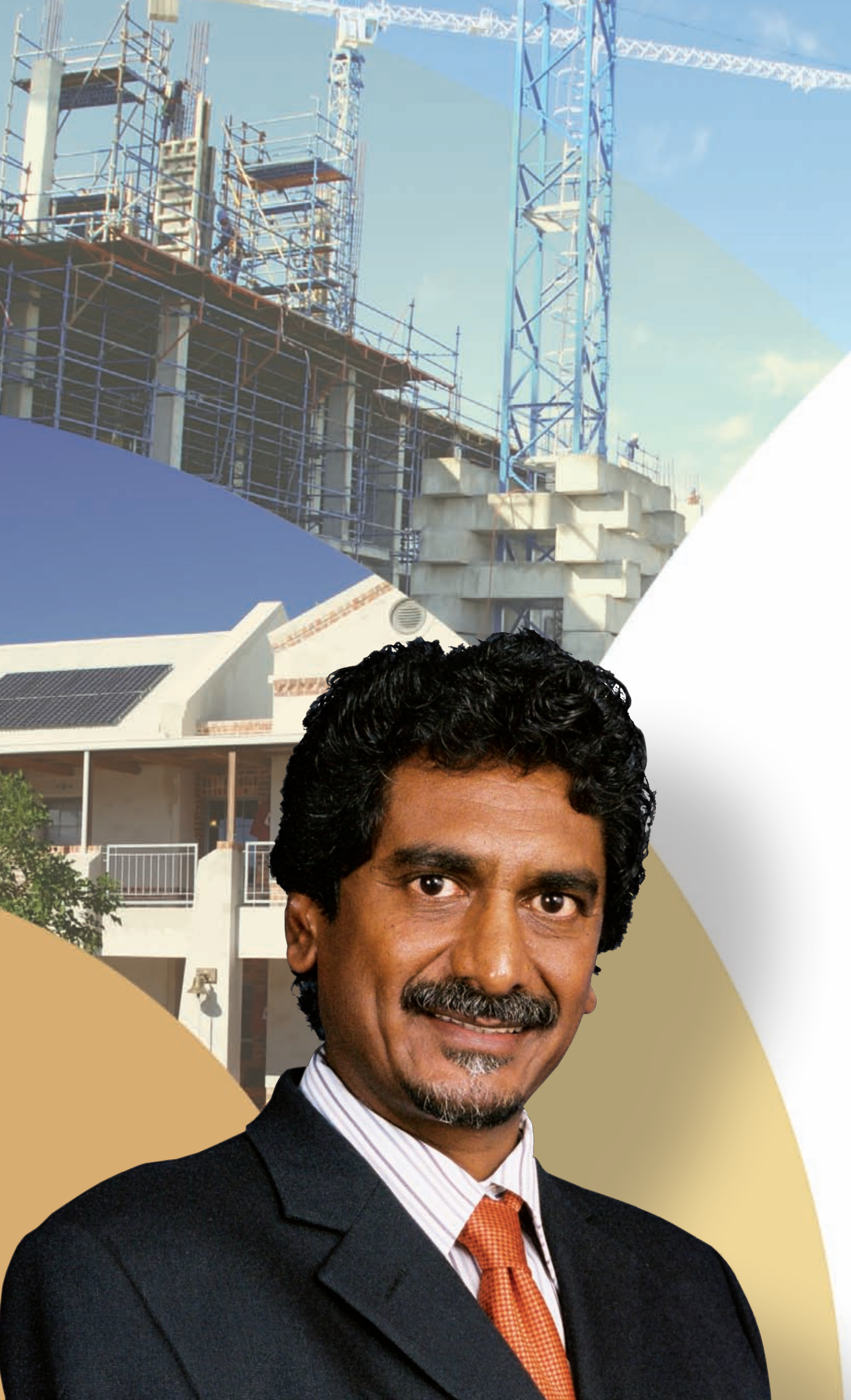
Ms Lindiwe Msengana-Ndlela (42)
Director-General: Provincial and Local Government

DBSA Director between:
1 August 2004 and 31 July 2007

Mr Silumko Nondwangu (43)
General Secretary: National Union of Metalworkers of South Africa (NUMSA)

DBSA Director between:
1 August 2004 and 31 July 2007

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



Chairman's report

The year under review was a watershed in a number of respects. The DBSA group achieved historic results in several key performance areas. Our commitments and disbursements are at historically high levels and are concentrated in priority sectors, such as energy and social infrastructure. There was also an unprecedented focus on technical capacity building in the public sector, which we expanded rapidly in the form of direct, hands-on support for infrastructure delivery at the local level, particularly in poor localities with weak human and institutional capacity.

In addition, the DBSA concluded its 24th year of operations and entered its silver jubilee year. This 25th Anniversary year presented a unique opportunity to reflect on the evolution, purpose and future direction of the organisation, in the light of the government's broader review of the country's development finance institutions.

Reflecting on the Bank's transformation was both inspiring and sobering. While we recognised the major strides taken in several areas, we were humbled by the stark reality of the challenges that remain in service delivery, job creation and housing. The growing restlessness in poor communities, expressed in a number of protests, revealed how daunting the development and transformation agenda remains, both in South Africa and the wider region. Much still needs to be done to close the gaps in service delivery, reduce unemployment and unravel the complex legacy of apartheid planning that continues to characterise our human settlements.

In reviewing our development agenda, we sought to put into clearer perspective the challenges and opportunities faced by the DBSA and its stakeholders. How can we, as a major investor in local infrastructure projects, direct our interventions so that we make a difference sooner rather than later? How can we intervene more aggressively to alter the persistent geography of poverty and underdevelopment? Can we design our interventions in a way that contributes to the prevention and resolution of conflict?

It is clear that the challenges call for more robust development activism, more innovation, increased capacity and greater discipline in execution, on the part of not only the DBSA but also other role players who make an important contribution to the economy and society at large.

If South Africa is to realise its transformation agenda, the country and the region will have to emerge from pervasive poverty. We are midway towards the deadline for achieving the Millennium Development Goals set by the United Nations and much needs to be done to get us back on track in this regard. One of our challenges in the coming year will be to find ways of mainstreaming these fundamentally important global targets.

Part of the solution lies in increasing the quantum of our investment in human capital, infrastructure and production capacity. Such investment will enable us to create additional jobs, improve productivity, raise tax revenues and provide the basic services needed to uplift the poor sustainably. We will be able to bring more land under cultivation and provide the infrastructure and input support needed to increase food supplies and bring down escalating prices.

Our new understanding of the development challenges and opportunities has enabled us to identify the organisation's absolute and comparative advantages more clearly, in the context of a more developmental state and an integrating region. Our revised agenda reflects this new understanding and has issued in a new approach, which is focused on transforming the conditions of the ultimate beneficiaries rather than on the financial and institutional profile of intermediaries.

It has also resulted in a revised strategy centred on three key intervention clusters: social transformation, economic potential and growth, and capacity development. These new clusters take into account the changing demographics of the country, the present and future geography of poverty, and the untapped economic potential of the country and region. They are also more sensitive to the vast human and institutional capacity challenges we face, as evidenced by the bold expansion of our capacity building and development financing targets.

The Bank's point of departure remains its shared developmental vision of a prosperous and integrated region, progressively free of poverty and dependency. And we remain committed to deepening our development impact in the region through expanded access to development finance, and the effective integration and implementation of sustainable development solutions.

While the Bank will continue to play its traditional roles as financier, advisor and partner, the new positioning that has evolved reflects its additional roles of implementer and integrator. This consolidates the organisation's new hands-on approach to accelerated development, especially at local level. The ethos of the Bank as a leading development finance institution is characterised by a new set of strategic qualities. These qualities guide the organisation's new commitment to be pioneering, responsive, effective, capable, committed and ethical in its dealings with clients, partners and stakeholders.

I am confident that our team, under the leadership of Paul Baloyi and his executives, is ready, willing and able to address the challenges more vigorously, and I am pleased with the continued commitment shown to "development activism".

We have been a relevant and successful institution for many years, because we have constantly strived to do more and better, through innovation and growth. We need to carry this momentum forward and strengthen our paradigm for development finance in the region and on the continent. This requires us to sustain our high levels of performance and respond more urgently to the needs of our clients. We must be ready to give of our best at all times.

My congratulations go to management and staff for this year's commendable results. I am thankful to the Board for their invaluable advice and determined effort to make the DBSA a successful institution, and wish to acknowledge the support and strategic guidance of our Governor, Minister Trevor Manuel.

Jayaseelan Naidoo

Executive management

Mr Pieter de la Rey (44)
Group Chief Financial Officer

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

Academic qualifications:
MCom (Business Management), University of Johannesburg (2004)
CA (SA) (1993)
BCompt (Hons), University of South Africa (1989)
BCompt, University of South Africa (1987)

Mr Ernest Dietrich (45)
Group Executive: Treasury

DBSA staff member as from:
2 January 2001

Group Executive as from:
1 April 2006

Academic qualifications:
CFA Charter (2002)
MBA, University of Cape Town (1996)
MSc (Mathematics), University of the Western Cape (1992)
HDE, University of the Western Cape (1985)

Dr Snowy Joyce Khoza (50)
Group Executive: Group Strategy and Communication

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

Academic qualifications:
Executive MBA, Graduate School of Business, University of Cape Town (2008)
Finance for Executives Programme, INSEAD, France (2005)
Utility Regulation and Strategy, University of Florida, USA (2001)
Global Programme for Management Development, University of Navarra, Spain (2000)
Economics and Public Finance Certificate, University of South Africa (1999)
PhD (Social Policy), Brandeis University, USA (1996)
MA (Social Science), University of South Africa (1990)
BA Hons (Social Work), University of Fort Hare (1986)
BA (Social Work), University of the North (1981)

Other directorships:
Chamber of Commerce South Africa – Member of Economic Advisory Board
Ka-Manowi Manor cc – Non-executive Director
Ministry of Housing – Member of Panel of Advisors
Mintirho Investments (Pty) Ltd – Non-executive Director
National Housing Finance Corporation – Non-executive Director
Tiisano Construction (Pty) Ltd – Non-executive Director
Trans-Caledon Tunnel Authority (TCTA) – Chairman of the Board (non-executive)
Water Research Commission – Chairman of the Board (non-executive)

Mr Magare Luther Mashaba (56)
Group Executive: South Africa Operations

DBSA staff member as from:
14 January 1985

Group Executive as from:
1 September 2001

Academic qualifications:
Advanced Management Programme, INSEAD Executive Education (2004)
Treasury Management Training, New York Institute of Finance (2002)
Financial Markets and Instruments, University of Pretoria (2000)
Capital Markets Explained, International Faculty of Finance (1999)
Diploma in Economics, Economics Institute, University of Colorado (1993)
MSc (Ag. Econ), Michigan State University (1993)
BSc Hons (Ag. Econ), University of Pretoria (1986)
BSc (Ag. Econ), University of Fort Hare (1981)

Other directorships:
Hluma Local Investment Agency – Non-executive Director
Mafikeng Industrial Development Zone (Pty) Ltd – Non-executive Director
Rural Housing Loan Fund – Non-executive Director
uShaka Marine World – Non-executive Director

Mr Ravindra Naidoo (37)

Group Executive: Research and Information

DBSA staff member and Group Executive as from:

1 May 2008

Academic qualifications:

MPA, Harvard University (2004)

Certificate in Policy Management, Harvard University (2003)

Certificate in Policy Management, University of Manchester (1998)

Diploma in Project Management, Damelin (1998)

BCom, University of Durban-Westville (1991)

Other directorships:

Foundation for Social Justice – Board Member

Fraters Asset Management – Advisory Board Member

Social Enterprise Trust – Trustee

Mrs Loyiso Ndlovu (37)

Group Executive: Human Capital and Technology

DBSA staff member as from:

1 October 2002

Group Executive as from:

1 October 2006

Academic qualifications:

MBA, University of South Africa (2006)

Management Development Programme, University of South Africa (2003)

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

Other directorships:

Conservation International – Advisory Council Member

Fair Cape Holdings – Non-executive Director

Mr Admassu Yilma Tadesse (39)

Group Executive: International

DBSA staff member as from:

1 June 2002

Group Executive as from:

11 September 2006

Academic qualifications:

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

MBA, Wits Business School (2002)

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

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

Other directorships:

Commonwealth Africa Investments Ltd – Non-executive Director

Development Bank of Zambia – Non-executive Director

Energy Poverty Action Alliance, World Economic Forum – Non-executive Director

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

SADC Development Finance Resource Centre – Trustee

Mrs Leonie van Lelyveld (37)

Group Chief Risk Officer

DBSA staff member as from:

1 April 1998

Group Executive as from:

1 January 2006

Academic qualifications:

CA (SA) (1997)

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

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

BCom (Accounting), University of Pretoria (1992)

Executive management (continued)

Mr Heinz Maria Weilert (44)
Group Chief Operating Officer

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

Academic qualifications:
Fellow of Insurance Institute of South Africa (2002)
MCom (Accounting), University of the Witwatersrand (1990)
CA (SA) (1990)
BCom Hons (Accounting), University of the Witwatersrand (1986)
BCom, University of the Witwatersrand (1985)

Other directorships:
Nedbank Namibia Limited – Non-executive Director
NedNamibia Holdings Ltd – Non-executive Director
Southern African Association for Learning and Educational Difficulties – Treasurer

Executives during the year under review

Mr Solomon Asamoah (43)
Executive Manager: Private Sector and International Investments

DBSA staff member between:
1 December 2004 and 7 December 2007

Executive Manager between:
1 October 2007 and 7 December 2007

Mr Samson Gwede Mantashe (53)
Executive Manager: Strategic Operations

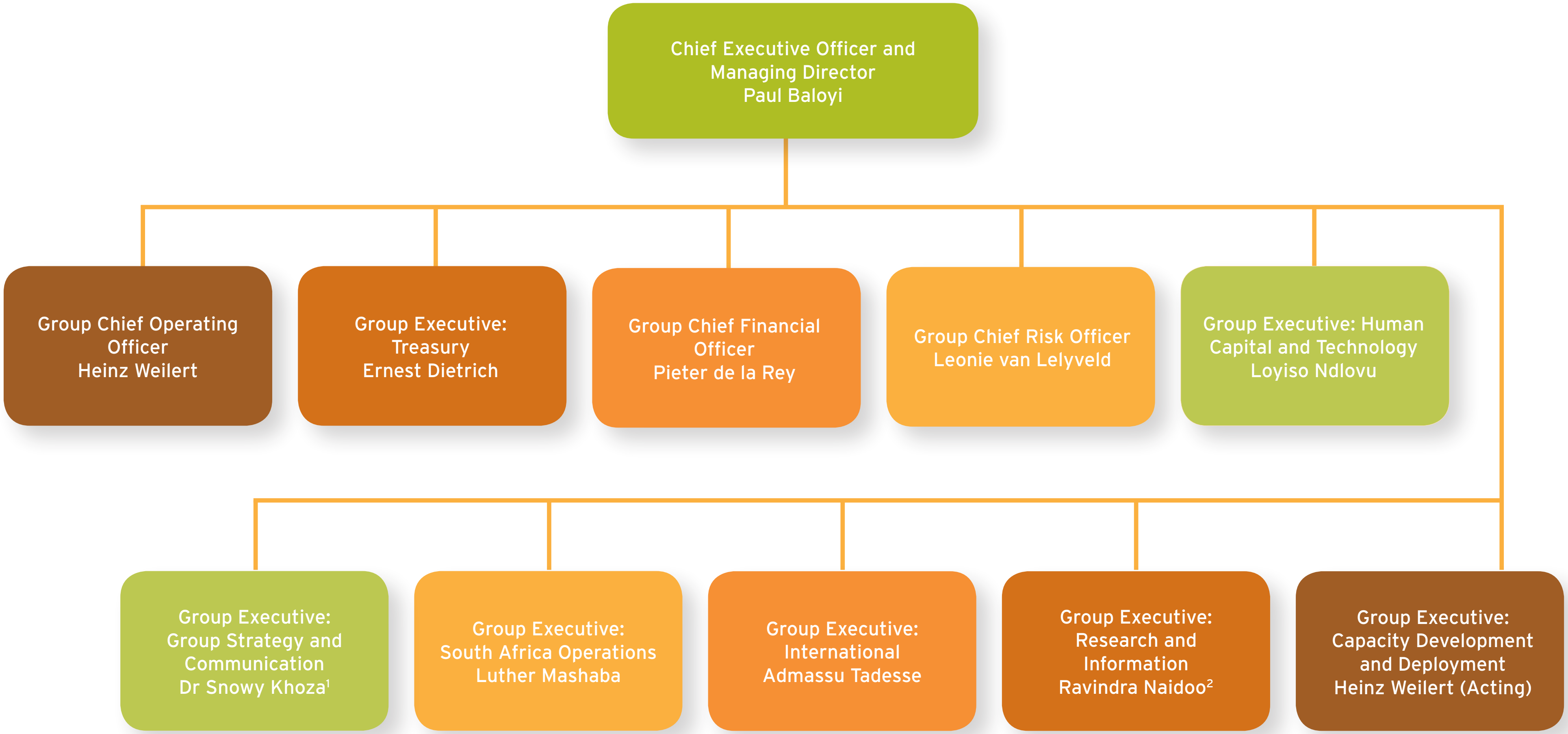
Executive Manager and DBSA staff member between:
1 July 2006 and 11 January 2008

Ms Jeanette Nhlapo (38)
Chief Operating Officer: DBSA Development Fund

DBSA staff member between:
18 December 2000 and 31 July 2007

Executive Manager between:
1 June 2004 and 31 July 2007

Organisational structure



Changes after 31 March 2008
1. *As from 1 April; previously Admassu Tadesse.*
2. *As from 1 May; previously Dr Snowy Khoza.*

Chief Executive Officer's report

The year under review saw the introduction of a number of economic shocks that are testing the region's seven-year economic growth trajectory. The lead factors in this regard have been increased oil and food prices, as well as the subprime-linked financial distress in major western markets. While several of the fundamental conditions for sustainable regional growth remain positive, these shocks, mostly of an imported nature, have the potential for spillover effects into the region.

The strife and loss of human life in Kenya, Zimbabwe and South Africa have also been cause for concern, generating negativity in the public discourse and dampening the investment climate. These events reflect the underlying pressures of poverty and the intensifying contest for resources in the countries of the region, as well as the colonial legacy and lack of development over the past decades. This puts into perspective the region's vulnerability to domestic conflicts.

Nevertheless, these sobering realities should not undermine the hard-won successes of the past 14 years in South Africa and much of the region. There is sufficient reason to believe that most of the key success factors – such as good macroeconomic governance, regional stability and improved terms of trade – are here to stay. Indeed, the higher world prices for Africa's mineral, oil and commodity resources have enhanced the attractiveness of the region as an investment destination.

Our message to the region is that overall conditions remain favourable and we are in a strong position to accelerate development. Nevertheless, there are risks and concerns that require serious and focused attention. There continue to be major gaps and weaknesses in financial and capital markets as well as capacity and execution gaps in institutions that are critical to growth and delivery. It is in this regard that we view the DBSA's performance during the year under review.

I am particularly pleased that, in this 25th Anniversary year of the Bank, we have demonstrated excellence in our development agenda. Our internal restructuring has been executed successfully and has supported the historic highs achieved on most of

“Our message to the region is that overall conditions for development remain favourable, and we are in a strong position to accelerate development.”

our deliverables. Central to strengthening our internal processes and increasing our capacity was the need to ensure that designed interventions were easily scalable.

This has enabled us to improve our execution capability, as shown by the significant number of new programmes under management, in particular those that address institutional failure.

I am also pleased that the review of the DBSA’s mandate was positively received by the Board, as this allowed the organisation to strengthen itself in a number of areas. Since 1994, the Bank’s evolution has been carefully orchestrated to ensure that it remained relevant, and the significant changes over the past two years have enabled us to consolidate key strategic thrusts and strengthen our objectives within a revised development agenda. Removing the clutter from around the mandate will allow for sound interpretation.

Notwithstanding improved capacity, the Bank remains conscious of the fact that the demand for its services continues to outstrip its resources. Skills shortages continue to bedevil many institutions in the public and private sector. The heightened sense of urgency around social infrastructure backlogs has resulted in the generation of a large number of initiatives/programmes with no matching increase in capacity. This has had the effect of stretching resources within existing institutions. It is becoming apparent that there will be a need for a doubling of priority skills within a number of key institutions. The Bank will increase its capacity further over the next two years, including contracting for skills over the short and medium term and increasing its leverage of partnerships.

Highlights for the year under review

In the past year, the Bank consolidated its key catalytic initiatives and expanded operations in all areas where it has established core competencies. There was an increased focus on poor municipalities, aimed at improving access to funding. Funding to stronger municipalities was leveraged to encourage the cross-subsidisation of poorer communities.

The Bank’s disbursements in South Africa and the rest of the SADC region increased sharply from R3,7 billion in 2006/07 to R6,2 billion in 2007/08. The Bank also approved 123 investment projects to the value of R10,8 billion, up from R8,3 billion in 2006/07. These investments will have a significant development impact. Funding provided by the DBSA will help a substantial number of households gain access to one or more basic services. As shown in more detail in the section on development impact and sustainability (pages 22 to 35), the R4,7 billion disbursed within South Africa is expected to contribute an estimated R3,8 billion to GDP over the next 20 years and create or maintain nearly 30 000 person-years of employment. Although the GDP to capital ratio is relatively low (South African average ratio at 0,52 and DBSA disbursements at 0,43), the employment per R1 million capital employed is 3,4 for DBSA disbursements, which is on par with the average for the South African economy. These patterns are the result of the Bank’s focus on labour-intensive construction, which makes an important contribution to socio-economic development in the increasingly capital-intensive South African economy.

In addition to macroeconomic development impact, the Bank also strived to increase the development impact of individual investments. For example, while it provided a large (R2,9 billion) loan to the eThekwini metro, the Bank structured the loan so as to support areas in that metro that could not normally access funding without support from stronger municipalities. The South Africa operations overview (pages 36 to 46) provides more examples of the development impact of the Bank’s investments in South Africa, such as the innovative Claremont Boulevard public-private partnership. Likewise, in the rest of the SADC region, the Bank supported the government of Mozambique in acquiring 85% of Hidroeléctrica de Cahora Bassa (see page 51). The Bank was part of a consortium that assisted in commercialising the project, and enabled Mozambique to gain control over a key strategic resource of benefit to itself and other countries in the region.

The role played by our partners in development cannot be overstated. Much of our effort this year was on strengthening our partnerships and increasing our leverage. Through the Local Organising Committee (LOC) of the FIFA World Cup partnership, the Bank continued to support host cities around South Africa with developing infrastructure for the 2010 FIFA World Cup. In the rest of the region, the Bank extended its partnership programmes with institutions such as the African Development Bank, Agence Française de Développement (AFD) and Proparco, Kreditanstalt für Wiederaufbau (KfW) and the Japan Bank for International Cooperation (JBIC), as well as various private financial institutions and stakeholders.

Among the highlights that demonstrate greater leverage is the significant grant funding committed by AFD in a new skills development partnership with the Bank and the Industrial Development Corporation (IDC). This partnership aims to develop approximately 100 skilled public sector delegates per annum for deployment across the region. More than R80 million has been committed and the funding is likely to increase, as new partners are joining the programme.

Another prime example of achieving development impact through partnerships is the flagship Siyenza Manje capacity building programme, which involves the National Treasury, the national Departments of Provincial and Local Government and of Water Affairs and Forestry, along with the South African Local Government Association (SALGA).

The Siyenza Manje programme aims to unlock municipal infrastructure grants and other funding from the fiscus, and to deploy priority skills in under-capacitated municipalities and government departments to accelerate the implementation of infrastructure projects, especially in water and sanitation. Structurally, the DBSA Development Fund has been reconstituted to house all major functions of the Group dealing with institutional failure. Engagement with key partners has been enhanced and execution capacity bolstered with the deployment of 338 active personnel (97 in the previous year). The number of municipalities under management rose to 155 (86 in the previous year). Training within local governments reached unprecedented levels at 2 676 delegates, of whom about a fifth were from the rest of the region.

Other notable examples of development impact is the piloting of six projects under the sustainable communities programme.

On the financial side, the Bank maintained a healthy position, characterised by strong growth in total assets (up 19,0% to R33,2 billion), higher net interest margins (up 3% to 53,1%), and sound returns on equity investments. In response to the significant development challenges, the Bank has also increasingly leveraged its strong balance sheet; this year, the debt-to-equity ratio grew to 107,6% (from 88,3% in 2006/07).

To demonstrate the extent of the DBSA's development funding, the next section on development impact and sustainability includes, for the first time, an analysis that reflects the different forms of the Bank's development support (see pages 33 to 35). It shows that the Bank's development expenditure amounted to R308,3 million in 2007/08, an estimated 22% of its operational surplus for the year. This is a significant increase on the 9% ratio of five years ago and demonstrates the Bank's commitment to a hands-on approach. Current forecasts indicate that this ratio may grow to as much as 45% over the next three years.

The year ahead

The results achieved provide a sound platform for expanded performance in 2008/09. In the year ahead, the Bank will continue its aggressive development drive, with a focus on accelerated, integrated and innovative infrastructure development. Its mainstream operations, the South Africa Operations, International, and Research and Information Divisions, have institutionalised the requisite expanded frameworks and will now consolidate their activities.

Within South Africa, the focus will be on diversifying the client base to other intermediaries and widening the sectoral scope to include the underserved parts of the public sector; delivering financial and technical support in the municipal market; and ensuring more effective cooperation and consultation between the various public and private role players in the provision of infrastructure funding. There will be continued partnerships with the private sector through innovative ventures such as local investment agencies and growth funds.

In the rest of the region, the Bank will continue to provide funding and non-investment products to viable and sustainable private and public infrastructure projects, as well as projects in socio-economic sectors that support economic development and transformation. We will take a more proactive role, while continuing to maintain a healthy pipeline of projects through improved project origination, rigorous business development and smart partnerships. Our financing will remain geared towards southern Africa, with greater attention to the financing of infrastructure projects that integrate southern Africa with the adjoining east, central and west African sub-regions.

A strategic area of emphasis will be the mobilisation of resources and development of partnerships between regional economic communities, international partners and the

DBSA through structures such as special purpose vehicles, targeted funds and lines of credit. This will involve expanded cooperation with international financial institutions and bilateral development agencies, both traditional and non-traditional, including sovereign funds, pension funds, large philanthropic foundations, such as the Bill and Melinda Gates Foundation, and institutions in emerging donor countries in Asia.

Regarding knowledge development and management, the Bank will refocus its research on and support for the development and implementation of policy frameworks in a number of infrastructure sectors and thematic areas. It will integrate development knowledge from across the continent by facilitating dialogues on topical issues, providing best practice guidelines and technical expertise across various sectors, analysing information and serving as an information repository for a wide range of internal and external users. The point of departure will be the Bank's forthcoming flagship publications (the *Development Report* and the *Infrastructure Barometer*), which explore topics linked to the delivery of infrastructure and services. Our knowledge management thrust will cut across the Bank: the operating divisions will embrace operational research as part of their drive to originate and prepare projects, through regional investment planning and project development activities, notably feasibility studies.

I am confident that the Bank will make a significant impact on the development challenges facing the country and the region in the year ahead. A word of thanks is due to the Minister of Finance and Governor of the Bank, Trevor Manuel, for his visionary support. The Chairman of the Board, Jay Naidoo, and the members of the Board have provided invaluable strategic guidance and insights. I also wish to thank my executive team and the management and staff of the Bank for their unstinting efforts to give effect to the vision and values of the Bank.

Finally, we wish Gwede Mantashe well in his new challenge and thank him for helping the DBSA position the Development Fund activities before returning to his calling.

Paul Baloyi

Development impact and sustainability overview

During the year, the DBSA refocused its operations and capacity building initiatives quite extensively in line with its Vision 2014, which emphasises increasing its development impact. This section of the Annual Report highlights some of these initiatives, starting with an overview of the Bank's macroeconomic impact.

The first of the Bank's flagship projects for development impact is the two-year-old Siyenza Manje initiative, which places experts within municipalities to assist them with the delivery of services. Also, the Sustainable Communities programme is an integrated and partnership-driven approach to development, with the aim of creating liveable spaces for communities; several projects in this programme are currently at the pilot stage. Another key element of the Bank's capacity building role is the Vulindlela Academy, which reaches a range of institutions with tailor-made training. The DBSA also supports development initiatives driven by other stakeholders through its agency function.

But development impact is not created only through special initiatives, despite their importance. The development impact approach is embedded in the day-to-day operations of the Bank. Continuing with the Bank's tradition of reporting on the triple bottom line, this development impact overview also reviews some of the Bank's key interventions in terms of ensuring the environmental sustainability of its operations, and the broader social impact of the organisation. The detailed operations overview that follows in the next section of the Annual Report presents an in-depth assessment of the developmental support provided through the Bank's normal operations in both South Africa and the rest of the SADC region. This is followed by the research overview, which highlights the developmental aspects of the Bank's range of knowledge interventions.

Finally, without sound financial planning and management, the Bank would have been unable to promote the achievement of developmental impact while remaining financially sustainable. In fact, it is the Bank's prudent financial management that has allowed it to extend the scope of its developmental activities. In an effort to enhance transparency, the final part of this development impact overview for the first time reviews the financial side of development impact through restating the income statement to reflect the Bank's developmental activities.

One of the key strategic thrusts of the DBSA is to work through strategic partnerships, thereby making the best use of the available development capacity and funding. Most of the initiatives discussed in this section are undertaken in partnership with one or more other institutions, whether local, regional or international. The DBSA is proud to be associated with its partners and acknowledges their significant contribution to the development of the country and the region.

Macroeconomic impact

The DBSA uses a unique Social Accounting Matrix (SAM) for South Africa to estimate the impact of its operations. Among its other features, the model specifically incorporates the Bank's focus on labour-intensive construction. SAMs (with 2004 as base year, and adjusted to 2007/08 prices) are also available for most of the other countries in the SADC region. A SAM considers the linkages of the Bank's activities with other economic participants, for instance through the purchasing of materials, or through salaries and profits that are ploughed back into the economy in the form of additional spending.

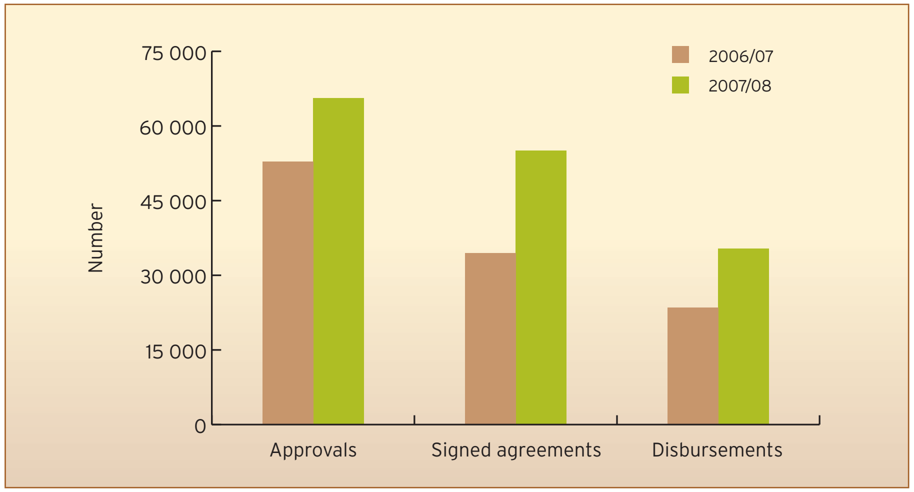
The Bank participates indirectly in the economy through its project funding and, as part of the broader public sector, needs to ensure that these funds are spent in the most effective way. To this end, the SAM allows the Bank to calculate a range of economic and socio-economic impact indicators, based on its funding portfolios.

In 2007/08, the DBSA and its co-funders approved projects (including grants of R144 million) to the value of R34,4 billion at current prices. The Bank's contribution to this total was R10,8 billion or 31,5%. The Bank signed agreements with clients to the value of R8,9 billion and disbursed an amount of R6,2 billion. The Bank's disbursements in South Africa amounted to R4,7 billion. Most of this amount was allocated to the construction of integrated urban services (26% of disbursements), followed by energy (22%) and social infrastructure (10%). The smallest proportions of funding were allocated to the institution-building, tourism, sanitation, entrepreneurial, manufacturing and water sectors.

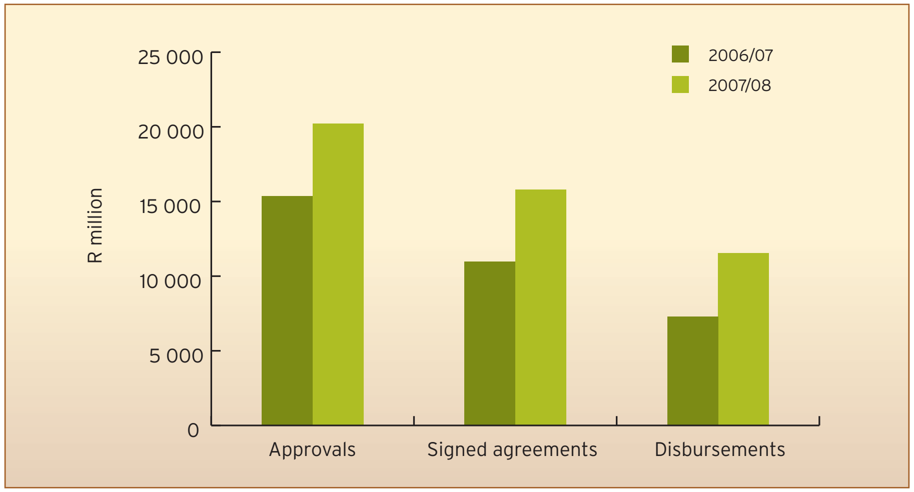
The SAM models were used to calculate the impact of this funding, using the detailed information per sector. The funding was also compared with that provided in the previous financial year, in real terms. The results are shown in the graphs below.

The model suggests that the Bank's disbursements will contribute to creating and maintaining nearly 30 000 jobs (person-years of employment) in South Africa, most of which will be during the construction phase of the projects (generally three years).

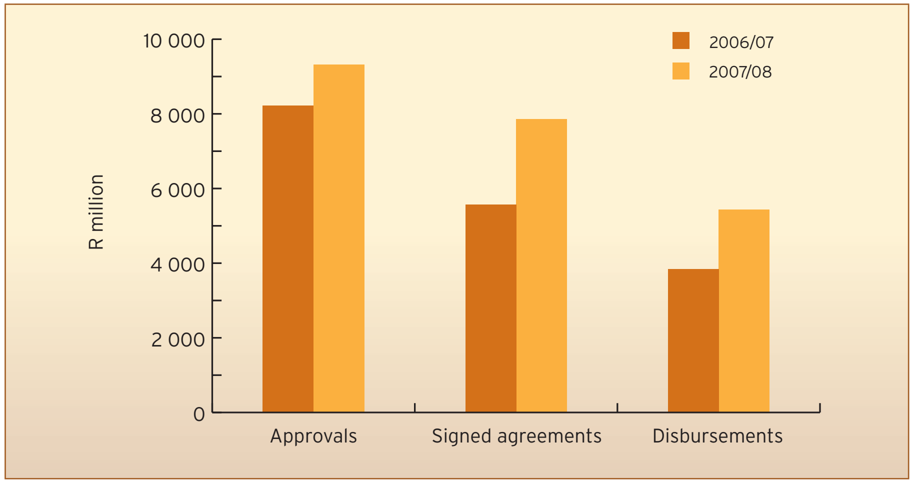
The impact of the DBSA's disbursements on the GDP will be about R3,8 billion over the next 20 years. This could lead to the utilisation of nearly R8,7 billion of capital directly and indirectly in the economy. The contribution to the income of low-income households (i.e. those with an annual income less than R31 500) is expected to amount to R159 million; this is due in part to the Bank's support for labour-intensive construction.



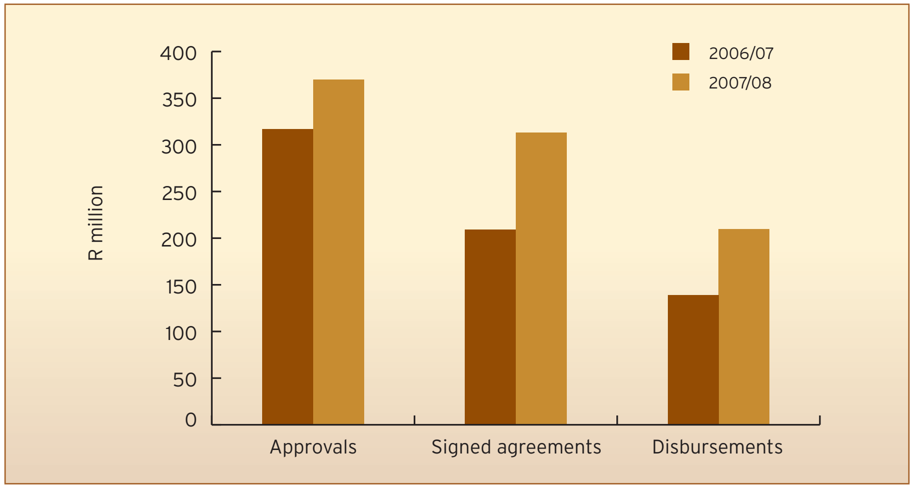
Estimated employment creation in southern Africa, 2006/07 and 2007/08 (number)



Estimated impact on capital employed in southern Africa, 2006/07 and 2007/08 (R million)

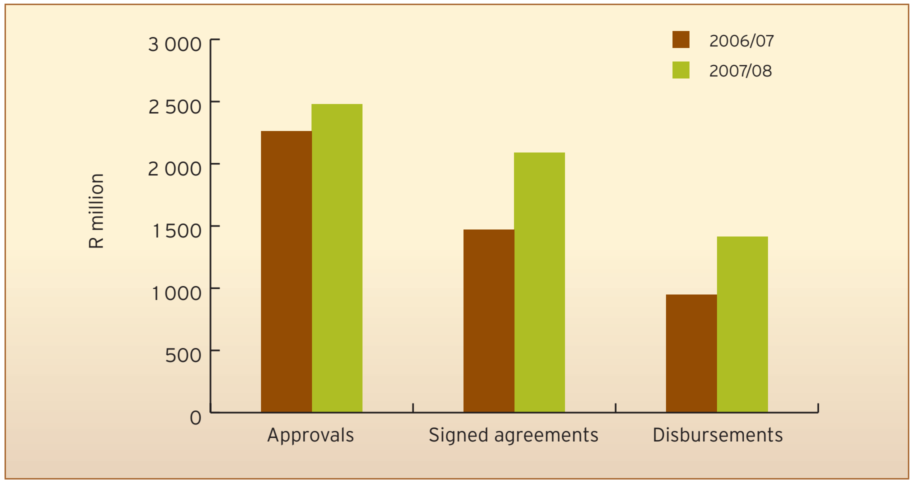


Estimated impact on GDP in southern Africa, 2006/07 and 2007/08 (R million)



Estimated impact on low-income households in southern Africa, 2006/07 and 2007/08 (R million)

Development impact and sustainability overview (continued)



Estimated impact on total government revenue in southern Africa, 2006/07 and 2007/08 (R million)

The project funding also has an indirect impact on taxes: greater economic activity provides the government with additional tax revenue. The potential tax impact of the projects approved by the Bank and its co-funders in South Africa in 2007/08 is estimated at R7,1 billion. Should the government spend this revenue in the same manner as the national budget (17% on education, 11% on health, 15% on social security and welfare, and 7% on housing and community services), it could potentially do all of the following over the medium term:

- Appoint approximately 9 000 additional educators
- Provide about 1 500 additional fully serviced hospital beds
- Appoint at least 150 new doctors
- Pay as much as R350 in additional grants per beneficiary per year
- Construct nearly 10 000 low-cost houses

The macroeconomic impact of the DBSA is enhanced by focused initiatives that deal with specific constraints in the institutional framework of the country. Key among these is the Siyenza Manje initiative, while others such as the Sustainable Communities initiative are set to play more significant roles.

Siyenza Manje

The core business of Siyenza Manje is to improve service delivery through mobilising and deploying experts to municipalities, and providing grants for capacity building and development facilitation to create an enabling environment for municipal service delivery.

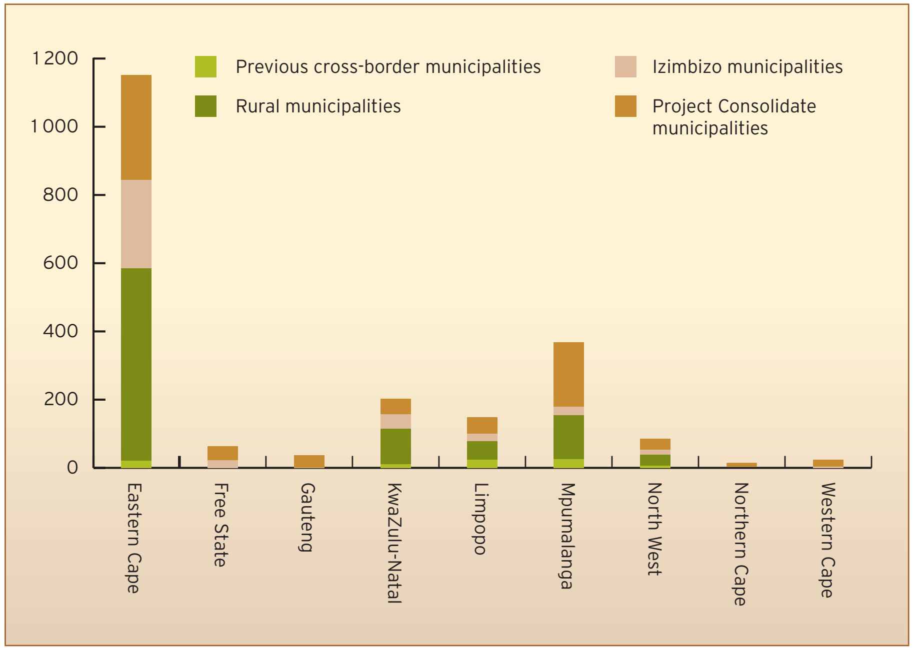
The Siyenza Manje municipal support programme is a joint initiative between the DBSA and the National Treasury, in partnership with the Department of Provincial and Local Government, the Department of Water Affairs and Forestry, SALGA and provincial governments. The programme, initiated in May 2006, aims to build municipal capacity for infrastructure delivery by deploying experts to provide hands-on technical, financial and planning support to municipalities in the delivery of services, as well as on-the-job training of municipal officials to build critical skills. The programme is administered by the DBSA's capacity building arm, the DBSA Development Fund.

In 2007/08, the programme involved 197 experts and more than 90 young professionals, who assisted with 1 568 municipal infrastructure projects and 512 non-technical projects. The involvement of experts contributed to the unblocking of R2,57 billion (cumulative) from the Municipal Infrastructure Grant (MIG) two-year budget of R4,85 billion.

The deployment also improved the flow of funds for various capacity building interventions from the Development Fund portfolio, which resulted in a reduction of the unutilised grant commitments from R139,3 million in 2006/07 to R102,3 million in the current year. This demonstrates the impact of the deployment on the capacity of municipalities to utilise their budgetary allocations and other grants.

The long-term objective of the Siyenza Manje programme is to establish municipalities with a sustainable absorption and service delivery capacity through efficient project management and effective finance and infrastructure systems. In addition to the deployment programme, from 2008/09, further expertise will be sourced from institutions such as the South African Institution of Civil Engineering, the Institute of Municipal Finance Officers and the South African Institute of Chartered Accountants to train young professionals/graduates and young professional artisans in order to create a pool of skilled experts in critical areas of need. These additional deployments will further improve the rollout of MIG funds, the flow of grant disbursements from the Development Fund portfolio, the design and implementation of policies and systems at municipal level, and ultimately sustainable service delivery.

The DBSA Development Fund implemented the deployment programme in eight provinces until December 2007, when Gauteng was added. Deployments were focused on Project Consolidate and Izimbizo municipalities, as well as all former cross-border municipalities.



Strategic municipal interventions resulting from distribution of deployees, 31 March 2008

The next two case studies review projects under the Siyenza Manje initiative, outlining both the successes and the challenges of improving municipal service delivery.

The Siyenza Manje programme aims to empower targeted municipalities to manage infrastructure projects efficiently, and improve capacity and skills at local government level. In addition, it assists municipalities in developing integrated information systems and sustainable operating systems for finance and infrastructure operations and maintenance. These interventions will help municipalities to accelerate, integrate and implement innovative infrastructure solutions that can unlock the economic development potential of their communities.

Jozini Local Municipality, KwaZulu-Natal

Siyenza Manje deployed a financial and technical expert to help the municipality implement MIG-funded projects and prepare annual financial statements.

Jozini is in the north-east of KwaZulu-Natal in the uMkhanyakude District Municipality, and is bordered by the False Bay, uMhlabuyalingana, Nongoma and uPhongolo Municipalities, as well as Swaziland and Mozambique. The area is primarily rural and basic service backlogs are high. Only 49% of households have access to water, 26% to sanitation, 7% to refuse removal and 10% to electricity. Before the Siyenza Manje intervention, the Municipality had very little capacity and was particularly lacking in technical skills. In fact, since it had no engineers, the Municipality relied heavily on consultants but did not have the capacity to monitor their work. Suitable candidates could not be found to fill key technical positions, leaving existing staff with high workloads. An effort to formalise Jozini as a town was under way, but owing to a lack of town planning schemes the process had dragged on for six years. Finally, the Municipality's financial capacity was limited and it was unable to compile any of the statutory reports.

The Siyenza Manje intervention assisted the Municipality in several ways. Firstly, it accelerated the formalisation of Jozini, which is now being finalised. The formalisation of other settlements in the area has also begun. Secondly, it improved financial management. The deployee provided systematic training to the finance staff, which enabled them to compile all the reports for the past financial year and deal with past audit queries. As a result, the Municipality submitted its financial statements on time for the first time. The focus for the coming year will be on document management and the provision of adequate audit proof to ensure that the Municipality moves to an unqualified audit.

Development impact and sustainability overview (continued)

Bushbuckridge Local Municipality, Mpumalanga

The Siyenza Manje deployees helped the Municipality to establish programme management and spatial planning units.

Bushbuckridge is a presidential nodal point in the north-east of Mpumalanga, bordering on the Kruger National Park and the Mbombela, Maruleng, Ba-Phalaborwa and Fetakgomo Local Municipalities. It forms a gateway to major tourist attractions in Mpumalanga and Limpopo. Although the municipal area is largely rural, it includes 225 settlements.

The main service delivery problem is water. Over 60% of households do not have access to potable water, and even those households that have taps often have no water supply at all. This contributes to poor sanitation, both in the densely populated settlement clusters and in dispersed small settlements. About 80% of households use pit latrines, which pose a potential pollution threat to groundwater resources. These problems are compounded by the lack of technical skills in the Municipality, which has contributed to huge backlogs (estimated at R7,5 billion) in the implementation of infrastructure projects. In the past, the Municipality was unable to monitor consultants appropriately, which resulted in substandard designs and problems surfacing after project completion. Also, the absence of a project management capacity meant that contractors were often paid without progress having been verified.

The Siyenza Manje deployees helped the municipal manager to set up a Project Management Unit, which eliminated the verification problem. They also assisted on other water projects, such as the Tsakani bulk pipeline, which was initially constructed with substandard material.

Another major intervention was on the Hlukani sanitation project, which aims to construct 5 000 ventilated, improved pit (VIP) toilets for the community. Whereas the construction of these toilets had previously been outsourced at an average cost of R3 500 per unit, the deployees trained community members to do the work. Two project managers, a project facilitator and four sub-facilitators were hired from the local community, materials were purchased locally and project management fees were paid to the community. Local businesses have benefited significantly from the project, and the skills transfer has empowered local people. There was also a cost saving of at least R400 per unit, which can be used to construct additional VIPs.

Finally, the deployees helped the Municipality to formalise Bushbuckridge and other settlements into towns and to set up a spatial planning unit. The unit has already produced the long outstanding Spatial Development Framework.

Sustainable Communities

The DBSA's Sustainable Communities programme works to catalyse community-based social and economic development in an area, improve the quality of life and ensure the sustainable use of resources. The programme was approved by the DBSA Board in December 2005 and is intended to advance the implementation of national policy frameworks such as the National Spatial Development Perspective, Breaking New Ground, the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the draft "Framework for Sustainable Development in South Africa" and the related 2014 national targets.

The Bank initially identified six pilot sites for the Sustainable Communities programme, including Ba-Phalaborwa, Diepsloot, Grabouw, Lydenburg and Ngangelizwe. Possible extensions to this programme provide an opportunity to expand into deep rural areas, places affected by violence and regional centres in severe neglect.

This year, the focus was on further developing pilot projects with an aim to innovate replicable approaches to the development of sustainable communities and identifying synergies with other programmes within the Development Fund.

Vulindlela Academy

The DBSA Vulindlela Academy is one of the Bank's flagship programmes aimed at supporting knowledge dissemination. The Academy, which has been accredited by the Local Government Sector Education and Training Authority (LGSETA) in line with the South African Qualifications Authority Act, No. 58 of 1995, is a centre of excellence for capacity building and training in the region. With the support of both local and international academic institutions, it offers training in critical areas such as finance, project management and strategic planning to public sector and municipal officials from South Africa and from development finance institutions in the region. The approach combines academic work and practical case studies.

The Academy's strategic initiatives for the year included the following:

- *Training through the Local Government Resource Centre* (LGRC) and the *Local Government Network* (LGNet) was provided in partnership with the LGSETA, the Department of Provincial and Local Government and SALGA. Phase 1 saw 1 469 delegates trained in 2006; phase 2 started in September 2007 and has since trained a further 250 delegates.

Grabouw, Western Cape

This initiative aims to promote the socio-economic transformation of Grabouw through integrated sustainable development.

The Grabouw Sustainable Development Initiative is one of the pilot projects for the DBSA's Sustainable Communities programme. The objective is to transform the village of Grabouw into a resilient and thriving place where the current and future generations can work, live and play.

Following the signing of a Memorandum of Understanding between the DBSA and the Theewaterskloof Municipality in 2006, the Municipality appointed a multidisciplinary team to compile a comprehensive and integrated Sustainable Development Plan through a participative process. The Bank appointed an independent facilitator to develop a social compact for the area and to facilitate public participation in the planning process.

The social accord was signed by the constituency in September 2007, and in that same month the Theewaterskloof Council approved both the accord and the final planning document.

Given the strategic nature of the programme, the DBSA commissioned an independent evaluation by the Environmental Evaluation Unit at the University of Cape Town.

The study concluded that:

- The Grabouw Sustainable Development Initiative has decisively shifted the development trajectory of Grabouw in a manner that is aligned with the emerging understanding of what it means to create sustainable communities, while also deepening this understanding. An important aspect of this is the willingness to experiment and to implement innovative ideas.
- The case study provided valuable lessons of experience and confirmed the importance of elements of the "Sustainable Communities approach", such as a comprehensive communication and education strategy linked to monitoring and reporting; a comprehensive community participation strategy; and support for the development of facilitation skills for community participation.
- A relatively high degree of integration was achieved between the various disciplinary perspectives, meeting the objective of an integrated approach to social, economic and environmental development. The outcome is a high-quality implementable strategy and plan, with well-defined principles and projects for implementation.

Implementation has started and is characterised by the ongoing involvement of partners from the private, non-governmental and public sectors. For example, partners such as the Elgin Learning Foundation, the Overberg Training College and Group 5 contribute to the objective of "positioning Grabouw as a regional centre for technical training"; the provincial Department of Local Government and Housing to the area's transformation into a "sustainable human settlement"; and the national Department of Water Affairs and Forestry to the development of strategic land for tourism. There seems to be a collective commitment to establish Grabouw as a real example of a "sustainable community".

- The *Local Democracy and Local Governance* capacity building programme targets senior municipal officials and seeks to promote good governance. It is driven by SALGA, in partnership with the Academy and the Swedish Association of Local Authorities and Regions, and is funded by the Swedish International Development Cooperation Agency.
- The *Executive Municipal Leadership Development* training programme, run in partnership with SALGA, also targets senior municipal officials. In 2007/08, over 55 delegates participated in the programme.

The Academy offers training courses in municipal finance, project management, integrated development plans (IDPs), risk management, sanitation programmes, local economic development, project finance, public-private partnerships (PPPs) and preferential procurement. The Vulindlela Academy also provides on-the-job training, workshops, conferences and seminars. All these interventions are designed to respond to the specific needs of the clients, based on thorough needs assessments. The Academy partners with universities and private sector providers for course development, training, assessment, moderation and joint certification. Course evaluation forms are used for all training and an independent client satisfaction audit is conducted each year to measure the impact of the training.

Development impact and sustainability overview (continued)

During 2007/08, 2 676 external delegates benefited from the capacity building and training programmes offered by the Academy, with a satisfaction level of over 90%. This represents a dramatic increase from the 2006/07 figure of 489.

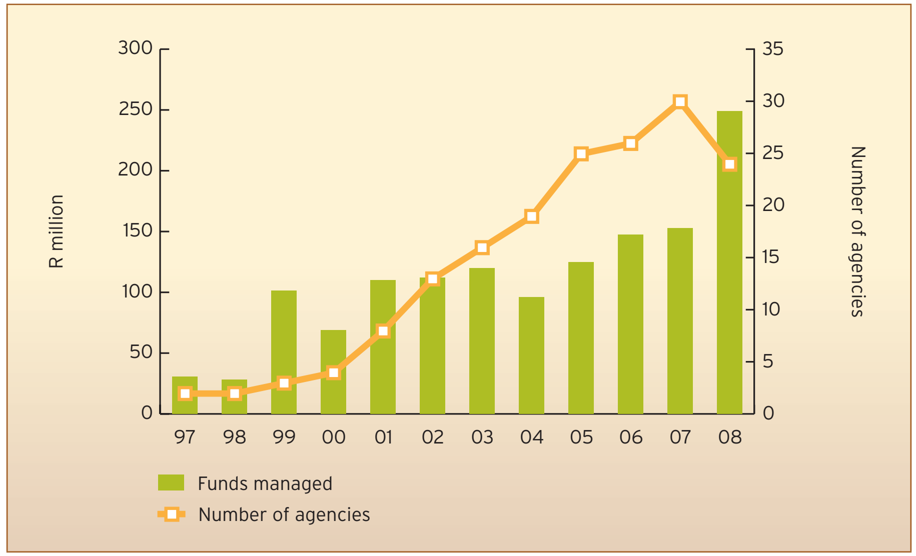
The Academy focuses on partnerships with key local and international institutions. In January 2008, the DBSA and AFD agreed to expand their long-term collaboration by creating a joint pan-African capacity building platform. The aim is to train 100 professionals in infrastructure project management, PPPs, project finance, and monitoring and evaluation in relation to energy, water and sanitation, and transport, over a period of five years. In addition, 40 young professionals from key disciplines will be placed in various institutions in South Africa and in francophone and lusophone countries. The programme will be funded by the DBSA, the AFD (Proparco) and the IDC for the first five years, while the Bank plans to increase the programme capacity by including additional partners such as the African Development Bank, the World Bank and KfW.

Agencies function

The DBSA established its agencies function in response to the acute constraints on development implementation and management capacity in the region. The function assists local and international development and funding partners, and acts on their behalf in planning, programming and implementing development initiatives. As early as 1997, the Department of Trade and Industry approached the Development Bank to support the Regional Spatial Development Initiative Programme. By 2003, when the Agencies Unit was created, the number of programmes had grown to 16.

In the year under review, the DBSA had 24 different agencies and funds to the value of R250 million under management. These are broadly classified as strategic, development impact or stakeholder support agencies.

The agency programmes have contributed to the co-delivery of economic and social infrastructure, job creation, best practice and knowledge sharing, the promotion of broad-based economic growth, regional integration and prosperity, in addition to building human and institutional capacity within government departments.



Number of agencies and funds under management, 1997 to 2008

The following boxes present some of the flagship agencies of the DBSA. Also worthy of mention are the Skeppies programme and the Voluntary Counselling and Testing clinic programme.

The Skeppies programme, a partnership between the DBSA and Conservation International, focuses on environmental management and local economic development in the Succulent Karoo area of the Northern Cape. Each partner contributed R2,4 million towards 11 projects, which benefited 192 families and created 41 new jobs.

The clinic programme, a collaboration between the DBSA and KfW, facilitated the building and rehabilitation of 205 clinics in the Eastern Cape, KwaZulu-Natal and Mpumalanga, in support of voluntary counselling and testing for HIV. The social marketing of the programme by the DBSA team also had a positive impact on the management of infection rates in the communities.

Municipal Financial Management Technical Assistance Project

The DBSA provides management services to a government programme that supports local government.

In line with government's programme to reform public finance and transform local government, the Municipal Financial Management Technical Assistance Project (MFMTAP) has supported selected municipalities in implementing the new budgeting and financial management system, and has assisted the government in analysing some of these reforms. Funded by the National Treasury, the World Bank and the UK Department for International Development to an amount of over R200 million, the project has helped to create a platform for efficient and equitable service delivery at local government level. It is now virtually complete and due to terminate at the end of June 2008.

The DBSA, acting on an agency basis, provides the project with procurement management, accounting services, disbursements, tax services, consultancy services and fixed-term contract employment.

The MFMTAP initially included an early warning system, which was taken over by the National Treasury in 2005. The remaining components are as follows:

Implementation of reforms

This component supports the implementation of various local government reforms, including those under the Municipal Finance Management Act, No. 56 of 2003, regulatory reforms, and reforms to encourage the development of a municipal finance market. It also supports reformed intergovernmental fiscal transfer programmes. During the project, 32 international and five local roving advisors were deployed, providing direct assistance to 41 municipalities and indirect support to smaller municipalities in five provinces. Among the measurable outcomes were changing from cash accounting to accrual accounting, introducing new budgeting procedures that include strategic links between planning and budgeting, and improving in-year reporting, as required by the Municipal Finance Management Act.

The National Treasury financed an Internship Programme to support the advisors and develop financial skills in local government. This programme offers graduate interns a two-year contract in municipal finance departments, and so far over 200 municipalities have employed about 470 graduate interns.

Additional policy reforms

This component assisted in the implementation of various reforms, including legislation to regulate municipal systems; supported the development of municipal capital markets; helped to fine-tune the intergovernmental fiscal policy; reviewed policies on basic service provision to ensure efficient delivery and fair pricing; and supported the development of appropriate local guidelines and management tools to link IDPs and multi-year budgets. Achievements included reviews and improvements to the policy on equitable share and the local government fiscal framework; further development of the local government equitable share formula; the development of guidelines and regulations on the financial treatment of asset registers, as required by the Municipal Finance Management Act; and the preparation of unit standards for training on the Act. The last two deliverables, the guidelines on the treatment of assets and the preparation of training materials, will be completed early in the new financial year.

New Partnership for Africa's Development (NEPAD)

The DBSA provides support to Africa's renewed vision and strategic framework.

NEPAD is a vision and strategic framework for Africa's renewal, designed to address the challenges facing the continent. The DBSA has played an integral role in NEPAD since July 2001, when it was formally adopted by the 37th Summit of the Organisation of African Unity.

The DBSA houses the NEPAD Secretariat, providing not only administrative and system support but also advisory assistance and input related to the implementation of NEPAD programmes such as the Spatial Development Initiative, the Comprehensive African Agricultural Development Programme and specific interventions for transport corridor developments in Africa.

In 2003, the DBSA established an Africa Partnerships Unit to provide support to the NEPAD initiative, as well as to promote, advise on and implement the NEPAD ideals on the continent south of the Sahara. In addition to providing technical, advisory and financial support in an effort to institutionalise NEPAD principles and programmes within the public and civil service of African states, the Unit has been specifically involved in facilitating and building partnerships in support of NEPAD with organisations such as the Japan International Cooperation Agency (JICA), AFD and the African Development Bank, as well as KfW and the European Investment Bank. One such partnership is the Project Preparation and Feasibility Study undertaken with the AFD, which is aimed at mobilising resources for regional infrastructure, as discussed in the Private Sector and International Investments section of this report. At the same time, private sector involvement is being facilitated through the NEPAD Business Forum and the NEPAD e-Commission.

The DBSA is honoured to be involved with the NEPAD programme and will continue to play its part in developing the NEPAD vision in order to promote Africa's renewal.

Development impact and sustainability overview (continued)

Environmental impact

The DBSA's policy on environmental sustainability commits the organisation to dealing with the environmental risks and impacts related to its products and services and the environmental impact of its in-house activities.

Environmental management

The environmental policy statement requires the Development Bank to continually improve its environmental management system in line with the ISO 14001 standard, to prevent pollution as a result of in-house activities, and to comply with all applicable legislative and regulatory requirements. In this regard, the policy requires the organisation to:

- Minimise the consumption of energy
- Minimise the consumption of water and the use of potable water for gardening
- Reduce the use of paper and recycle waste paper
- Minimise solid waste generation and promote reuse and recycling
- Avoid the use of hazardous materials that may harm the environment
- Use land efficiently and conserve biodiversity
- Use a carbon management programme to offset business travel emissions
- Promote environmental awareness among employees
- Train environmental representatives to implement the system
- Engage with key stakeholders on the environmental management of the premises
- Comply with all applicable provisions of the Occupational Health and Safety Act, No. 85 of 1993
- Commission regular environmental audits, including legal compliance audits
- Report annually on its environmental performance within the scope of this policy

The Bank is also implementing the environmental management system manual approved in 2006. Milestones in this regard include the approval of the facility management environmental policy statement outlined above, a review by SABS Commercial (Pty) Ltd to assess the Bank's compliance with the ISO 14001 system requirements, and the procurement of the IsoMetrix management system. This database is used extensively to achieve certification in terms of international standards and specifications, typically for the management of traditional risk areas such as safety, health and the environment.

Environmentally sustainable operations

The environmental policy requires all programmes and projects under consideration for DBSA support to undergo an environmental risk review as part of the broader appraisal process. The Development Bank's established procedures in this regard are reviewed every two years to incorporate emerging good practice and legislative developments.

The next review is planned for 2008/09. To promote transparency and effective public participation, the DBSA procedures have been published as:

> DBSA. 2006. *Procedures for environmental appraisal at the DBSA*. Development Paper No. 15, ISBN: 1-919692-88-X.

The case studies below demonstrate some of the environmental initiatives undertaken in South Africa as part of the Bank's operations. The final case study highlights an environmental success story in the region – the award-winning Limpopo-Lipadi game reserve in Botswana.

Blaauwberg Conservation Area feasibility study, Western Cape

The DBSA Development Fund supported a study on land use in a conservation area, which aims at making the area financially self-sustaining in the medium term.

The proposed Blaauwberg Conservation Area is situated about 25 km from Cape Town. Recognising the growing threat posed by rapid urban expansion, the Cape Metropolitan Council decided to produce a development and management plan for the area. It has important natural, historical and cultural attributes, and may also form a crucial part of the Cape West Coast Biosphere Reserve. The Council's plan envisages a limited amount of development in the area aimed primarily at tourism and education.

Municipalities face huge demands for infrastructure, and this limits their resources for environmental projects. Cape Town is no exception, but the City recognises that its unique natural environment is an important part of its economic base. The aim is to make the conservation area financially self-sustaining in the medium term. Income-generating activities will be used to cross-subsidise environmental education and general maintenance.

The DBSA is committed to the principles of sustainable development and seeks to promote them through its financial support. Accordingly, the DBSA Development Fund provided R330 000 for this study in November 2007, enabling the City to determine the best range of land uses for this unique area and assess its income-generating potential. The results were so positive that other municipalities have already approached the City about the lessons learnt from the study.

Maloti Drakensberg study on payment for ecosystem services, Eastern Cape

The DBSA co-funded a study on an innovative water management approach that has the potential to create economic opportunities for poor people; the government is taking steps to implement the findings.

The idea of paying for ecosystem services is gaining ground worldwide and may have exciting applications in South Africa. Given the severe development constraint posed by the lack of water in South Africa, it is important to find ways of augmenting the supply. An innovative approach is to pay communities to manage catchment areas, thereby promoting local economic development in rural areas and creating employment opportunities.

The DBSA and the World Bank co-funded a study in this regard in 2007/08. The study, which examined the catchments of the Thukela and Umzimvubu Rivers in the Drakensberg, was conducted by the Institute of National Resources and FutureWorks, and managed through a multi-stakeholder Steering Committee. Its aim was to assess whether the community payment approach is a feasible alternative to investing in dams.

The study found that maintaining the recommended cattle-carrying capacity and burning the mountain grasslands in the spring every second year produced robust vegetation in the upper catchment area. This promoted water security, carbon sequestration and other ecosystem services. The study found lower summer stormflows; higher winter baseflows (13 million m^3 and 4 million m^3 in the upper Thukela and upper Umzimvubu catchments respectively); lower annual sediment yields in these two rivers (1,3 million m^3 and 5 million m^3 respectively); and the sequestration of 134 000 tonnes and 334 000 tonnes of carbon per year respectively in the upper sections of these rivers.

Importantly, the management costs are at most 20% of the direct value of tradeable benefits, making this a financially attractive option. Payments to well-managed stock farms and communal lands may be one of the cheapest water augmentation options available in South Africa. It opens up new market opportunities for farmers on marginal mountain land, where they can farm both stock and water, thus improving rural livelihoods and providing the consumer with a cheap water supply augmentation option. It also creates jobs: this initiative will result in 1 800 restoration jobs in the first seven years, with some 500 people being employed permanently.

The Department of Water Affairs and Forestry is taking steps to implement these findings, with policy being amended and funds allocated for implementation. The DBSA is holding preliminary discussions with the Department and municipalities in the uplands to see how best to partner them to pilot payment for ecosystem services in the poorer regions of the country.

Limpopo-Lipadi Game and Wilderness Reserve project, Botswana

The DBSA provided innovative financial support for an internationally recognised ecotourism project that strongly emphasised sustainability and development impact.

The Limpopo-Lipadi Game and Wilderness Reserve project, which was approved in November 2006, won the 2007 Gold Award for the best sustainable project at the prestigious Home Overseas awards ceremony held in London. The Home Overseas awards are the premier global awards for homes and developments outside the United Kingdom. In accepting the award, the project sponsor recognised the Development Bank's support in ensuring the sustainability of the project through innovative structuring and a continued drive to maximise development impact.

The project is a private ecotourism initiative that entails the development of a game and wilderness reserve in south-eastern Botswana. The project targets investors who share the vision of experiencing unspoilt environments while assisting local communities. Covering 32 450 ha, with a spectacular 21 km frontage on the Limpopo River, the development is close to the rapidly expanding transfrontier park between Botswana, Zimbabwe and South Africa, which also includes the Mapungubwe National Park in South Africa, a World Heritage Site.

Ecotourism was identified as outperforming all other land-use possibilities in the area, and has substantial multiplier effects. Although it faces serious environmental challenges due to poor management practices from livestock farming, the area has an exceptional cultural and natural value with outstanding botanical, ecological, geological and geomorphological merit, and a range of vegetation types associated with the outcropping sandstone. The abundance of game, variety of ecosystems and archaeological sites of historical interest make this area a unique conservation opportunity. Although remote, the reserve is easily accessible by road and air.

The project involves the construction of commercial and private lodges and camps providing 226 beds, as well as a conference facility, restaurant and airstrip. It will be financed by the sale of shares to local and international investors. The DBSA provided a loan of US$10,5 million, which will ensure that the project can be completed on schedule without being affected by fluctuations in the sale of shares.

The development impact of this project centres on increased foreign tourism and the generation of foreign exchange, as well as the conservation of biodiversity and cultural and heritage resources. It includes a rehabilitation programme to restore the biodiversity of the region and, more importantly, provide habitats for globally endangered species such as African wild dog, cheetah and Cape vulture. It will also re-establish both black and white rhino, which had been poached to extinction. As such, it will contribute to the sustainable development of both the wildlife and the tourism sectors, and thereby support the growth and diversification of the economy.

The project will help to alleviate poverty by employing local labour and rolling out community programmes. Over 200 permanent employment opportunities should be created, in addition to another 500 during the construction phase. The project is also expected to catalyse growth in other areas of the economy, for example agriculture, horticulture and the services sector.

Development impact and sustainability overview (continued)

Strategic environmental initiatives

The Bank supported a number of strategic environmental initiatives in the region, mainly to build the capacity of development finance institutions for sustainable finance and for integrating both environmental and social considerations into their operating policies and strategies. These initiatives include the following:

- The publication of a book outlining the legislative and regulatory requirements for environmental impact assessment processes in SADC countries. Such processes are a prerequisite for major public and private sector projects in all of these countries, and the handbook will be valuable to developers, donor agencies, government authorities, non-governmental organisations and environmental assessment practitioners. The publication was a partnership between the DBSA and the Southern African Institute for Environmental Assessment, and is titled: DBSA and SAIEA. 2007. *Handbook on environmental assessment legislation in the SADC region*. Development Paper No. 179, ISBN 978-920227-01-2.
- The publication of a report on sustainability management and reporting for development finance in the SADC region (for more detail, see the box in the research overview). The report is targeted at the executives, managers and employees of development finance institutions, as well as their stakeholders. The initiative is a partnership between the DBSA, Incite Sustainability and the Energy Research Centre, University of Cape Town. The details are as follows: Incite Sustainability. 2008. *Reporting on development that really works and works – starting a discussion on sustainability reporting for development financing in the SADC*.
- The DBSA and the IDC hosted a Development Bank Day in November 2007, as part of the First Regional Conference of the International Association for Impact Assessment (South Africa). Delegates included current clients, development finance institutions from Angola, East Africa, Lesotho, Swaziland, Tanzania and Zambia, and international agencies. The event dealt with current international environmental best practice, including the Equator Principles, the International Finance Corporation's Performance Standards, Sustainability Management and Reporting, and Environmental and Social Appraisal policies and procedures in the financial sector.
- In a joint study with the International Institute for Environment and Development, the DBSA assessed the use, success and failure of environmental mainstreaming approaches. This study forms part of a global initiative to produce a User Guide that is sensitive to the needs of poorer countries. The Guide will cover the array of tools for environmental mainstreaming, building on lessons from experience with both technical approaches, such as environmental impact assessment, and more political approaches, such as citizen juries. The South African country study involved over 100 South Africans.

These initiatives are not only in line with the mandate of the Bank but also take full cognisance of the 1996 SADC Policy and Strategy for Environment and Sustainable Development, which calls for "a breakaway from fragmented sectoral approaches to environmental management" and urges the region to pursue "a single agenda and strategy" to achieve the consistent integration of environmental assessment in decision making.

Social impact

During 2007/08, the DBSA strengthened its role as a financier, advisor, partner, implementer and integrator in the social sector. The Bank's activities in support of social infrastructure included the following:

- *Health infrastructure:* In collaboration with the Department of Health, the DBSA manages a programme for upgrading Voluntary Counselling and Testing facilities in the Eastern Cape, KwaZulu-Natal and Mpumalanga. The programme was made possible by a financial cooperation grant of €9 million from the Federal Republic of Germany, while the South African government contributes 20% of the overall financing. Among other activities, the Bank oversees the upgrading of approximately 150 facilities and the independent evaluation of the programme by the Health Systems Trust.
- *Education infrastructure:* The DBSA provided funding and technical assistance for infrastructure development in various educational facilities, including the Universities of Cape Town, Fort Hare and Zululand, and further education and training colleges.
- A framework on *rental accommodation for professionals* in rural areas was developed to guide the Bank's thinking on the possibility of facilitating rural service delivery by providing accommodation for public professionals.

The Bank also contributed to capacity building on social issues through:

- *The development of social compacts in selected programmes:* Various compacts are currently being piloted through the Sustainable Communities projects discussed above. Such formal agreements help to involve communities in development processes and deepen democracy by promoting participation in a language and manner that are familiar. All parties are brought together to define the principles that will guide development, determine the range and levels of service, identify the beneficiaries, agree on the roles and responsibilities of the different parties, and establish conflict resolution procedures. Lessons from the pilot projects include the need to align the social accord processes with existing government structures, to pay particular attention to the legitimacy and status of stakeholders, and to consider different approaches according to local dynamics.

- *Support for gender empowerment:* The Bank continued to support the Women in Construction Development Programme, which offers women entrepreneurs training in business skills; assistance with matters related to contracts, health and safety; planning support on start-ups; and practical on-site mentoring. A pilot project in the Free State involved women in a year-long pipe-laying project, during which a micro-MBA course accredited by the SETA was presented. The aim was to develop contracting companies owned by women.
- *Hosting of conferences:* In February 2008, the Bank co-hosted the Women Leadership Conference in Limpopo, in partnership with the provincial government, the Gender Commission, South African Women in Construction, and the Polokwane Municipality and District Council. In support of the fourth International Rural Women's Congress, the Bank held a round-table discussion in April 2007, featuring an international speaker and focusing on women's issues in the rural development sphere.

Other knowledge-related initiatives in the social sector are reported in the research overview later in this Annual Report.

The Bank's commitment to corporate social investment is demonstrated in the projects supported by the CEO's Fund, one of which is described in the next box.

Financial expenditure for development

In addition to the Bank's long-term investments in projects that promote development, it also contributes financially to targeted development interventions.

These include the following expenditures and subsidies:

- Targeted Infrastructure Programme lending to poorly resourced municipalities that are unable to attract and manage the flow of funding for development; this funding contributes to building these areas and communities
- Research and advisory expenditure in support of national and international knowledge initiatives, as well as external training through the Vulindlela Academy; this is included in operating expenditure in the income statement on page 89
- Technical assistance grants to clients for purposes such as feasibility studies, the development of business plans and the acquisition of technical expertise; these are shown separately in the income statement on page 89

Banakekeleni Hospice, Gauteng

The DBSA provided significant support to a hospice in Alexandra, Gauteng, as part of its social responsibility programme.

The Banakekeleni Hospice is a non-profit organisation founded in 2001 to care for chronically and terminally ill patients in Alexandra and other areas around Gauteng.

There was a critical need to care for the large number of people living with HIV/AIDS, as they seldom have care during the day when family members work and children attend school. Some families had to send patients far away, where they were often unable to visit them.

Responding to this need, Banakekeleni runs a number of interrelated projects, including a community outreach programme focused on home-based care, HIV/AIDS awareness, emotional and social support, and the promotion of good nutrition. The organisation, which currently operates from the premises of a former factory, also runs a 24-hour service for the chronically ill. Its staff members include a professional nursing sister, auxiliary nurses and a volunteer doctor who comes once a week.

The DBSA funded much-needed equipment such as a gas stove, fax and photocopy machines, and a container phone-shop to help generate funds for the hospice. The value of the equipment was R50 000. In addition, a sum of R100 000 was provided for a vehicle that will be used to transport patients to clinics and hospitals for treatment.

In addition, the Bank used its corporate sponsorship funding to support development. There was a significant rise in requests for donations or sponsorships (especially in the absence of lottery funds). Poor communities and schools also increasingly requested support, especially in places where the Bank is particularly active. The areas of support included youth development, women's groups, care for the aged, disabled or ill, arts and culture, and sport and recreational activities. The Bank also promoted debate and community participation in regard to development, on request from clients, the government or development partners. Key areas of support are conferences, workshops, seminars and municipal functions.

- The grant to the DBSA Development Fund, which is used to fund capacity building interventions and a major portion of the expenditure in relation to the deployment of expertise through the Siyenza Manje project

The annual expenditure by the Development Bank on financial contributions towards development increased over the five-year period from R98,6 million in 2003/04 (or 9% of the operational surplus) to R308,3 million in 2007/08 (or 22%). Current financial budgets and forecasts indicate that this ratio may grow to as much as 45% over the next three years, and the Bank is therefore paying particular attention to managing its financial risk.

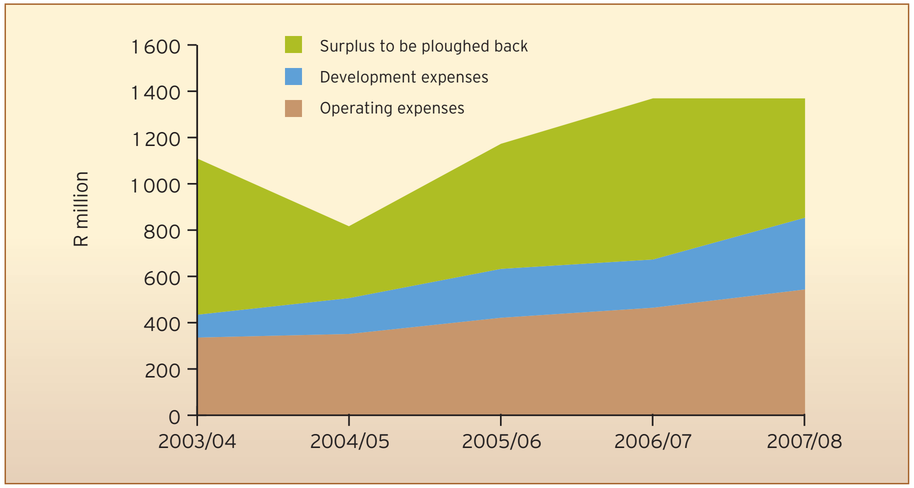
The annual development expenditure incurred by the Bank and the Fund is presented on the following page. These expenditures are not disclosed separately on the income statement included in the annual financial statements (page 89).

Development impact and sustainability overview (continued)

Development expenditure, 2003/04 to 2007/08

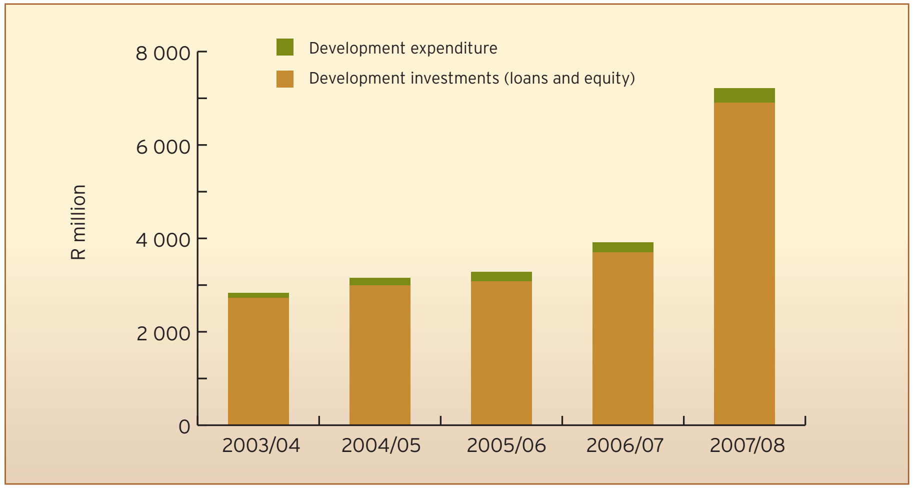
in thousands of rands	5-year average	**2007/08**	2006/07	2005/06	2004/05	2003/04
Operational surplus						
Retained surplus per financial statements	998 033	**1 265 889**	1 282 772	928 603	749 489	763 414
Development expenditure included in retained surplus	172 452	**117 578**	88 731	244 324	67 198	346 598
DBSA direct development expenditure	78 052	**117 578**	86 561	72 324	67 198	46 598
Grant to Development Fund	94 400	**–**	–	172 000	–	300 000
DBSA operational surplus available for application to development	1 170 485	**1 383 467**	1 369 332	1 172 927	816 687	1 110 012
Development expenditure						
Subsidised lending rates	7 561	**19 832**	15 218	2 758	–	–
Research expenditure	36 647	**48 370**	39 240	36 586	32 956	26 085
Vulindlela Academy – external training	616	**3 081**	–	–	–	–
Technical assistance grants	33 226	**46 295**	32 102	32 980	34 242	20 513
DBSA direct development expenditure included in net surplus	78 052	**117 578**	86 561	72 324	67 198	46 598
Capacity building grants and development facilitation costs	79 139	**62 788**	73 992	129 970	81 790	47 153
Siyenza Manje costs	32 696	**121 323**	42 156	–	–	–
Development Fund expenditure	6 466	**6 612**	5 774	8 998	6 138	4 806
Application of grant to Development Fund	118 300	**190 723**	121 923	138 969	87 928	51 959
Total development expenditure	196 352	**308 300**	208 483	211 292	155 126	98 557
Development expenditure by Bank and Fund as % of operational surplus (excluding grant to Fund)	17%	**22%**	15%	18%	19%	9%

The graph below illustrates the application of the surplus over the last few years, with a steady growth in normal operating expenditure, an accelerating growth trend in expenditure focused on development, and a flattening of the surplus ploughed back for sustained growth.



Application of surplus, 2003/04 to 2007/08 (R million)

The following graph depicts the growth in long-term investment in development, as well as annual spending on development.



Development funding, 2003/04 to 2007/08 (R million)

The year ahead

The initiatives outlined above demonstrate the DBSA's considerable investment, both human and financial, in the pursuit of real development impact that translates into improved standards of living for the poor. Many of these initiatives are still in the early stages, and the Bank looks forward to accelerating their implementation in the year ahead. While there will clearly be lessons to be learnt in the process, the DBSA is confident that it will make a demonstrably larger contribution to development in the coming year.

The next sections of this Annual Report give a more detailed review of the Development Bank's operational and knowledge activities, all of which contribute to development impact in the normal course of the Bank's business.

Operations overview

South Africa Operations

Group Executive:
Mr Luther Mashaba

Strategic overview

Nature of business

The South Africa Operations Division carries out the mandate of the Bank through supporting public, educational and limited private sector activities (by institutions that are active in the public sector) within South Africa. As the public sector arm of the Bank, it focuses on promoting the sustainable delivery of services, mainly through infrastructure provision. It therefore deals primarily with institutions that deliver infrastructure-related services to communities. Where these services are delivered through the private sector, the Division works closely with the Bank's Private Sector and International Investments Division. It also works closely with other Divisions in providing multifaceted and comprehensive development solutions, involving technical assistance, knowledge and different support instruments.

The development challenge is not only that of finance, but more specifically of delivery capacity. Capacity constraints are evident across the country, but are particularly acute in rural areas and small municipalities, where a significant part of the population still resides. The Division is structured on a geographical basis to ensure that it can build a detailed understanding of its clients and the development needs in each of the nine provinces. It consists of five operational units, each under the leadership of a Regional Manager. The Division has strong and direct relationships with other DBSA units – Workout and Recovery, Credit Risk and Operational Risk – which provide support to clients in distress as well as risk oversight for investments.

From April 2008, the Project Finance and Corporate Finance Units, which respectively support private sector and corporate finance transactions in South Africa, will form part of the Division. This will ensure seamless support to both public and private clients in South Africa, in recognition of the increased integration in development activities between the various sectors of the economy.

Operating environment and development strategy

The Division works mainly with municipalities and public entities that deliver basic services, as well as with the private sector and community-based organisations that function as additional delivery channels, specifically in areas with limited municipal capacity. Key elements of its operating environment include the following:

- Development backlogs for basic infrastructure remain high, especially in the rural areas and in areas with a limited resource base.
- The price-driven municipal tendering process poses particular challenges, not least to ensure that development impact is maximised. Increasingly, these tender processes secure funding on a three-year programme basis.
- Under-resourced municipalities are struggling to plan and implement projects. The Bank's role increasingly involves integration, facilitation and capacitating.
- The private sector is more willing to fund public infrastructure, especially in the mining, property development, tourism and commercial sectors.
- The huge infrastructure programmes associated with the 2010 FIFA World Cup are affecting public and private sector capacity in implementation.
- The full impact of the energy crisis on municipalities has not yet filtered through but will become more important in the medium term.
- Finally, the policy environment is also dynamic. In addition to national initiatives, most provinces are reviewing their Growth and Development Strategies.

Against this backdrop, the Division is challenged to develop new ways of reaching the underserviced parts of the market; to strengthen the infrastructural base and the enabling environment in a sustainable manner; to deliver developmental support in the increasingly price-driven market for public finance; and to enhance cooperation between role players on investment flows and development interventions. The Division's strategic approach is focused on the following key areas:

- Expanding the scope of its interventions in a targeted manner, with tailor-made development solutions to serve the needs of the different market segments
- Diversifying its client base to generate wider socio-economic returns, balance its portfolio and reach those not yet benefiting from development initiatives

- Developing and financing sustainable private sector projects and PPPs to promote development across all regions and key sectors
- Tailor-making support packages to the different municipal markets:
  - Bigger municipalities: initiatives that promote service delivery and growth, thus creating an enabling environment, especially for poor communities
  - Smaller and poor municipalities: investment support combined with technical assistance, knowledge interventions, development facilitation, and the gradual building of capacity
- Originating projects in areas of institutional failure, coordinating with national initiatives and providing post-implementation support to ensure sustainability
- Continuously exploring integrated and innovative development solutions for the public sector, based on the different needs of each market segment
- Optimising development impact in the services it delivers through carefully designing its interventions and packaging these with knowledge products

To this end, the Division is growing its already significant support programme. It provides technical assistance, advice and other value-adding services to strengthen the delivery capacity of municipalities and to maximise the developmental impact of its interventions.

Operations review

The Division set itself key targets for 2007/08, based on the objectives of its strategic approach. The Division's achievements against these targets are discussed below.

Delivering development impact through investment loans

The Division's portfolio exceeds R15,3 billion. In its drive to diversify its delivery channels, reach a broader population and increase its volume of support, the Division set a target of R4 billion for new investment approvals, based on actual approvals of R3,6 billion in 2006/07. The Division's performance exceeded expectations, with R5,7 billion of new investment loans approved on 94 projects, up 58% on 2006/07. The bulk of the value of funding was for the municipal sector (84%).

The approval figures include tenders that municipalities have awarded to the Bank; once these are taken up by the municipalities, they are reflected as commitments. Since municipalities may delay or not take up these amounts for various reasons, the conversion rate between approvals and commitments has varied. In 2005/06, a leakage rate of 35% was recorded. In 2007/08, the Division succeeded in converting 77% of all approved projects to commitments. The Division sees this as an indication that its support is now better attuned to the needs of the market.

Gamagara Municipality capital development programme, Northern Cape

The DBSA supported the Kathu Municipality in creating sustainable urban environments.

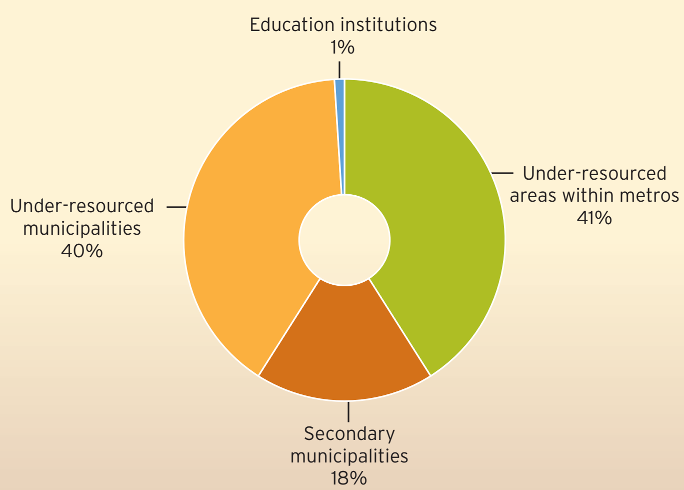
The Gamagara Municipality's capital development programme extends over five years and amounts to R94,6 million. It encompasses 12 projects to develop new and upgrade existing bulk and internal infrastructure services in the Kathu urban area. The DBSA provided R48,0 million for the first two phases of the programme, before being approached for an additional R26,6 million to accommodate the infrastructure needs of the mining sector and private developers. The Bank was also asked to facilitate the negotiations between the Municipality and the private developers around the funding arrangements. The additional funding will cover the construction of a water tower, reservoir and bulk supply line; the upgrading of the electricity substation and a new switching station; and an 11kV electricity supply to the new developments in Kathu East.

These projects will sustain future economic development and social upliftment in the area. In addition to providing financial and technical advice, the DBSA has an opportunity to foster further partnership agreements between the public and private sectors, and to help the Municipality integrate and implement its diverse development initiatives in Kathu. This will strengthen the Municipality's role as a developmental local authority and ensure that Kathu's growing status as a regional and social service centre has developmental benefits for its rural communities.

Outreach to poor communities

The Division continued to increase its outreach to under-resourced municipalities, which have around 34% of the country's population and more than 54% of its service backlogs. To address the development needs of these municipalities in a more meaningful way, the Division paid particular attention to packaging its support in cooperation with other Divisions, specifically the deployees from the Siyenza Manje programme.

The target for the year was to direct 10% of new investment approvals towards under-resourced municipalities. The Division succeeded in approving 33% (see the graph on the opposite page) of the number of investments to these municipalities, representing 13% of the rand value of approvals (5% in 2006/07). The main reason for this success was the Targeted Infrastructure Programme, a concessional programme started in 2004 to build sustainability through a combination of technical and investment support to poorer municipalities. The first phase of the programme of R798 million is nearly fully committed, and in 2006/07 the Board approved a further R2 billion for the programme over five years. The Division used this facility to target unserved communities within municipalities, by allocating funding to under-resourced municipalities or ring-fencing funding mainly for informal settlements in metropolitan or secondary municipalities. In total, R785 million of this programme was approved in the year and R235 million disbursed. The following diagram provides an overview of targeted infrastructure approvals this year.



Targeted infrastructure approvals, 2007/08

Lesedi Municipality electricity upgrade, Gauteng

With DBSA support, the Municipality is eliminating backlogs in energy provision.

Lesedi Local Municipality is situated on the south-eastern edge of Gauteng, bordering on Mpumalanga and the Ekurhuleni Metro. The Municipality was constituted through the amalgamation of Heidelberg, Vischkuil, Devon, Blesbokspruit, Suikerbosrand and small sections of Nigel and Springs. The main challenge in the area is rapid population growth, especially of urban households, which has put pressure on the provision of basic services.

The project under review helped to eradicate backlogs in the provision of electricity in Ratanda, Jameson Park and Heidelberg by upgrading various substations to meet existing and future demand. In 2007, the DBSA approved a financial package of R35 million to the Municipality, consisting of concessionary loan funding (under the Targeted Infrastructure Programme) of R14 million for upgrading the substations in Ratanda and Jameson Park, and an investment loan of R21 million for upgrading the other substations. The package was structured such that it will have the highest development impact on poor communities in the area. To date, 25 temporary labourers have been employed in the first phase of construction and four permanent jobs have been created, for a Community Liaison Officer and three skilled employees who connect cables and do other specialised electrical work.

Broadening the delivery channel

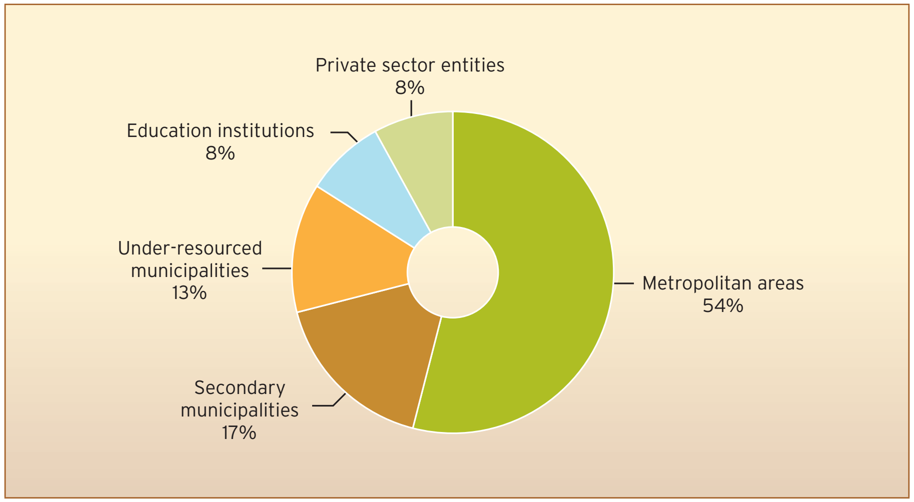
Although the number of project approvals was lower this year, at 94 (128 in 2006/07), projects were larger. The increase in the value per approval is mainly the result of the market trend for municipalities to secure funding on a multi-year basis.

The growth in the role of non-municipal clients stems from the recognition that development in poorly resourced areas requires new partners to bridge the capacity gap. The development strategy is two-pronged-strengthening the capacity of municipalities, while building the local economy by funding development projects in the productive sectors through non-governmental institutions.

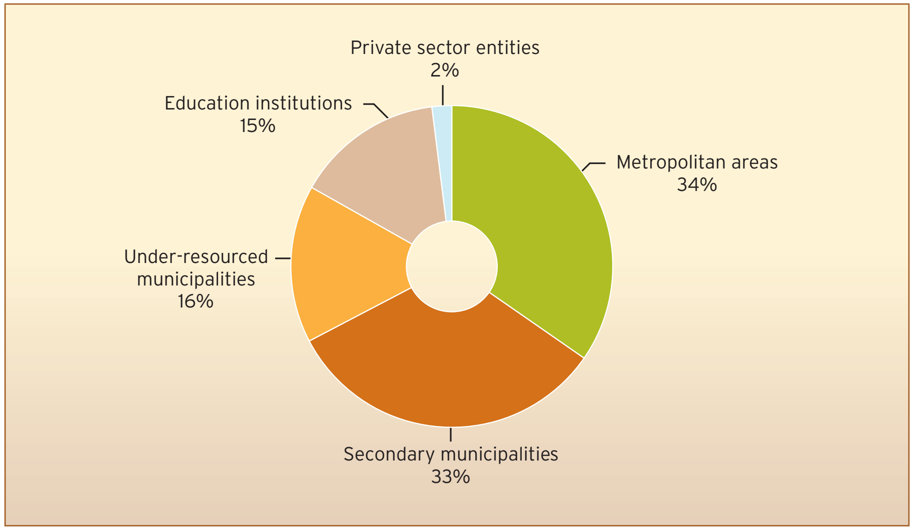
The diagrams on the right show the approval of loans per client category. Although the prominent role of metropolitan municipalities as delivery channels is obvious, the broadening of the client base to under-resourced municipalities and delivery agents was significant in both the entrepreneurial and educational sectors (in terms of the number of approvals). Also notable is the continued growth in approvals to further education and training institutions, in line with the Division's emphasis on strengthening the human capacity required for sustainable development. This helped to extend the delivery of services to a broader spectrum of the population.

No utilities took up funding from the DBSA in the year under review, in part owing to the multi-year nature of previous approvals. Historically these utilities had taken up as much as 25% of the value of the Division's approvals per year.

Concerning the broadening of the client base, the diagram on the following page shows the trend in first-time and repeat business in the main client categories. As can be expected, with about 70% of municipalities already being clients of the Bank, most municipal transactions were repeat business. But the other categories also grew significantly, and in respect of private and community-based institutions, more than 60% of approvals were for first-time clients. It is anticipated that this trend will continue.

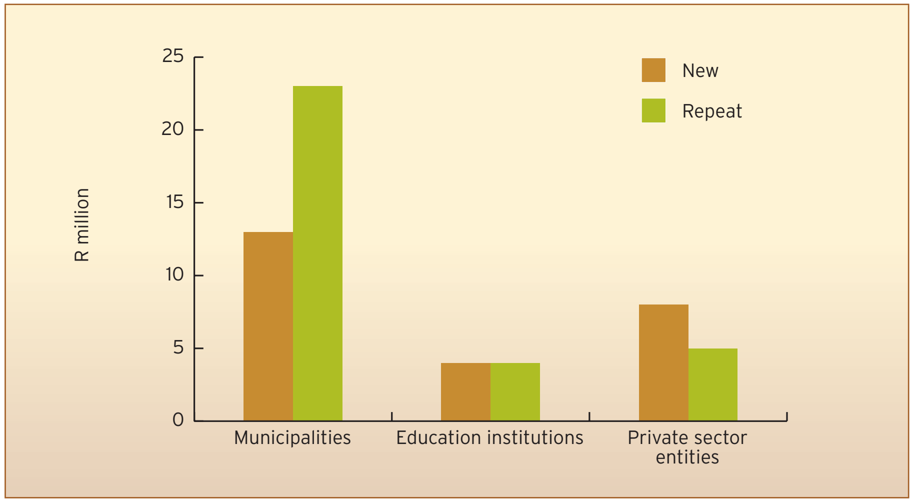


Value of investment approvals by category of client, 2007/08



Number of investment approvals by category of client, 2007/08

Operations overview (continued)



Expanding the client base: new investment approvals, 2007/08

Intsika Yethu Municipality infrastructure project, Eastern Cape

A DBSA loan contributed to improving living standards and promoting economic growth.

The DBSA provided a R10 million loan through its targeted infrastructure facility to strengthen enabling infrastructure and improve living standards in Intsika Yethu, an under-resourced municipal area in the Eastern Cape.

Severe financial constraints in the Municipality have led to a deterioration of the infrastructure, especially the streets. The Municipality applied for funding to upgrade and rehabilitate prioritised streets in the town of Cofimvaba, provide a dust-free environment and improve functionality during wet weather. The Division helped the Municipality to analyse its priority needs and agreed that this project would support socio-economic development by attracting business, improving accessibility and preventing flooding during the rainy season. The project also links up with the Chris Hani District Municipality's bucket eradication programme, which is funded by the Bank.

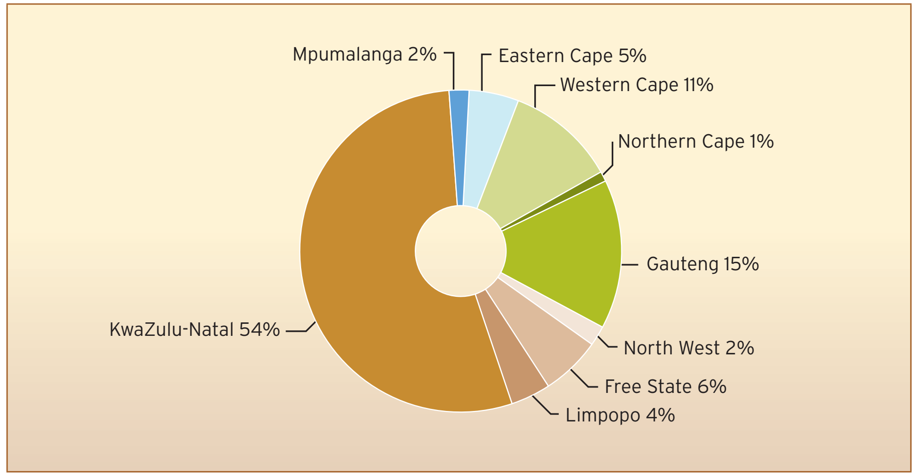
The project entails surfacing gravel streets in the centre of Cofimvaba and improving storm-water management. The main street is the only tarred one in the town, but it has no formal parking spaces or kerbs, and only poorly maintained open storm-water channels. The other streets are all gravel and their steep gradients contribute to erosion by storm water. Dust control is a problem; during the rainy season the streets become very muddy and people struggle to gain access to shops.

The project will upgrade existing streets and drainage facilities, provide kerbs, sidewalks and formal parking, and create space for informal trading. Local contractors and labour will be used, creating 40 temporary jobs and benefiting more than 200 households.

Provincial focus

Provinces with metropolitan municipalities and larger urban centres continued to receive significant support, given their higher absorption capacity and the concentration of poor communities in urban areas. KwaZulu-Natal (54% of approvals in 2007/08 against 43% in 2006/07) and Gauteng (15% against 21%), followed by the Western Cape (11% against 7%), received the bulk of approvals. Exposure to the Eastern Cape (5% against 8%) decreased, owing mainly to capacity constraints, but exposure to Limpopo grew to 4%, and the Free State, Northern Cape, North West and Mpumalanga to a combined 11% as a result of the use of the Targeted Infrastructure Programme.

The following diagram provides an overview of approvals per province during 2007/08.



Investment approvals per province, 2007/08

In the second group of provinces mentioned above, where absorption capacity is low and opportunities more limited, the Division developed longer-term programmes with technical assistance products aimed at overcoming these constraints. It is anticipated that it will take three to five years before higher investment flows through these municipalities are realised. For this reason, the Division strongly supports the Siyenza Manje programme and private sector initiatives to build the economies and delivery capacity in these areas. The DBSA's newly launched LED Fund, which will target these areas, will also be an important instrument in delivering development support in conjunction with other Divisions in the Bank.

eMalahleni Municipality capital development programme, Mpumalanga

The DBSA funded the provision of targeted infrastructure delivery for poor residents.

The eMalahleni Local Municipality sought tenders for the financing of its 2007/08 capital development programme, which aims to alleviate backlogs in the Phola, Ga-Nala and Thubelihle areas and contribute to urban renewal by upgrading existing infrastructure. The Development Bank was the preferred financing partner and its loan of R109,6 million supplemented funding from the Department of Water Affairs and Forestry, the Mpumalanga Provincial Government, the Nkangala District Municipality and the MIG programme. The Development Bank's support involved a combination of funding instruments: conventional loan funding was used for the urban renewal programme and the targeted infrastructure facility for the alleviation of backlogs in the townships.

The development spinoffs from the programme include improved service delivery and a higher standard of living, especially for poor residents. An estimated 780 employment opportunities will be created during implementation, and the use of local labour should increase the income of poor households by approximately R3 million.

Innovative approaches to delivering development finance

Finding appropriate ways of providing infrastructure on a sustainable basis remained a challenge during the year under review. It is not only in small, poor communities that traditional funding and delivery mechanisms are ineffective; metropolitan areas often encounter huge problems in this respect. Therefore, the Division continued to support innovative ways of furthering the development of sustainable communities and the delivery of development solutions to areas with specific needs. A significant effort was launched during the year to package innovative development solutions and assist clients in developing new approaches to institutional and other challenges, thereby maximising development impact.

The following are examples of these initiatives:

- *Replicating the Growth Fund initially piloted in KwaZulu-Natal, Gauteng, Limpopo, Mpumalanga, North West and the Northern Cape:* In the Northern Cape, for example, the Development Bank made an offer to the provincial government to facilitate the establishment of a Growth Fund in line with the provincial Growth and Development Strategy. The proposed model will accommodate both SMMEs and medium to large investment projects. This necessitated a unique mix of stakeholder participation and business content.
- *Africa's Best 350 (AB350), Eastern Cape:* The project entails the restructuring of the Eastern Cape Subsidised Public Transport Scheme in the former Transkei.
- *Western Cape hiking trails:* This project links tourism, local economic development and nature conservation through supporting two hiking trails in the Cape West Coast Biosphere and the Overstrand municipal area. These trails were identified in the respective local economic development strategies as key initiatives. The emphasis is on identifying possibilities for local people to benefit from business opportunities along the trails.
- *NOVA Institute Highveld Air Quality project, Mpumalanga:* This project aims to reduce carbon emissions and household coal use through the Basa Magogo coal-burning method. It builds on the success of the first phase of the project, which trained communities in the alternative coal-burning technique, and extends its coverage to three additional areas (Sakhile, Vukhuzake and Namahadi).
- *Johannesburg Property Development:* This potential programme offers a unique opportunity for city development and public-private cooperation. The DBSA could potentially invest R4 billion in this R20 billion programme and other funders may be mobilised for the balance. These property development projects will optimise both social and economic opportunities in the city, thereby contributing to socio-economic development.

Operations overview (continued)

Originating projects where a development gap exists

Another new initiative during the year was a more hands-on approach to the identification of development opportunities, with the Division taking on the role of lead facilitator, arranger and potential developer where municipalities lacked the capacity to package and implement projects.

The Division's target was to approve five originated investment projects during the year, but the institutional complexity of these initiatives means that lead times are very long. Once projects have been identified, feasibility studies, project design and institutional arrangements must be finalised before financial closure can take place. Still, 26 projects have been identified under this initiative, of which seven have been approved for implementation during 2008/09.

Municipal Property Rates Act support programme, KwaZulu-Natal

This programme contributed to strengthening municipal sustainability through smart partnerships.

The DBSA worked together with the KwaZulu-Natal Department of Traditional and Local Government Affairs and municipalities to implement the Municipal Property Rates Act, No. 6 of 2004, thus contributing to the creation of a sustainable municipal system. Building on the technical support it has offered in the past, the Bank made a grant of R10 million towards the costs of the programme.

The Act reforms the system of property rating by municipalities, aiming to bring uniformity into the field and provide local governments with sufficient revenue to fulfil their constitutional responsibilities. It is a critical part of strengthening the financial base and governance capacity of municipalities.

The Department and the Provincial Steering Committee are helping municipalities to implement the Act under the guidance of municipal councillors. The support programme includes the valuation of all properties in the municipal areas, the drafting and certification of valuation rolls, and the finalisation of rate policy bylaws and budgets.

The Development Bank provided supplementary support through the joint development of methodological guidelines and the creation of a database for all municipalities. This will reduce the costs faced by individual municipalities and enhance uniformity in valuations. The initiative should strengthen municipal governance and income generation, thus enhancing financial sustainability and the capacity to provide services.

Mobilising co-funding on development projects

The availability of investment funding from government, the private sector and other development agents increased significantly during the year. The Division focused on integrating such funding into its projects to facilitate optimum development solutions.

In respect of mobilising co-funding, the Division achieved a ratio of 1:2,84 on committed projects against a target of 1:0,75 (1:1,25 in 2006/07). This is a considerable achievement in view of the fact that smaller, higher risk municipal and private sector clients generally find it difficult to attract finance. It remains a challenge for the Division to leverage funding from other sources on these projects. Close cooperation with the Siyenza Manje programme and with national government to align funding flows are two major initiatives in this respect.

Cooperation and competition on municipal finance

The increased appetite of private banks for funding municipal infrastructure and the growing use of open tenders by municipalities challenged the Bank to maintain its emphasis on development impact and sustainability within a price-dominated bidding environment. It also challenged the Division to improve its turnaround times without compromising the integrity of its assessment processes and the provision of additional developmental services such as technical support. The Bank's concerted efforts in this regard were largely successful and it won 90% of bids (similar to the ratio of 2006/07).

Deepening development impact

The Division aims to deepen the development impact of its operations through carefully designing support interventions, capacitating implementing agents to ensure the proper application of funding and maintenance of assets, and broadening the scope and volume of its support. The Bank's business model, and specifically its appraisal process, seeks to ensure that investments are sustainable for both the beneficiaries and the client. In the appraisal process, divisional and other specialists assess the environmental compliance, social acceptability and technical viability of each project, and explore ways of optimising its impact on the local economy, employment creation and the standard of living of communities.

During the year, an estimated 20% of the contract value of commitments was allocated to small and emerging contractors. The impact of disbursements to committed projects on the economy is estimated at R3,8 billion, of which R159 million was channelled directly to local communities. In addition, a million households will be connected for the first time to one or more basic services.

Sustainability is further strengthened through sound project design and quality assurance during the implementation of a project. In addition, the client's financial sustainability has to be protected to enable it to maintain service delivery in the long run. Encouragingly, the number of clients who found it difficult to meet their financial obligations to the Bank decreased by 0,3% to 4,0% during the year, despite the harsher economic environment. The Workout and Recovery Unit, in close collaboration with the Division, continued to provide valuable support to these clients. This protected the Division's loan book and virtually no write-offs on the debt of public sector clients were required.

Claremont Boulevard, Western Cape

This development aims to create sustainable urban environments in partnership with the private sector.

The Claremont Boulevard development is a PPP project between the Claremont Improvement District Company and the City of Cape Town.

Claremont's central business district is the social hub for a diverse range of Capetonians, from affluent residents of the southern suburbs to working class residents of the Cape Flats. It is accessible by train, taxi, bus and motor vehicle, and provides employment, social services and commercial activities. However, congestion and inadequate infrastructure have resulted in urban degradation in the area.

The Claremont Improvement District Company was launched in 2000. It is an offshoot of the Claremont Business Forum, an informal body established in the early nineties, and the later Claremont Crime and Grime initiative, which was supported by commercial institutions in the area. The City of Cape Town works in partnership with the Company to make Claremont a more sustainable and user-friendly environment.

There has already been a major upgrade of public spaces, and these improvements have now been taken further with a capital investment programme that addresses the need for strategically important infrastructure. The City allocated R24 million to a bus and taxi interchange and facilities for informal traders near the railway station, and the Company raised R22 million for the construction of a bypass road from the DBSA, via a special purpose vehicle named RoadCo. The R46 million project will reduce congestion and improve public transport infrastructure, library services, a clinic and other social services, while also crowding in private sector investment. The private sector plans to make fixed investment of R1,8 billion in the public, commercial and residential sectors.

Once the bypass road is completed, the City will be responsible for maintaining it and paying the levies collected from ratepayers over to the Company. The portion of the levies specifically budgeted for the construction of the bypass will be paid over in turn to RoadCo, thus allowing the DBSA loan to be repaid.

Capacity building for clients

Capacity constraints, mainly within municipalities but also in smaller emerging private companies and delivery agents, are a critical factor delaying the achievement of an equitable and growing economy with a sound infrastructure base. The Division keenly supported government initiatives and in particular the Siyenza Manje programme of the DBSA Development Fund to strengthen the implementing capacity in municipalities. In some areas, such as Limpopo, the fruits of this can already be seen in previously disempowered municipalities embarking on sound infrastructure programmes. The Development Fund also continued to make grant funding available for specific capacity building initiatives; the Division managed the implementation of these projects to a value of R45 million disbursed during the year (target contracted by the Fund: R22 million).

The Division provided technical assistance to clients to identify, prepare and implement projects: grants to a value of R28,5 million disbursed against an available budget of R26 million. This support is rendered in terms of a targeted technical assistance policy approved during the year, with three objectives:

- To be complementary to investment initiatives and address specific development needs and constraints hindering the implementation and design of these projects
- To assist clients in removing blockages and capacity constraints that affect their ability to plan or implement projects
- To assist clients with planning and programming processes and enabling provincial governments, for example, to target development solutions more effectively

To ensure consistency in application and development focus, the Bank established a Development Interventions Committee to oversee these grants.

University of the Western Cape, Western Cape

This loan is an example of the Bank's commitment to building human capacity.

The loan of R90 million to co-fund the construction of a Life Sciences Building at the University of the Western Cape is an example of the Division's approach to strengthening the human capacity in the country.

In the transformation of the tertiary education sector, the University of the Western Cape was mandated to teach Life Sciences. Despite its history of disadvantage, the University already has a significant role in the training of scientists and in scientific development. To strengthen this role, in line with the JIPSA initiative, the University focuses on reducing inequalities generated by apartheid while maximising its contribution to national and regional development. Specifically, it aims to turn its Science Faculty into an internationally recognised centre of excellence, thereby addressing two problems – the small number of science graduates and the limited relevance of their skills to the demands of a changing economy.

This project entailed the construction of a Life Sciences Building, comprising lecture halls, laboratories and offices for the South African National Bioinformatics Institute, the South African Herbal Science and Medicine Institute, and departments such as Biotechnology, Biodiversity and Conservation Technology, Medical Biosciences, and Environmental and Water Sciences. Reflecting the importance of environmental sustainability, the modern, state-of-the-art building incorporates many affordable sustainable technologies. The use of these technologies provided many training opportunities for contractors and labourers involved in the construction.

Elkanah campus infrastructure, phase 3, Western Cape

The Elkanah project strengthens community outreach and support in Cape Town.

The northern suburbs of Cape Town have been the fastest growing areas in the Metro, both physically and demographically, with a large, increasingly integrated population. Community facilities such as schools are severely lacking. Elkanah is a rapidly expanding school that plays a leading role in the integration of the area. Its intake of learners from disadvantaged backgrounds increased from 10% to 14,5% over the last two years and its facilities are used outside school hours in outreach and community programmes. Elkanah's outreach programme assists three disadvantaged schools with various subjects, and adult education classes are also provided in the evenings.

This project is the third phase of an R80 million programme financed by the DBSA and other funders, and entails the construction of a multi-purpose hall for the performing arts, including a music room and library. The facilities were designed to reflect the values of the school, which include community participation and accessibility. In future phases, the Science and Technology classrooms will be extended to keep pace with demand for these facilities.

This project is an example of a partnership between the DBSA and the client to promote development impact. Priority was given to the creation of employment, the use of local labour and materials, and the development of entrepreneurs, especially women. The level of BEE participation reached 55%, well above the required 35%. In addition, sustainable building practices were followed to limit energy and water consumption, and indigenous plants were used in the landscaping.

Support to strategic initiatives to build sustainable communities

The DBSA is rolling out a strategic initiative to secure cooperation with other partners in coordinating and integrating development efforts in targeted areas. The Division stands in support of these initiatives and is currently involved in ten of them countrywide. Several are reaching the completion of the foundation stages and further targeted investments are foreseen during 2008/09. Examples of interventions as part of the DBSA's Sustainable Communities programme are reflected in the development impact overview.

Building smart partnerships

Strategic partnerships are an important facet of deepening impact through integrated development solutions. The Division has built strong relationships with key regulatory authorities and delivery agents, which provide a platform for further support.

The Sustainable Communities programme is a prime example of a joint approach at national level between the Bank, the government and other stakeholders to maximise development impact by addressing needs comprehensively. Other formal cooperation agreements are in place with the government, several provincial governments, and development institutions such as the Umsobomvu Youth Fund.

To promote development facilitation and delivery, the Division entered into a partnership agreement with a leading private company. The aim of this agreement is to assist in the delivery of development solutions in areas with severe capacity constraints. At least four projects are currently being investigated for potential implementation under this agreement.

Improving the efficiency of operations

The ability to respond rapidly to requests for support was a priority during the year. The Division participated in the Bank-wide business renewal process to improve the efficiency of service delivery on all fronts; this will continue in 2008/09.

The Division has made significant progress in reducing its response time for tenders. It set itself the target of ensuring financial closure on new projects within eight weeks of application. Although this was possible in 70% of all projects, the Division is still challenged to ensure the application of sound credit risk assessments and full appraisal on particularly large investments. Its average turnaround time for the year stands at 16 weeks, mainly because the appraisal process on a few projects required a longer than average period to complete. Although the 2007/08 turnaround time represents an improvement of two weeks on that of 2006/07, the Division will strive to improve its turnaround times in the year ahead.

North West sanitation programme, phase 1, North West

This programme is an example of innovation in the provision of basic services.

The North West Provincial Government's sanitation programme funds the extension and upgrading of bulk and reticulation infrastructure in an effort to eradicate the bucket system and provide appropriate sanitation facilities in the province. Funded by the DBSA, the first of four phases entailed a R77,1 million bridging facility to the Maquassi Hills Local Municipality and the Bophirima and Central District Municipalities to eradicate the bucket system over two years. The Bank and the provincial Department of Developmental Local Government and Housing agreed on an approach to delivering services in the programme, and the Department entered into a Memorandum of Agreement with the municipalities to provide strategic direction and ensure continuous monitoring of performance.

The programme faced several challenges, not least the lack of municipal capacity and technical expertise. In response, the Bank provided a technical assistance grant to obtain specialist inputs and also deployed a Siyenza Manje engineer to the Department to augment the role of the Project Information Management Services centres. All the affected municipalities had access to the Siyenza Manje deployee.

In addition, to ensure an integrated approach to the programme, an Implementing Committee was established, including stakeholders such as the national Departments of Provincial and Local Government and of Water Affairs and Forestry. This Committee was seen as one of the key factors in the success of the programme. The Committee, especially the Technical Programme Manager, provided extensive support to the municipalities before documentation was submitted to municipal councils for approval. The Committee also monitored progress on implementation and identified areas where assistance was required. The Office of the Premier was kept informed of progress. The participation of different government departments allowed the development of a standard reporting format that met all of their reporting requirements.

After the completion of the first phase, the Committee now serves as a forum for mobilising support around other needs, such as overcoming the backlogs in municipal infrastructure. The DBSA and the province are jointly funding a study to cost the eradication of water and sanitation backlogs on a provincial basis. The model for project design and implementation used in this programme is now being replicated elsewhere in the province.

Operations overview (continued)

The year ahead

In 2008/09, the Division will continue to build the infrastructure delivery market, especially for marginalised communities. It will also continue to target the building of delivery capacity at municipal level, in cooperation with the other relevant Divisions.

A dedicated budget and staff expertise will allow it to promote sustainable investment projects especially in poorer communities, with the aim of allowing them gradually to migrate to investment funding. This will be complemented by specific capacity building and empowerment initiatives in support of broad-based BEE objectives.

Closer and more integrated delivery support by the different DBSA Divisions will receive priority attention. The reconstitution of the Division to incorporate both the private and public sector finance functions in South Africa will enable it to provide a more seamless support package to the different sectors in the economy.

The expansion of the volume and scope of interventions in a targeted manner across all infrastructure delivery agents remains a key focus area, as does more effective cooperation between the various public and private role players. The Division will aim to build sustainable delivery partners and clients, so as to expand its support to a larger portion of South Africa's communities. This will require the diversification of the client base and a broadening of the sectoral focus to the underserviced parts of the public sector market, particularly in the light of capacity constraints. Support to non-municipal delivery agents will also be increased, through special interventions, for example, or close cooperation with the private sector. The Division targets an estimated R30 billion in new investment approvals over the next five years, of which at least 40% are expected to be in the non-municipal market.

The Division will play a more direct role in the facilitation of funding flows that can be used to unlock other resources, and in the origination and development of projects where local capacity is lacking. It will also continue to engage with strategic partners and strategic national government initiatives that target municipal effectiveness.

The key role of metropolitan municipalities in infrastructure delivery is recognised and the Bank will continue to support these authorities in the design and implementation of programmes to promote the delivery of services. Key projects that will create growth will be supported in conjunction with both public and private sector partners.

Finally, the Division will strive to provide tailor-made and innovative support through instruments such as the Targeted Infrastructure Programme. This will be augmented by the operationalisation of the LED Fund, which will assist communities with limited capacity to roll out services and enabling infrastructure, while building their economies.

Private Sector and International Investments

Group Executive:
Mr Admassu Tadesse

Strategic overview

The Private Sector and International Investments Division provides a mix of financial and non-financial products and services to a range of private and public sector clients and partners on the African continent. The Division focuses on funding and servicing commercially viable and sustainable development projects that make a significant contribution to economic development, regional integration and empowerment. It comprises four business units:

- The International Finance Unit is responsible for the DBSA's regional financing and investment operations, focusing on the rest of the SADC region with a strategic focus on regional integration and priority economic sectors. Operations in SADC are limited to a third of the Bank's total investment and lending activities.
- The Project Finance Unit operates only in South Africa, financing mainly large-scale infrastructure and PPP transactions. The Unit may also co-sponsor and partner both private and public project promoters in initiating, preparing and structuring projects that are hampered by early-stage development blockages.
- The Corporate Finance Unit funds broad-based BEE projects and has become the centre of excellence in the Bank for equity-related financing and balance sheet lending. It is also the custodian of private equity funds, with a strategic focus on addressing market failure in the industry and enhancing capital markets development.
- Support for the NEPAD initiative is provided by the Africa Partnerships Unit, which promotes and implements NEPAD ideals on the African continent. By providing capacity building support, and helping to define projects, assess their feasibility and structure them, the Unit works to make the NEPAD framework a reality.

The Division will be restructured as from 1 April 2008, with the Corporate and Project Finance Units moving to the South Africa Operations Division. This will allow the Division to focus only on operations beyond South Africa, as reflected in its new name, the International Division.

Operations review

The Division's operating performance was very strong once again. It ensured that the large pipeline of approvals built up in the previous financial year was converted to commitments during 2007/08, while maintaining the high level of new project approvals.

New loan and equity approvals, amounting to R5,07 billion, were higher than the R4,67 billion achieved in the previous year. Given the Division's strong performance in 2006/07, this year's achievement against a target of R3,6 billion is commendable, even after adjusting for a significant approval of R1,43 billion to a single project, the Cahora Bassa project in Mozambique.

Commitments soared to R4,36 billion, an increase of 66% over the R2,62 billion achieved in 2006/07. This reflects not only the size and quality of the pipeline of approvals built up over the past two years, but also the Division's focus on ensuring that approved projects are committed to and banked within an acceptable timeframe.

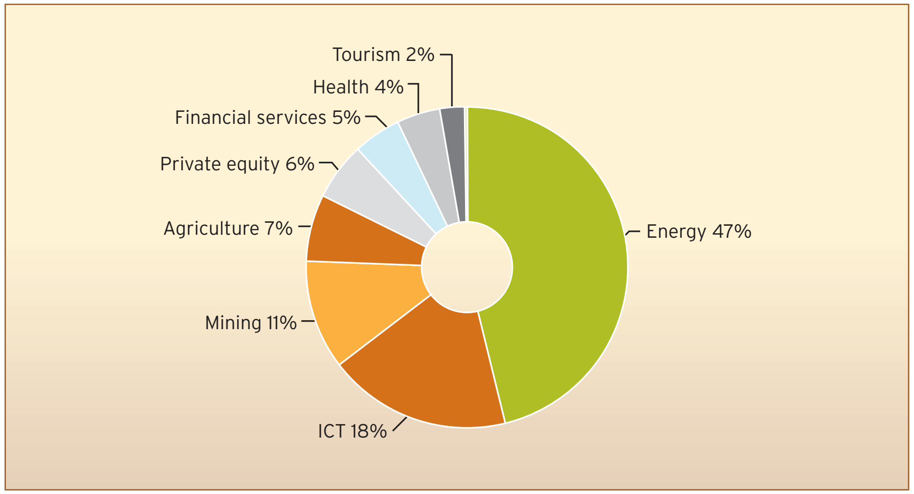
The commitments include a US$30 million line of credit to Banco de Poupança e Crédito of Angola, as discussed below.

The Division's strong performance is further underlined by the growth in disbursements from R1,57 billion in 2006/07 to R3,30 billion in 2007/08, although this amount includes disbursements to the Cahora Bassa project. It is anticipated that the level of disbursements will continue to grow in the next few years as commitments are utilised by clients and partners.

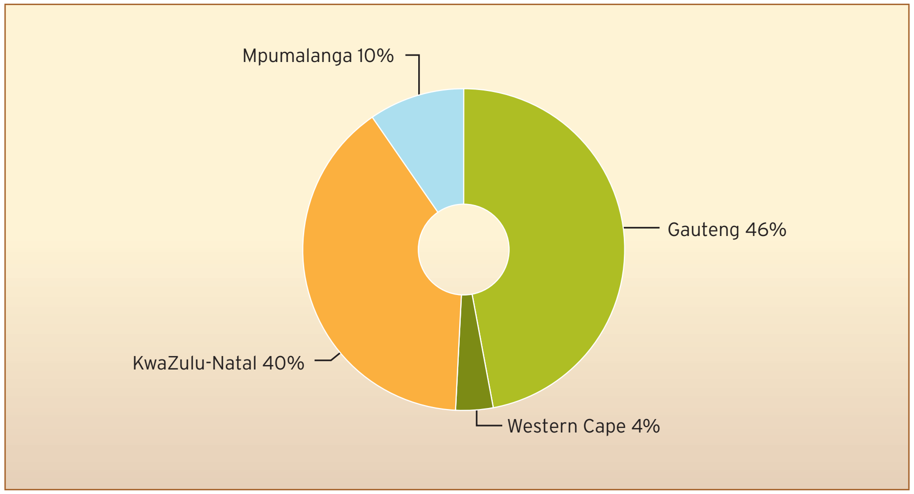
Subsequent to year-end, R651 million of the Bank's exposure to the Cahora Bassa project was sold down as part of the planned syndication process.

With the region experiencing significant energy constraints, a large portion of current-year approvals focused on projects designed to alleviate the limitations in the energy sector. Further large approvals in the ICT, mining, private equity and agriculture sectors were consistent with the primary focus areas for financing outlined in Vision 2014. The sector distribution of projects approved in 2007/08 is illustrated in the graph overleaf.

Operations overview (continued)

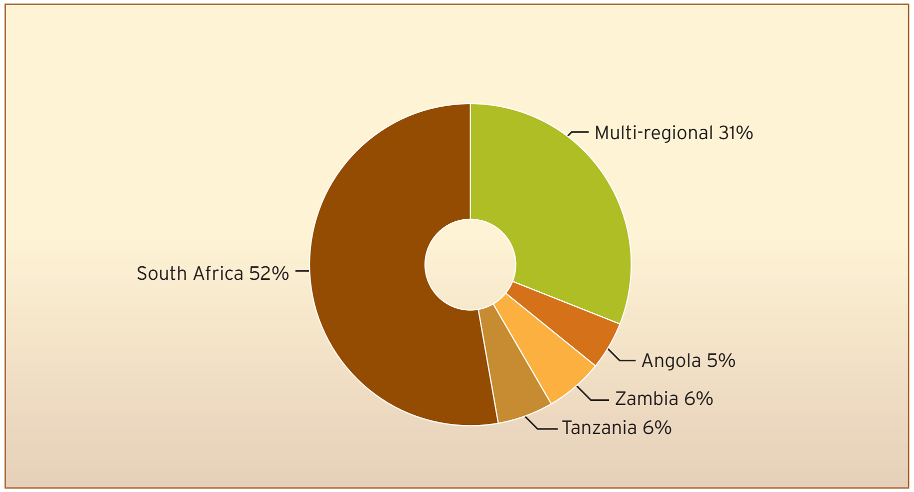


Approvals by sector, 2007/08



Approvals by province, South Africa, 2007/08

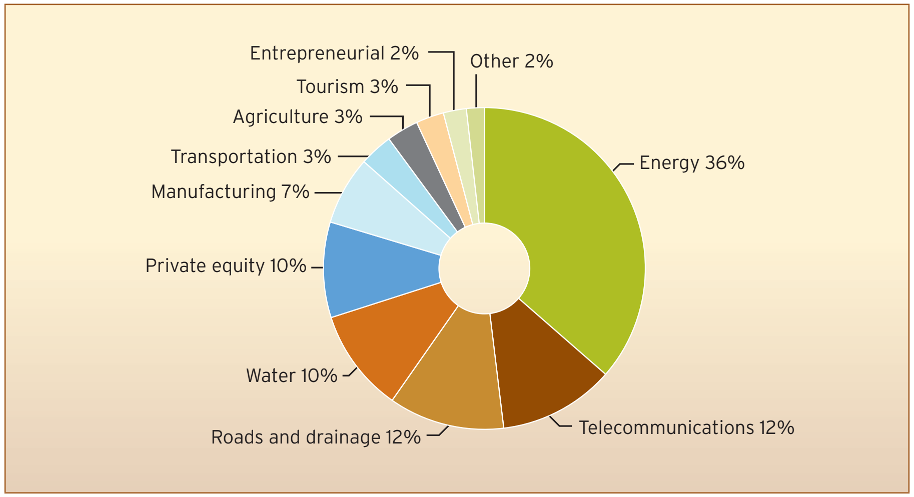
As energy projects in particular generally involve more than one country, a large portion of approvals were multi-regional in nature, as shown in the graph below.



Approvals by country, 2007/08

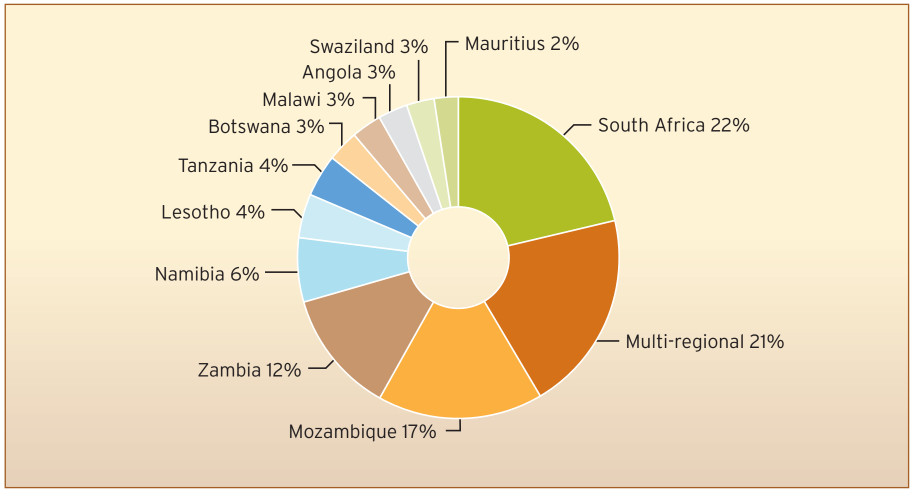
More than half (52%) of project approvals were in South Africa, where Gauteng continued to attract the largest component. KwaZulu-Natal has the second largest component, mainly owing to an R835 million approval for the Independent Power Producers project.

The loan portfolio is well diversified across a range of sectors, with the energy, telecommunications, and roads and drainage sectors taking priority.



Loan portfolio by sector, 31 March 2008

Multi-regional projects constitute a fifth of the current loan portfolio, as do projects within South Africa. Mozambique and Zambia have also attracted significant financing from the DBSA.



Loan portfolio by country, 31 March 2008

Non-performing loans (including arrears) as a percentage of total outstanding loans increased marginally from 6,59% in 2006/07 to 7,21% in the current financial year.

The Division was particularly successful in leveraging its own investments with those of co-funders, as evidenced by a co-funding ratio of 1:3,60 as against the target of 1:1,59. The Division will continue to seek partners to co-finance its infrastructure projects, in order to manage the risk exposure of the DBSA.

The strategic objectives of the Division centre around six main themes. These are discussed below, together with examples of initiatives undertaken by the Division in pursuing its objectives.

Promoting regional integration

Since the turn of the century, regional integration has emerged as a major thrust in Africa's efforts to accelerate growth, development and stability, through the integration of its markets and institutions. Regional infrastructure has been identified as the foundation for this integration thrust, which promises to expand trade and investment within the region, and between the region and the rest of the world. Regional infrastructure also permits synergies and economies of scale in the production of bulk infrastructure for the region in key sectors such as energy, telecommunications and transport. Accordingly, the promotion of regional integration is the guiding principle of the DBSA's strategy in the sub-region and wider continent.

Under the joint AFD and DBSA Project Preparation and Feasibility Study (PPFS) facility, the Africa Partnerships Unit approved eight development projects during the year. The PPFS committed US$2,2 million to these projects and leveraged US$16,8 million in preparation contributions from other development finance institutions and a potential US$23 billion for investment. The DBSA is considering investment in two of these projects, with a potential investment value of US$357 million.

The Division will continue to promote regional integration by building on the strategic position of the Bank in the southern African region, NEPAD and SADC to:

- Co-fund investment programmes and act as anchor financier in selected cases
- Mobilise donor funding and co-fund project development and preparation work
- Strengthen implementing agencies
- Focus on bringing transactions to financial close
- Support the expansion of indigenous regional companies

Maximising private sector involvement in infrastructure development

The DBSA's mandate to provide social and economic infrastructure and support economic growth, both in South Africa and the region, requires it to offer a variety of financial instruments and partner with diverse stakeholders. In line with this mandate, the Bank renewed its focus on investing in private equity funds, particularly in areas where economic development is hampered by market failure. Such investments allow the DBSA to:

- Achieve its mandated objectives in regional integration, infrastructure, empowerment and critical sectors in the regional economy
- Crowd in private sector participation in the provision of long-term risk capital to these sectors
- Strengthen strategic partnerships with other private equity investors, both development finance institutions and private investors
- Earn a return commensurate with the risk profile of the project

The private equity funds in which the DBSA invested yielded high returns: the current portfolio yields over 30% on equity invested. While increased private equity investments will initially reduce the Bank's interest income, the higher returns on equity invested will contribute to its sustainability.

In 2007/08, the DBSA approved R203 million and committed R912 million to private equity funds to catalyse investments in sectors that require risk capital to transform and develop.

Operations overview (continued)

Investing in private equity

Although best known for maximising shareholder returns, private equity has an important role in development. As a long-term provider of risk capital, it contributes to economic development by building sustainable businesses, increasing private sector participation in the economy and attracting private capital to the region. In response to the critical shortfall of equity capital in key sectors of the regional economy, the DBSA supports the establishment and growth of private equity funds with high levels of development impact. Funds supported by the DBSA assist regional economies in securing long-term capital and improving management and financial expertise.

In the past year, the DBSA approved R203 million and committed R912 million to three private equity funds:

Pan African Infrastructure Development Fund

The DBSA invested US$100 million in the Fund, alongside the Public Investment Corporation, Absa Capital, African Development Bank, Metropolitan Asset Managers, Old Mutual, Stanlib Group and the SSNIT (the Ghanaian national pension fund). The Fund aims to mobilise public and private sector expertise and financial resources for infrastructure projects in African countries by providing equity, quasi-equity and convertible debt instruments for private sector infrastructure projects. The target capitalisation is US$1 billion and the Fund had its first close in September 2007 at US$625 million. It has also approved an investment of approximately US$25 million in a regional power entity.

Medu Capital Fund II

This project aims to support the establishment of a private equity fund to mobilise funding for BEE transactions and support the development of a black management firm in the private equity industry. The capitalisation is R850 million, of which the DBSA provided R100 million, alongside investors such as Alternative Equity Partners, Brait, the Commonwealth Development Corporation, the Eskom Pension and Provident Fund, FMO (the Dutch development agency), Metropolitan Asset Managers, the Public Investment Corporation and Vunani Private Equity. Medu II will focus on privately owned medium-sized companies, generally owner-managed or family businesses that need skills in areas such as financial management, corporate governance and strategy, and in implementing the scorecard approach to BEE to create additional value in the company. The Fund's management team provides these skills, thus facilitating growth and profitability in a critical sector of the economy.

Agri-Vie Private Equity Fund

Agribusiness is an important contributor to economic growth in the region and is poised for significant expansion. Sustainable investment in this sector can make a substantial difference to socio-economic development in SADC. The DBSA has approved an investment of R100 million in Agri-Vie, which promotes and supports agribusiness in the region, alongside investors such as Sanlam Private Equity, the IDC and the Kellogg Foundation. Given the significant lack of equity risk capital to finance agribusiness transactions, the DBSA's participation in this Fund allows it to play a catalytic role in developing financial infrastructure to provide access to long-term risk capital. The Fund is strategically placed to facilitate transformation through investments in its portfolio companies, thus enabling the Bank's financing to reach additional investment markets.

Development impact

The DBSA's role in the private equity industry is not limited to financial investments. It is committed to a thought leadership role in the industry, especially to improve the measurement of development impact. At the International Financial Institutions Working Group meeting in Washington DC in May 2007, a final set of development impact indicators was approved and all members agreed to include them in legal documentation of private equity investments. The DBSA and the European Investment Bank also co-funded a study by the African Venture Capital Association on monitoring development impact. In addition, the private equity fund portfolio continues to strengthen strategic relationships with other development finance institutions that are active in private markets, as well as private sources of capital. As a result, the DBSA's commitment is often a key factor in the decision of these institutions to invest in particular equity funds.

Facilitating the commercialisation of public sector initiatives

Effective delivery of core basic services is crucial to improving the lives of poor communities. Poverty is multifaceted and requires an integrated response across sectors. The Bank has therefore adopted a broader multi-sectoral role, informed by the socio-economic development needs of South Africa and aligned with the policy objectives of the government. The primary issues to be addressed include:

- Persistent backlogs in basic social infrastructure, such as water and sanitation
- Inadequate access to affordable housing
- Spatial concentration of resources in the major metropolitan areas
- An established policy framework for PPPs as an alternative system of public procurement and provision of services, combined with a dire need for such services in the municipal sphere
- Continuing institutional and financial weaknesses in the municipal sector
- The influence of BEE Sector Charters on the country's economic transformation

Recognising the importance of these issues, the Division has gradually extended its support to projects in the natural resources, housing, urban development, tourism, health, education and agro-processing sectors.

This year, several key projects that were approved in prior years moved into the implementation phase, with a significant effect on disbursements for the year. Among these are the Gautrain project and Neotel, the country's second national telecoms operator. The year has also seen the successful closure of the R1,6 billion Blue Ridge Mine project, in which the Division is a significant provider of empowerment financing. Financing and implementation agreements were also concluded in respect of the PPP project for the development of the Department of Foreign Affairs office campus, regarding which the Division provided anchor financing for BEE participation. In addition, the Division approved a R650 million debt facility for the broadband network developer Infraco and an R835 million empowerment underwriting for the AES Khanya Consortium's Independent Power Producers project. Given the importance of telecoms and energy infrastructure, these projects should make a significant contribution to sustained growth and development.

In order to extend the DBSA's operating capacity, two important partnerships have been established. The first is with Bigen Africa, an engineering consulting firm, and is aimed at identifying, initiating and structuring major infrastructure projects to unlock long-term development potential in specific areas. The second is with a major settlements developer, M5, to undertake substantial housing initiatives.

Hidroeléctrica de Cahora Bassa

Cahora Bassa is the second largest artificial lake in Africa, one of three major dams of strategic importance on the Zambezi River. The Portuguese colonial government began constructing the dam in 1969 to harness hydroelectric power, and the 250 km long dam began to fill in December 1974. The dam and the adjoining 2 075MW hydroelectric power plant were majority-owned by the Portuguese government, while the Mozambican government had an 18% shareholding. After years of discussion, the two governments signed a historical agreement and restructuring plan in October 2006 to reopen negotiations on the shareholding structure of the dam.

The DBSA participated as senior lead arranger in the restructuring transaction, allowing it not only to add value from the inception of the transaction but also to provide US$200 million of the US$800 million financing requirement. After year-end, R651 million of the Bank's exposure to the Cahora Bassa project was sold down as part of the planned syndication process.

With the Mozambican government now holding 85% of Hidroeléctrica Cahora Bassa – the Portuguese government retained a 15% stake – the project has secured an important source of electricity for the region and for South Africa in particular, at a time of capacity problems in electricity generation.

The refinancing of Hidroeléctrica Cahora Bassa has finally brought a strategic national asset held by a former colonial power under local regional ownership.

Promoting broad-based participation in economic activities

South Africa's BEE policy is a pragmatic growth strategy that aims to realise the country's full economic potential by extending empowerment to all the sectors that are central to social transformation. Empowerment projects are still driven mainly by the Sector Charters and their alignment with the Codes. Such projects are evident in all sectors of the economy, but the funding of start-up and expansion projects remains a challenge, with only the development finance community really active in this area.

BEE financing is one of the DBSA's key strategic thrusts, but the challenge is to remain relevant in an ever-evolving landscape. The Bank's approach to BEE is closely aligned with its overall mandate to provide social and economic infrastructure and address specific areas of market failure. The Bank emphasises broad-based empowerment in support of communities and emerging BEE groups that lack access to funding.

The Division is pleased to report that 93% of all approvals by the Corporate Finance Unit were targeted directly at BEE groups, with almost half (40%) of those supporting broad-based BEE groups. Project origination in the BEE sector has proven challenging because of the corporate nature of the transactions required; by comparison, project finance transactions are simpler to originate. Despite the difficult environment, two projects were advanced significantly towards the final milestone, project approval.

Facilitating capital markets development in SADC

The Division focuses on facilitating financial market development to support long-term financing and to capacitate local institutions. Using credit lines as the main instrument, the Bank's interventions aim to improve credit allocation to the private sector by both banking and non-bank institutions. During the year, the DBSA extended a second line of credit with a ten-year tenor to Banco de Poupançae Crédito. This line of credit, valued at US$30 million, will be used to fund mainly Angolan businesses by providing long-term capital to private sector businesses in the post-war expansion phase. The technical assistance and knowledge sharing provided for under the agreement will strengthen the relationship with Banco de Poupança e Crédito and create more opportunities for the DBSA in the difficult operating environment of Angola.

A second major focus has been investment in private equity funds, which have an important role in providing much-needed risk capital, as discussed earlier.

While continuing its support for credit allocation to enterprises, the Bank also emphasises the development of the financial system as a whole. Going forward, therefore, it will also support interventions aimed at increasing household access

Cape Coral International Hotel

The proposed Cape Coral International Hotel will be a 140-room boutique "dry hotel" in the Bo-Kaap area of Cape Town's central business district. This is close to some of the city's key attractions, such as Parliament, Table Mountain, the Convention Centre and the V&A Waterfront. The Cape Coral will complement the existing luxury hotels in the city and its facilities are expected to be highly competitive.

The operator, Coral International, is a leading developer of boutique "dry hotels" in the Middle East. These hotels do not sell alcohol on the premises, in keeping with the sensitivities of the Islamic tradition, although its consumption is not prohibited. The concept was introduced in 2001 by the Taj Palace Hotel in Dubai. There are currently no dry hotels in South Africa.

The DBSA has approved a loan of R100 million for this project. The transaction includes a unique broad-based empowerment element in the form of a Guaranteed Employee Bonus Scheme structured by the DBSA team. The Bank's participation in the project facilitates development impact by:

- Contributing to BEE through the creation of a 100% black-owned tourism asset in the Western Cape
- Developing tourism infrastructure and enhancing the Bo-Kaap national heritage site through the construction of a world-class facility
- Promoting foreign direct investment in the province and the hospitality industry via the operator
- Creating employment opportunities for previously disadvantaged South Africans, including construction jobs, direct jobs in the hotel once it opens its doors, and opportunities for people like tour guides
- Creating procurement opportunities for BEE groups during construction and, once operations begin, giving preference to small businesses from disadvantaged areas that provide cleaning, security and garden services
- Transferring skills in the management and operation of the first dry hotel in the country

to financial services, particularly mortgage finance in view of its high development impact. The DBSA will not provide such funding directly, but will rather selectively strengthen local financial intermediaries with expertise in this important area.

Strengthening the capacity of investee entities

The DBSA assists in building the capacity of investee entities and regional economic communities with a combination of finance and knowledge products such as technical assistance, capacity building, project preparation and assistance to improve the bankability of investment projects. To this end, the Division approved R9,47 million for technical assistance grants and other capacity building initiatives.

Building smart partnerships

The community of development finance institutions in the region recognises the need to intensify development investments and collaborate on achieving development priorities such as regional integration, economic growth and capacity building, in support of NEPAD, the SADC's Regional Indicative Strategic Development Plan (RISDP) and the Millennium Development Goals, among other initiatives. As a member of this community, the Bank aims to forge stronger partnerships with regional and international development finance institutions and selected funds to improve the flow of investments in the region. These partnerships will be structured around co-financing, co-arranging and capacity building, and will seek to advance priority projects through project preparation and origination drives that enable the Bank to shape the design of projects while also building a robust pipeline.

One such smart partnership grew out of the Bank's longstanding working relationship with the AFD: the joint funding of the Project Preparation and Feasibility Study (PPFS) facility. The PPFS was set up in recognition of the fact that the lack of well-planned projects is a major challenge to the implementation of the NEPAD initiative.

The facility aims to support project origination by financing the preparation of NEPAD-aligned projects, from the conceptualisation stage through to financial and legal closure, with a specific focus on the transport, energy, ICT, water and sanitation, and tourism-related infrastructure sectors.

A 2003 Memorandum of Understanding formed the basis on which the AFD and the DBSA jointly funded the first phase of the facility through a R12,5 million grant. After this phase had been implemented successfully, the AFD and DBSA in April 2007 agreed to contribute a further R20 million each for a three-year period. The PPFS has now almost fully committed the additional funding to various projects, including the following:

- The Zambia-Tanzania-Kenya power interconnector involves 600 km of transmission lines linking the southern and eastern African grids. A feasibility study of the environmental impact, financial requirements and preliminary design was completed and the project is close to financial closure.
- The Kenya-Uganda oil pipeline extension will carry fuel from Mombasa Port via Nairobi to Kampala. It will reduce traffic on the overloaded transnational road system and cut transport costs significantly.
- The Southern African Power Pool Tariff Study will investigate electricity tariffs and pricing in the SADC region. The goal is to align regional tariff principles and enhance the efficiency of the electricity spot market operated by the Power Pool.
- The ZESCO energy programme involves six projects to link Zambia to all its neighbouring countries and the Power Pool, thus helping to meet its growing need for power.
- The Eastern Africa Submarine Cable System (EASSy), a submarine broadband fibre-optic cable along the East Africa coast, will take African telecommunications to a new level of connectivity. Currently, few African countries are linked to each other directly and most link to the former colonial territories for international calls.

Operations overview (continued)

The year ahead

As noted, the Division will be transformed into the International Division in April 2008, with a focus on operations across the public and private sectors outside South Africa.

The DBSA has the benefit of streamlined governance structures that enable it to advance the region's strategic development agenda actively and vigorously. The Division will build on this strength to promote interregional integration and cooperation between SADC and the other regional economic communities, notably the Common Market for Eastern and Southern Africa (COMESA) and the East African Community. This will entail establishing more formal relations with these regional bodies, as well as the African Union Commission and the United Nations Economic Commission for Africa, while maintaining the strong links with SADC, the NEPAD Secretariat and the African Development Bank.

The Division operates in an increasingly competitive environment, characterised by high levels of liquidity. While this opens up extensive opportunities for the region, it also tends to narrow the margins traditionally earned by the Bank's international operations. The Division, in partnership with the Treasury Division, will continue to strengthen its funding relations with bilateral and multilateral partners, as well as sovereign and wealth funds, to obtain access to lower cost funding.

Strategically, the competitive environment also presents potential challenges in terms of transparency and financial standards. The Division will collaborate with various international role players to promote good corporate governance in the development finance arena.

It will also continue to provide funding and related products and services to commercially viable and sustainable development projects that make a significant contribution to economic development, regional integration and empowerment. This transactional and project financing focus will be complemented by increased attention to upstream strategic planning and project development, together with advocacy and the building of partnerships to mobilise resources. As noted, the main focus will be on the following infrastructure sectors: energy (electricity, oil and gas), construction, ICT, transport, water and sanitation, mining and resources, tourism, financial services, housing and urban development, social services (health and education) and agro-processing. Key thrusts will be origination, project preparation, support for indigenous empowerment, and strategic and operational partnerships.

Research overview

Research and Information

Group Executive:
Dr Snowy Khoza

Strategic overview

The Research and Information Division has three key focus areas, namely research, information and advisory services:

- The research function generates knowledge from the environment to inform policy and planning, and suggests innovative development interventions.
- The information function analyses and interprets socio-economic and infrastructure data and information, integrates internal and external knowledge into an accessible repository, and packages it in easy-to-use tools for internal and external clients.
- The advisory function is a Bank-wide resource of highly skilled professionals with different areas of specialisation, who promote best practice and provide sector analysis and scenario planning in support of the Bank's operational activities.

Operations overview

The Division is pleased to report significant progress on a number of initiatives. Highlights of the year are outlined below.

Research and policy

The research function supports the DBSA's efforts to broaden and deepen its development impact, as set out in its Vision 2014 and the development agenda. During the year, the Division revisited its research agenda to ensure an integrated and longer-term approach to the research function. It developed a long-term research agenda with five focus areas: infrastructure, poverty and inequality, spatial development, regional integration and development impact. It repositioned its knowledge products and also recruited additional expertise to bolster capacity.

The flagship products of the research function are the *Development Southern Africa* journal and the *Infrastructure Barometer*. As an accredited peer-reviewed journal, *Development Southern Africa* provides a platform for debate to influence the policy discourse on development matters. During the year, the journal was reviewed to address key areas such as leadership, representivity and focus. The transformed journal was launched in March 2008 with the aim of increasing its visibility and improving distribution. In addition to the standard four issues, a special issue on tourism in Africa was published in 2007/08. Significant work has been done on the *Infrastructure Barometer 2008*, which is due to be launched in the new financial year. In reviewing the state of infrastructure in South Africa, the report aims to promote understanding and coordination across government departments, so that infrastructure investments are planned in an integrated manner.

In addition to the flagship projects, four case studies of research and policy projects are given below. The Division's other products included:

- A study on the role of research in other development finance institutions in the rest of the SADC region, with the aim of contributing to capacity building in this regard
- The development of a suite of macroeconomic models for measuring the impact of the Bank's interventions at community level to inform short-, medium- and long-term intervention strategies
- A development impact framework to assist the Bank in enhancing its development impact
- A project to track service delivery in municipalities, with the aim of providing comprehensive and consistent information to facilitate service delivery and inform policy in this regard

The Division also assisted government formations, such as the Department of Trade and Industry/Economic Cluster, by providing inputs into the planning process for national economic departments in the development of the Programme of Action for 2008, and organised a round-table discussion to promote interdepartmental cooperation on infrastructure asset management initiatives and guidelines. The DBSA has subsequently participated in National Infrastructure Maintenance Strategy meetings. Finally, the Division coordinated a Bank-wide review of the policy on provincial and local governments, which examined governance and institutional arrangements at subnational government level. This process included a dialogue with South African Women in Dialogue, the Women's Development Bank and the Independent Development Trust to solicit the views of civil society bodies led by women.

National Spatial Development Perspective (NSDP)

The DBSA assisted the Presidency in the revision and embedding of the principles of the NSDP, providing both technical inputs and funding assistance.

The inequitable space economy has long been acknowledged as one of the most divisive legacies of apartheid.

To address this problem, the Presidency initiated the NSDP in the mid-nineties, and reviewed it during 2005/06 to ensure its alignment with the objectives of promoting growth and reducing unemployment and poverty.

As a development finance institution, the DBSA recognises the centrality of spatial considerations. At the request of the Presidency, the Bank served as a member of the project steering committee and provided strategic inputs and information to the review process. After the review report had been accepted by Cabinet, the Presidency was mandated to ensure that the NSDP was implemented to improve the alignment of planning, programming and budgeting between the spheres of government and the departments, in particular through credible IDPs.

In 2006, the Presidency and the Department of Provincial and Local Government initiated a pilot rollout of the NSDP in 13 district municipalities, seeking to gain a better understanding of regional patterns of economic development, social exclusion and resource use to guide development decisions. The ultimate aim is for IDPs to be credible expressions of the developmental plans of all three spheres of government.

The DBSA provided strategic inputs and financial support to the pilot programme, in particular the completion of the work in two district municipalities (Pixley ka Seme and Ugu), joint "learning sessions" between the pilot municipalities, and the completion of the overall spatial analysis.

The pilot programme resulted in a shared analysis of growth and development in each area; a shared socio-economic vision among key stakeholders in the areas; the identification of priority interventions and critical strategies in the IDPs; and the building of an institutional base for multi-stakeholder cooperation and action.

The Bank has benefited from this collaboration through working in close alignment with key strategic clients; gaining insight into this strategic national imperative; applying that insight to improve its investment decisions, strategic initiatives and research; and engaging and potentially influencing the debate on spatial development.

Enhancing women's access to markets

The DBSA conducted a study on the barriers to the participation of women in the economy, which aims to inform targeted interventions in this regard.

Women workers and entrepreneurs cluster in informal markets and face particular barriers to formalising production. Their access to markets is influenced by their age, literacy, education, location, language and health. Policy interventions need to consider the factors that can make women entrepreneurs and workers more vulnerable, or less able to take advantage of economic opportunities.

The study underlines the problems of the "second economy" and the continuing marginalisation of the majority of the people – particularly women – largely on the basis of race. It provides critical information about the costs of gender inequality and the trade-offs implied, and explores options for bridging the divide between the first and second economies.

The results of the study informed a strategic framework for intervention programmes to be developed over the next three years. They will also assist policy-makers in creating incentives to reduce the number of intermediaries, increase the bargaining power of producers, and ensure that resource-poor producers have access to appropriate processing technology, storage and transport facilities.

Municipal health services research and advocacy

The DBSA funded research on municipal health services that gave government departments a new impetus to assist municipalities in providing such services.

From 1 June 2004, district municipalities and metros were required to provide environmental health services, now termed "municipal health services". However, the provision of these services by district municipalities evolved unevenly, owing to a lack of capacity and financing. In 2007/08, the Bank therefore funded research to assess how district municipalities deliver health services and what constraints they face, especially regarding funding and institutional capacity.

The main results of the study were as follows:

- A third of district municipalities still do not provide municipal health services, two years after they were required to do so. Some are not complying with the relevant legislative requirements.
- District municipalities generally opt to provide municipal health services themselves. The services are fairly well integrated into municipal planning processes, especially long-term ones. However, processes for the devolution of municipal health services are not fully developed and progress in this regard is patchy, although the Eastern Cape, Free State, Western Cape and, to a lesser extent, KwaZulu-Natal are doing well.
- As far as capacity is concerned, access to services has improved in some areas, such as transport, technical support and equipment for health practitioners, but staffing remains a problem, and only some 54% of district municipalities have accessed or plan to access the funding for these services provided for in the equitable share.
- Municipal health services do not appear to be evolving equitably, as less than half the district municipalities have service plans for underdeveloped areas.

The results were submitted to the Departments of Health and of Provincial and Local Government, and disseminated through a development dialogue with key stakeholders, including the Departments, the National Treasury, SALGA, research organisations and municipalities. As a result, key role players undertook to form a task team to deal with the matters impeding the implementation of municipal health services.

The study expanded the limited knowledge on municipal health services significantly, highlighting the gaps that remain in their provision. This will support measures to improve services and enhance people's health.

Data and information

The Division's data and information function stands in strong support of the Bank's various investment and development initiatives. During the year, the function's achievements included the following:

- Baseline databases were established for key strategic initiatives such as the Sustainable Communities programme, the Millennium Development Goals and the DBSA's development impact indicators, in order to facilitate future evaluations.
- Databases were created on various infrastructure sectors – education, energy, health, transport, water, sanitation and solid waste – to support the Bank's integrated development planning processes, as well as the updating of the Municipal Infrastructure Investment Framework (MIIF).
- Databases were maintained on demographics; national and regional economics; poverty and income; labour employment and unemployment and public finance.

Access to this information was enhanced through the development of an internal business portal, a one-stop source of operational information that complements the existing SADC, infrastructure, economics and knowledge portals. In addition, the Division developed the AsgiSA web-based National Skills Database for the Presidency and the Knowledge Hub for the Knowledge Management Africa initiative.

The Division also provided integrated information analysis in support of the Bank's developmental interventions. For example, it handled 727 internal and 200 external requests; supported operations with socio-economic profiles at regional, provincial and municipal level; and assisted other Divisions on a range of initiatives, such as Siyenza Manje, country and municipal risk assessments, the market segmentation project, the development agenda and the flagship research reports.

Externally, the Division supported a number of key initiatives, including the following:

- Department of Water Affairs and Forestry: validation of methodologies used to obtain data on water services backlogs
- Department of Provincial and Local Government IDP Nerve Centre: development of socio-economic information questionnaires and electronic templates as part of the automation of the IDP documents and systems
- National Treasury Working Group on Local Government Data: alignment of the questionnaires that National Treasury, Statistics South Africa and sector departments use to collect municipal information
- Department of Agriculture: data on the use of natural resources, land, energy and water in the SADC countries

Research overview (continued)

- NEPAD Secretariat: macroeconomic trend data for the Angola initiative and information on household subsidies and infrastructure backlogs for South Africa
- Department of Education, University of Pretoria and North-West University: demographic indicators for research projects
- GTZ Local Economic Development project: clarification and analysis of municipal economic data
- KfW ex-post evaluation of the DBSA credit line: socio-economic data for the 20 identified municipalities

One of the Division's major contributions to building the human and institutional capacity of municipalities is its Local Government Resource Centre (LGRC). The Centre provides municipalities with practical information on managing different functional areas, ranging from administration and financial management to procurement and performance management. To assist municipalities with their spatial planning initiatives, the LGRC provides GIS information that includes cadastral maps, aerial photos and satellite images. Currently, 263 nodes, of which 236 are municipalities, have direct access to the LGRC via the Bank's Local Government Network (LGNet).

Building statistical capacity to monitor sustainable development

In view of the limited statistical capacity in many municipalities, the DBSA initiated a programme to train municipal officials in the collection and analysis of socio-economic data.

The responsibility for compiling IDPs and local economic development strategies, and for monitoring the progress made in implementing them, has been devolved to district and local municipalities. This requires them to assess large volumes of socio-economic and related information. However, official information at municipal level is scarce and often outdated. Municipalities are under pressure from their constituencies to collect their own data to complement official sources, but many of them lack proper databases, systems and capacity.

To address these needs, the Division initiated a project to increase the statistical capacity of municipalities by providing them with basic training in data and information analysis, the identification of data gaps and the collection of data from their own systems and environment.

The Division conducted a pilot project at the Waterberg District Municipality in Limpopo, providing in-house training to middle managers in information collection and analysis to enable them to do sustainable development reporting.

The outcomes were very positive: municipal officials were highly satisfied with the range of information indicators covered in the training course and all trainees found the course very useful. Two other district municipalities in the province immediately asked to be included in the project, and lessons from the pilot were implemented in the rollout to these municipalities. Another 40 district municipalities are keen to participate.

Advisory function

The advisory function is a Bank-wide resource of highly skilled professionals with different areas of specialisation critical to infrastructure planning and development.

The function regularly scans the environment and develops sector perspectives and investment strategies to enrich the Bank's operational activities. In addition, the function promotes best practice in priority areas of intervention, by providing operational tools and guides for building capacity internally and externally, and facilitating knowledge-sharing forums in support of stakeholders' needs.

During the year, new sector strategies were formulated in the areas of mining, education, ICT and health impact assessment. The mining investment strategy assists the Bank in enhancing its regional development impact: it maps out project investment selection criteria and, based on those criteria, identifies a range of specific investment opportunities in South Africa and the SADC region. The health impact assessment guideline reviews related policy and practice, and outlines the approaches for mainstreaming health impact assessment into the Bank's appraisal modules, including the environmental, social, institutional and technical modules.

The case studies below review two best practice tools, the Municipal Services Financial Model and Infrastructure Investment Planning Guide, which form part of the ongoing support to the MIIF; an assessment of sustainability reporting practices in the development finance institutions of the SADC region; and knowledge-sharing events organised by the Division.

Municipal Infrastructure Investment Framework (MIIF)

The DBSA continued to reinforce government efforts to assist municipalities with planning for the sustainable delivery of services.

Since the mid-nineties, the DBSA, the Department of Provincial and Local Government, key sector departments and other stakeholders have been developing best practice tools to assist municipal service providers with planning and implementing sustainable services. The Division continues to be a major partner in this process.

A key initiative is support for the MIIF aimed at:

- Assessing the amount of multi-year capital required to meet the government's municipal infrastructure delivery targets, as well as the options for ensuring that sufficient finance is available to cover the capital cost
- Ensuring that infrastructure services are financially sustainable, i.e. that sufficient multi-year revenue is available to cover the related operating, maintenance and asset replacement costs
- Evaluating the efficacy of current policy and recommending any adjustments required to policies and strategies on financial and capacity support for the provision of basic services and affordable service levels
- Providing the basis for advising municipalities and other service providers on best practice in relation to infrastructure investment planning for improved service delivery

As part of its ongoing support to the MIIF, the Division reviewed the combined services model for municipal infrastructure investment and updated the associated guideline for infrastructure investment planning. Both the financial model and the new guideline take account of changes in the legislation, policies and best practice for municipal service delivery since 2002. Attention has been given to making the new model more user-friendly to encourage its use in municipalities, in addition to the upstream application for national modelling. The working documents have been structured to demonstrate the practical and training application of the tools through case studies, with detailed annexures provided where necessary.

Sustainability reporting for development finance in southern Africa

The DBSA partnered with key stakeholders in a pivotal assessment of sustainability reporting by development finance institutions in the region.

Only a few development finance institutions in SADC have adopted sustainability reporting. Yet there is plenty of information available and African financial institutions have many opportunities to become involved. Sustainability reporting allows institutions to integrate their vision, values and operations, and highlights the connections between natural, social and human capital, and the financial capital flows that arise from them.

The DBSA's discussion document on sustainability reporting, produced in partnership with Incite Sustainability and the Energy Research Centre at the University of Cape Town, contributes to the development of practices that reflect the creativity and knowledge of development finance institutions in sub-Saharan Africa. The report tracks the key sustainability initiatives in the financial sector, identifying three trends:

- Sustainability is rapidly being integrated into lending, investment and risk assessment criteria.
- Ethical indices and socially responsible investment funds are gaining credibility and attracting significant flows of capital.
- New carbon-related sectors, equities, products and services are emerging.

The findings suggest that, while SADC development finance institutions are interested in sustainability reporting, awareness and capacity will not grow optimally if they simply adopt the reporting formats of financial institutions in developed countries. A more valuable approach would be for these organisations to evolve their own frameworks, and the document articulates some fundamental principles in that direction. It also provides clear benchmarks: five leading financial sector sustainability reports from the IMF, Rabobank, FMO, Nedbank and African Bank Investments Limited.

The report identifies three critical issues to be considered in regard to sustainability reporting:

- How can sustainability reporting processes build the awareness and capacity of stakeholders, internally and externally
- What are the benefits and disadvantages of following international guidelines and reporting approaches adopted by leading institutions in developed countries
- How can a robust framework be created to guide African development finance institutions in their sustainability reporting efforts

Research overview (continued)

Knowledge-sharing forums

The DBSA regularly provides platforms for the sharing of knowledge with a range of stakeholders and partners, to build capacity in areas related to development.

In addition to the knowledge sharing reflected in the development impact overview, the Division hosted a successful Knowledge Week in November 2007 on the theme of "Inequality, Empowerment and Capacity". There was active participation by civil society organisations, the private sector, government departments and agencies, and the DBSA's internal units. In partnership with the Private Sector and International Investments Division of the Bank, an "Empowerment Day" was devoted to sharing BEE perspectives and experiences, and to debating optimal financing strategies.

The annual Knowledge Week is designed to advance the Bank's knowledge management objectives and highlight new developments for practitioners in southern Africa. It has come to represent a platform where knowledge creation, sharing and management are given physical form, as knowledge practitioners, both internal and external, debate topical development issues that affect the aspirations of South Africa and the region. For the Bank, the Knowledge Week provided a platform for sharing knowledge and an opportunity to learn from its partners and clients.

A consultative workshop on municipal infrastructure planning was convened in February 2008 to review the suite of best practice tools developed for planning infrastructure in support of sustainable, affordable municipal services. Delegates from municipalities, the Institute of Municipal Finance Officers, SALGA, provincial and national departments, the private sector, research institutes and the DBSA participated actively. They were taken through interactive documentation on the new planning guideline and financial model, and made helpful comments and recommendations for operationalising the tools.

Knowledge Management Africa

The second biennial Knowledge Management Africa (KMA) conference, with the theme "Knowledge to Remobilise Africa", was held successfully in Nairobi during July 2007. The organisation of the conference embodied one of the founding principles of KMA, which is partnerships with key institutions. Since the aim of the KMA is to bridge the gap between knowledge generation and policy-making and implementation, a high level of government participation was critical. The government of Kenya was represented at the highest levels, as were governments particularly from East Africa. Other participants included a range of institutions from across the continent involved in sectors such as development finance, commercial banking, research, education and training, and youth development, as well as parastatals and the non-governmental sector.

The KMA initiative has made considerable progress on key projects adopted at its first conference in 2005. The KMA Knowledge Hub, an online knowledge portal that will serve as a repository of development-related information in Africa, was launched, while two other projects, the African Centres of Excellence and Indigenous Knowledge Systems in Southern Africa, are progressing well.

The Nairobi conference confirmed the relevance and timeliness of the vision of KMA to be *"the knowledge engine driving appropriate development solutions for Africa"*.

The attendance of over 450 delegates from across Africa demonstrates that the continent is willing to explore alternative models for development, and KMA 2007 ended with a declaration that calls for specific action in a number of key areas. The African Regional Centre for Technology will be the anchor host of the 2009 KMA conference in Dakar, Senegal.

The year ahead

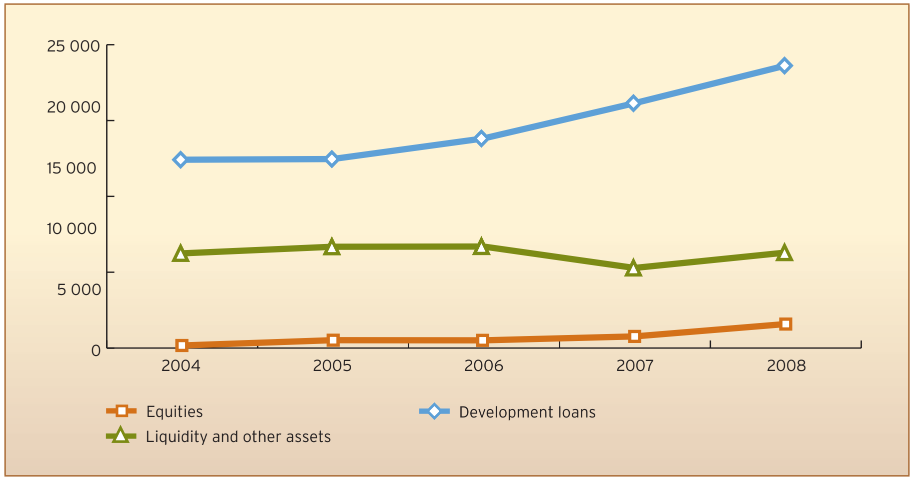
The Research and Information Division recognises the centrality of knowledge in the Bank's pursuit of Vision 2014. In the year ahead, the Division will strive to enable the Bank to improve its capacity to deliver sustainable development interventions, and to increase the development impact of such interventions. The Division will strengthen institutional and human capacity internally and externally by means of its targeted research, scenario planning and strategies, best practice implementation and information portals. To this end, the Division will continue to strengthen its data and information services by extending its new databases and information portals, thereby maximising the integration of socio-economic and infrastructure information into the Bank's internal and external interventions. In addition, given the complexity of the development challenges in South Africa and the region, the need for a dedicated policy capacity has been identified. The aim of this capacity is to inform the DBSA's decision-making around policy and planning, and through ongoing advocacy to influence external development policy processes.

Financial overview

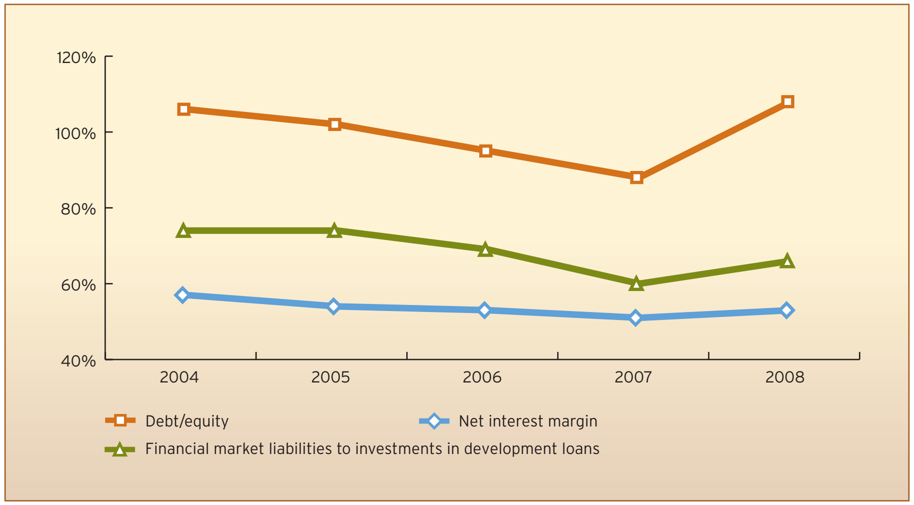
Finance

Group Chief Financial Officer:
Mr Pieter de la Rey

Accelerating asset growth to build the balance sheet and enable optimised leverage on strengthened balance sheet.



Growth of the balance sheet, 2003/04 to 2007/08



Financial ratios, 2003/04 to 2007/08

The financial performance of the Bank reflects its ability to manage and leverage its strong balance sheet efficiently in order to fund targeted initiatives that generate development impact, while also maintaining sound financial health. This year has seen an increase in operating expenses, driven mainly by the new development initiatives and the need to increase capacity, and a significant increase in disbursements driven by large-scale projects in targeted sectors. The Bank has increased its capacity around risk assessment in support of the growing private sector investments and the research and knowledge areas.

The financial performance reflects the market conditions during the year. These market conditions are set out on page 64 of the Annual Report.

Financial position

Total assets grew by 19,0% to R33,2 billion, owing mainly to the 19,3% growth in income-earning assets. Development loans have grown by 15,3% to R23,3 billion.

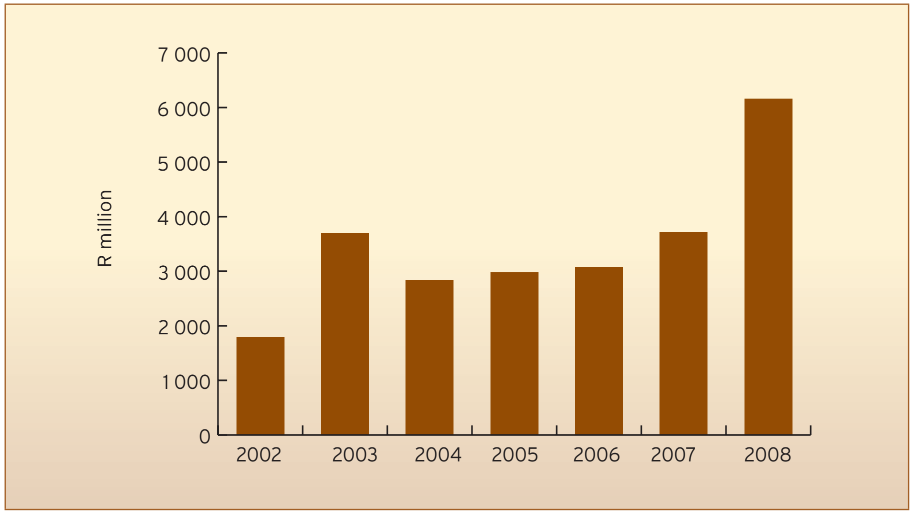
A key feature of the asset growth was the growth in equity investment, which doubled to R2,0 billion. The debt-to-equity ratio grew from 88,3% in the previous year to 107,6%, in line with the strategy to optimise leverage on the Bank's strengthened balance sheet.

Financial overview (continued)

Financial results

Effect of strategy to build capacity evident in increased disbursements and interest income

Net interest income grew by 16,4% to R1,5 billion, as a result of increased disbursements of development loans and equities.

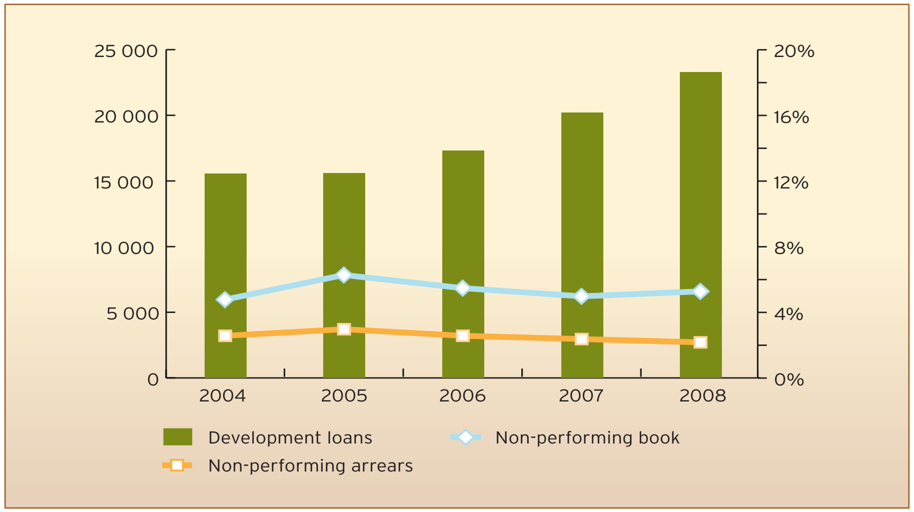


Disbursements, 2001/02 to 2007/08

The interest margin increased from 51,3% (2006/07) to 53,1% (2007/08). This ratio remains under pressure from various factors, including the following:

- The Bank has limited future access to concessional rates on new borrowings due to its financial strength (borrowing on the strength of its balance sheet), which emphasises the need for financial sustainability in order to maintain the existing credit rating.
- Simultaneously, there is a growing need for targeted lending at concessional rates to reach areas with significant infrastructure backlogs.
- Increased equity investments in support of start-up developmental projects are having an effect.

The impairment charge of R331 million (2006/07: R18 million) to the income statement reflects the increased overall loan book and the increased investment in the private sector. This is not unexpected and the respective non-performing ratios still remain within acceptable norms and significantly below target.

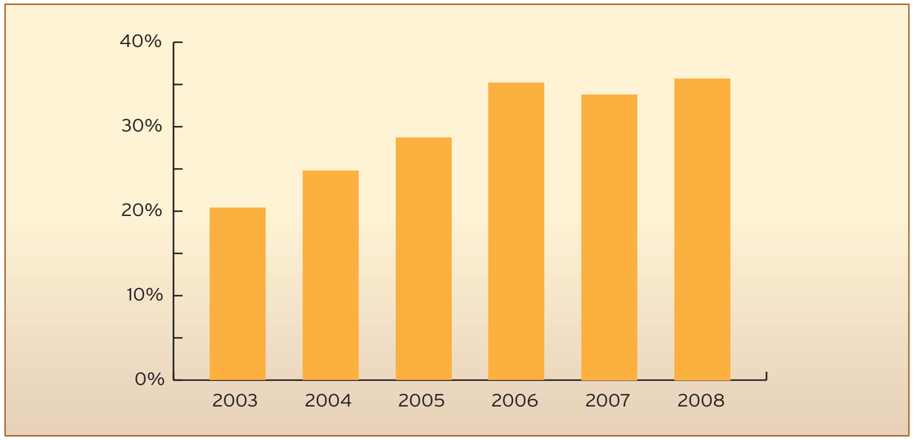


Quality of loan book, 2003/04 to 2007/08

Equity investments reflected a healthy return for the year.

Operating expenses at R589 million are below the expected levels; however, they reflect an increase of 16,9% over the previous year, in line with the Bank's capacity building strategy.

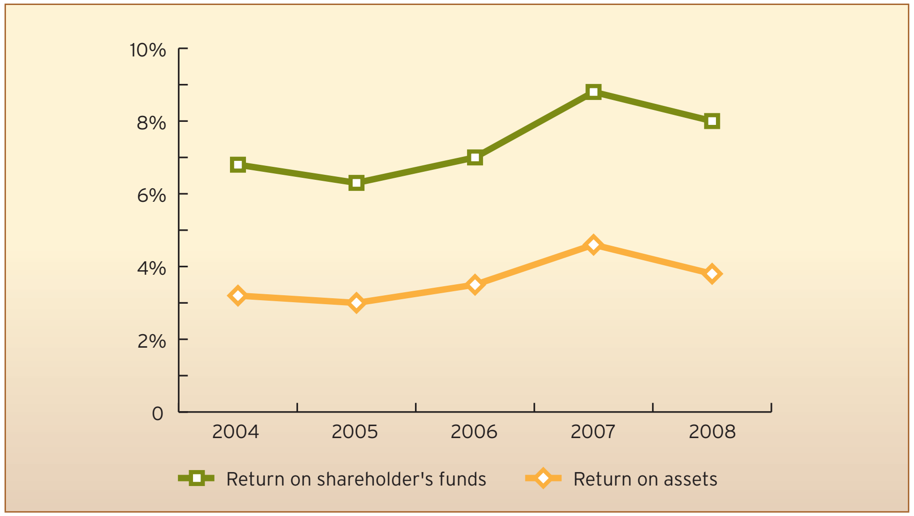
The cost-to-income ratio of 35,7% (2006/07: 33,8%) is well below the mandate of 45,0%, as a result of the increased interest income and the managed operating costs.



Cost-to-income ratios, 2002/03 to 2007/08

Return on assets and shareholder's funds maintained despite interest rate pressures in the market

Return on assets and return on equity remain managed at 3,8% and 8,0% respectively as the asset and equity bases have grown, and are projected to be maintained at these levels over the next few years.



Return on assets and on shareholder's funds, 2003/04 to 2007/08

The surplus from operations of R1,27 billion (2006/07: R1,28 billion) is attributable mainly to the increased net interest margins, the healthy equity investment returns and the managed operating expense levels.

The financial performance and disclosure requirements are reflected in detail in the annual financial statements from pages 83 to 154. For the first time, the Bank is also presenting, in the development impact and sustainability section of the report (pages 22 to 35), an analysis that differentiates between expenditure in support of investment activities and expenditure on non-income-generating development interventions.

Financial sustainability and strategy

In support of the Bank's strategic outlook, targets have been set for financial performance and sustainability, and these will be monitored through a number of key measures. The measures include the gearing ratio (debt to equity), cost-to-income ratio, return on shareholder's funds, return on assets, net interest margin and impairment ratios.

- *Gearing ratio:* Historically this ratio has moved between 85% and 100%. The ratio is also supported by healthy historic and projected cash flows from repayments and thus remains managed within those levels. Given the growing strength of the balance sheet and sustained healthy credit ratings (see Treasury report), gearing is projected at around 125% over the next three years to support the growing demand from loan disbursements.
- *Cost-to-income ratio:* The Bank is under pressure to broaden its activities within an expanded mandate, and in light of this the Board has decided that capacity should be increased. This is expected to impact on the ratio, which could reach 38–39% over the next three years, still significantly below the mandated level.
- *Return on shareholder's funds and return on assets:* These will remain managed around current levels.
- *Net interest margin:* The net interest margin remains under pressure, given the rising cost of funding as well as the increased investment in equity instruments. The Bank has modified its pricing mechanisms, while continuing to optimise its pricing to clients, and the margin is expected to remain close to current levels.
- *Impairment ratios:* While the Bank's overall strategy is to increase exposure to private sector intermediaries, the impairment ratio will remain managed below industry norms. In support of this, more attention is being paid to the Bank's credit risk governance structures (as reflected in the Chief Risk Officer's report).

The year ahead

The Bank will continue to increase spending on developmental interventions, while enhancing its own financial sustainability. The funding required for projected disbursements will be supported by the balance sheet, and high financial discipline will be maintained in line with the strategy.

To improve its forecasting and scenario planning, the Finance Division is implementing a fully integrated forecasting capability. This will allow for greater understanding and better management of performance over the medium and long term.

Financial overview (continued)

Treasury

Group Executive:
Mr Ernest Dietrich

Market conditions

The South African economy enjoyed another year of solid economic growth. However, signs of tougher business conditions began to emerge towards the end of the year under review. In response to high inflation growth, fuelled mainly by rising food and energy costs, interest rates have risen, leading market participants to expect a higher risk premium in the cost of financing.

Real GDP grew by 5,1% in 2007, marking the third consecutive year of growth above the 5% level. Fixed capital investment expanded at double digits and now constitutes just over 20% of total GDP, up from 15% five years ago. The pipeline of public and private sector projects coming on line in South Africa should be supportive of overall fixed investment growth over the next three years. Key risks to this prognosis are electricity supply constraints and weaker business confidence.

The South African Reserve Bank's repo rate increased by 200 basis points to 11% in 2007/08. The inflation trajectory remained on the high end, leading the Reserve Bank to continue warning about the need to maintain tight monetary policy. Whereas CPIX inflation averaged 4,9% in the previous financial year, it averaged 7,5% in 2007/08, which was above the Reserve Bank's 3–6% target band.

A weaker rand contributed to the build-up of imported inflationary pressures. For the second year in a row, the country's widening current account deficit (at 7,3% of GDP in 2007) contributed to undermining the performance of the currency. On a trade-weighted basis, the rand lost 19,4% in 2007/08, despite a period in which the United States dollar also depreciated meaningfully.

The local South African yield curve shifted up and steepened in the short end as higher inflation expectations mounted. The yield on the R157 benchmark government bond moved up by 143 basis points to end the financial year at 9,23%. The South African credit markets meanwhile held up relatively well against a difficult international backdrop, but were not entirely immune. The local market experienced a turning point during the latter part of 2007, mainly as a result of the rising interest rate environment. Spreads on new credit issues moved higher in both corporate and securitisation transactions, and issuance volumes were lower.

Treasury restructuring

The Treasury was reorganised in 2007/08 to create three units from the existing two:

- Capital markets (front office): responsible for managing liquidity funds, mobilising funds, and executing the risk strategy
- Asset and liability management: responsible for monitoring, assessing and reporting on market risk across the Bank, formulating the risk management strategy, and loan pricing
- Operations (middle and back office): responsible for back-office functions, accounting and financial reporting, risk exposure and limits monitoring, and compliance management

The rationale for the restructuring was to strengthen asset-liability management and Asset and Liability Committee (ALCO) processes; to ensure adequate segregation of risk management and risk taking; and to enhance back- and middle-office capacity.

Funds mobilisation

In addition to a new domestic bond issue, borrowings in 2007/08 comprised drawings on existing credit lines and the issuing of short-term money market paper, together with a short-term United States dollar bank facility. The rand equivalent of total new borrowings for the financial year amounted to R2,96 billion, net of repo transactions.

The Bank, as an established issuer, also has ready access to the domestic capital markets. The Bank's domestic medium-term note (DMTN) programme registered with the Bond Exchange of South Africa remains available and allows for relatively quick exchange-listed debt issuance, in both short-to-medium and longer-term maturities. The DMTN programme was updated in the first quarter of 2008, with the authorised amount raised from R5 billion to R15 billion. The programme was further revised to allow the Bank increased flexibility through an expansion of the range of instruments available for issuance.

In February 2008, R1,0 billion of the new DV22 bond (maturing 7 February 2020) was issued at a coupon rate of 9,45%. Whereas the spread to the government benchmark was, as anticipated, significantly above recent DV bond spreads, relative to swaps the spread was well within the Development Bank's historic funding range.

The Bank also issued short-term money market paper and call bonds, which were well received in the market, considering that liquidity was unusually tight at the time and that the DBSA had not issued paper for a considerable period.

Total liquidity gross of funds raised through bond repurchase transactions averaged R4,4 billion, with a year-end figure of R4,7 billion. Liquidity at financial year-end consisted of cash and money market instruments of R2,5 billion, corporate bonds of R212 million, and government bonds amounting to R1,97 billion.

Credit ratings

The Bank is rated on a national scale by Fitch Ratings, and on an international scale by Moody's Investors Service and by Standard and Poor's. During the year under review, all three agencies retained their ratings and outlooks for the Bank, as reflected in the table below.

Latest credit ratings

		Short term	Long term	Outlook
Fitch Ratings	National	F1+(zaf)	AAA(zaf)	Stable
Moody's Investors Service	Foreign currency issuer		A2	Positive
Standard and Poor's	Foreign currency	A-2	BBB+	Stable
	Local currency	A-1	A+	Stable

Governance and management overview

Corporate governance

Corporate Secretary:
Mr Bernard Mhango

Governance principles

The DBSA Board of Directors is committed to complying with the recommendations of the King II Report and the Protocol on Corporate Governance in the Public Sector. The Directors also subscribe fully to the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice. The Bank is committed to the highest standards of integrity and ethical conduct, and to open and transparent governance that gives its shareholder and other stakeholders the assurance that it is being managed ethically in line with best practice, applicable legislation and predetermined risk parameters.

Organisational repositioning

During the year, the Bank reviewed its governance structures as part of ongoing alignment with the new corporate strategy to enhance flexibility in decision-making and operational efficiency. It also revised its framework for delegation of authority, issued in terms of the Development Bank of Southern Africa Act, No. 13 of 1997, to ensure appropriate decision-making aligned to organisational changes.

The DBSA recognises the importance of integrating corporate governance issues into the project appraisal framework as a key factor in measuring the success of investment in the region. As part of its advocacy role, the Bank, in conjunction with the Organisation for Economic Cooperation and Development (OECD), has started developing case studies that profile best practice in corporate governance among state-owned entities in the region. This initiative will be presented at the first SADC Corporate Governance Policy Dialogue scheduled for the second half of 2008. The policy dialogue targets policy-makers and government departments responsible for exercising oversight with regard to state-owned entities.

Strategic objectives and performance management

The Board sets the Bank's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of those objectives, within appropriate risk parameters. The Board is tasked with monitoring the achievement of set objectives and compliance with policies through a comprehensive system of monitoring and reporting to the Board through Board Committees. Although the South African government is its sole shareholder, the Bank enjoys operational autonomy in the management of day-to-day operations.

To enhance accountability in line with the Public Finance Management Act (PFMA), the Board has concluded a Shareholder Compact with the government, which sets the key targets against which the shareholder annually assesses the Board and the Bank's performance.

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

Ethics management

The Bank reviews the Code of Ethics annually in light of new business and legal developments. The Code commits Directors, executive management and staff to high standards of ethical conduct in their dealings with clients and stakeholders. It also covers the Bank's contractors and suppliers of goods and services.

The DBSA Development Fund has adopted its own Code of Ethics, whose provisions are broadly aligned with those of the Bank. The adoption of a separate code arose mainly from the need to harmonise ethics and business standards in view of the growing number of professionals deployed to municipalities under the Siyenza Manje programme.

The Bank's policy on declarations of outside interest helps to safeguard the organisation against the reputational risks of actual or perceived conflicts of interest on the part of the Board, management and staff, in line with the PFMA and the DBSA Act. As part of its ongoing application of this policy and in order to enhance transparency, the Bank automated the declarations of interest, making them accessible to the whole organisation. In addition, its procurement policy contains stringent control measures to minimise abuse, fraud and corruption; these are constantly monitored by the Internal Audit function.

Internal control environment

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

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

Fraud prevention and whistle-blowing

Bank employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices to the Ethics and Fraud hotline, which is managed by an independent external service provider. This complies with the requirements of the Protected Disclosures Act, No. 26 of 2000, by creating an environment in which it is safe for employees to report impropriety. The whistle-blowing policy adopted in 2005 articulates the procedures for raising concerns where employees have reasonable grounds for suspecting improper conduct within the DBSA group.

The Bank conducted a pilot training programme on whistle-blowing for members of staff and officials from client municipalities. During the year under review, all reports received through the hotline were investigated by Internal Audit and no significant breaches of internal controls were reported.

Governance structures

Shareholder linkages

The Bank is accountable to its shareholder, the South African government, and to Parliament in terms of the DBSA Act. As Governor of the Bank, the Minister of Finance represents the shareholder's interests, determines the Bank's mandate, and holds the Board of Directors accountable for managing the Bank to deliver on this mandate. In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in February 2007. This serves as an agreement between the Bank and the shareholder and documents the key performance measures and targets against which the organisation is assessed.

Board of Directors

The constitution and business of the Board of Directors are governed by the DBSA Act and its Regulations, and the relevant provisions in the PFMA and the Companies Act. Currently, the Board consists of 16 members, of whom 15 are non-executive and 13 independent. The Chief Executive Officer is the sole executive Director. The Board is chaired by Mr Jay Naidoo, an independent non-executive Director. Representatives from the National Treasury and the Office of the Presidency serve on the Board as shareholder representative Directors. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and non-executive Directors.

The DBSA Board of Directors was reconstituted in August 2007 following the expiry of tenure of eight Board members on 31 July 2007. To ensure continuity, four of the members were reappointed and four new appointments were made by the shareholder on 1 August 2007. The current composition of the Board and brief résumés of the Board members can be found on pages 6 to 10.

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

Directors' appointment and evaluation

The DBSA Act charges the shareholder with appointing the Directors of the Board based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Board needs to provide a range of skills and expertise to assist the Bank in meeting its objectives, while also being demographically representative. Under the oversight of the Human Resources, Remuneration and Nominations Committee, the Board invites nominations for appointments, produces shortlists and makes recommendations to the Minister for approval.

Directors are appointed on a performance contract of three years and are eligible for reappointment depending on performance. The Act also allows the Board to co-opt persons with special knowledge to its committees. The Bank has revised the contracts it enters into with co-opted members of its Board Committees to spell out clearly what is expected of them.

The Board Charter outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance.

Board Committees

In terms of section 10 of the DBSA Act, the Board is required to form the subcommittees necessary for carrying out its fiduciary responsibilities. In line with principles of the King II Report, it must set formal terms of reference for the subcommittees to ensure effective decision-making, monitoring and reporting. These are reviewed periodically, along with the overall effectiveness and performance of the committees.

In June 2007, the Board finalised an assessment of its effectiveness and that of its committees. It found effective leadership at both Board and committee level, but noted that improvements were required with regard to the quality of information supplied to the Board and Board Committees, as well as Board remuneration.

The five committees, discussed individually below, all have formal, written terms of reference that are reviewed periodically. All the Board Committees have the power to transact on the Board's behalf. In line with best practice, they all report to the subsequent meeting of the Board and table any resolutions for ratification by the Board. The Board Charter and the terms of reference of all the committees require members to declare their interest in any matter at the beginning of each meeting. Should they have actual or potential conflicts of interest, the Directors are required to recuse themselves and take no further part in the proceedings.

The Directors believe that, apart from declarations in the register, the Bank has not undertaken any transaction in which the Directors had a material, financial or significant interest during the year. A list of related-party transactions involving Board members is provided on page 134.

Audit Committee

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

The Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations, and ethics management. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures. Its role is closely aligned with the functions of audit committees of public entities prescribed by the PFMA.

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

Finance Committee

The Finance Committee oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank's overall financial health and sustainability. The Committee also reviews performance targets recommended by management.

The Committee provides strategic direction on the Bank's asset and liability management activities within the defined risk appetite in order to strengthen its financial position in pursuance of its development mandate. The Committee has six members and is also chaired by Dr Len Konar. It is supported by the Asset and Liability Management and Finance Management Committees.

Investment Committee

The role of the Investment Committee (formerly known as the Credit Committee) was redefined as part of the review of the governance framework. The Committee's mandate was broadened from considering credit extensions of up to R300 million only, to vetting project applications previously considered by the Board. This should free up time for the Board to consider strategic issues, subject to the enhanced reporting mechanisms that have been established. In addition to credit and investment approvals, the Committee reviews the Bank's credit strategy; credit risk management programme; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board. The Committee is supported by the Corporate Credit Committee.

The broader mandate makes it necessary to broaden the skills base of the Committee, particularly with regard to credit risk management, project finance, legal requirements and treasury management. A plan to accomplish this has been approved and will be implemented in 2008/09.

Upon retirement of the previous incumbent, Ms Wendy Lucas-Bull, who formerly chaired the Human Resources, Remuneration and Nominations Committee, was appointed Chairperson of the Investment Committee. Also appointed to the Committee during the year were Prof. Omar Latiff, Ms Tryphosa Ramano and Mrs Thembisa Dingaan. The Investment Committee has eight members, two of whom are co-opted.

Knowledge Strategy Committee

This Committee consists of five Directors and three co-opted members. It oversees the implementation of the knowledge management strategy approved in 2001, and its focus has been refined to ensure the integration of knowledge management products within the Bank. The Committee serves as a sounding board for key corporate knowledge publications and research products. During the year, its terms of reference were expanded to include oversight over the enhanced research and information activities of the Bank, the dissemination of lessons learnt and the operations of the Vulindlela Academy. The Committee is chaired by Dr Lulu Gwagwa, a non-executive Director, and is supported by the Corporate Knowledge Management Committee.

Human Resources, Remuneration and Nominations Committee

This Committee was formerly known as the Remuneration Committee. Its mandate has been broadened to include overseeing human resource policies (previously the domain of the Knowledge Strategy Committee) and nominating new Directors. The Committee approves the philosophy and framework for the remuneration of non-executive Directors, staff and management. It is also responsible for appointing executive managers and monitoring their performance, and assists the Chief Executive Officer in this regard. The Committee is chaired by Mr Ivan Mzimela, an independent non-executive Director who took over from Mrs Wendy Lucas-Bull during the year under review. It has three other non-executive members, and the Chief Executive Officer is an invited member.

Board and committee composition and record of attendance

The Board met six times during 2007/08. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown on page 70, while the Bank's committee decision-making structure is reflected on page 71.

Governance and management overview (continued)

DBSA Board and Committee composition and record of attendance at meetings, 2007/08

	DBSA Board		Audit Committee		Finance Committee		Investment Committee		Knowledge Strategy Committee		Human Resources, Remuneration and Nominations Committee	
Number of meetings	6		4		2		9		4		4	
Mr J Naidoo	Chair	6									✓	4
Mr P Baloyi	✓	6	✓	4	✓	2	✓	9	✓	3	✓	4
Mr A Boraine	✓	6							✓	2		
Prof. B Figaji	✓	5					✓	4			✓	1
Mrs T Dingaan[1]	✓	3	✓	4	✓	2	✓	3				
Mr T Fowler	✓	4										
Mr L Fuzile	✓	5										
Ms N Gasa[2]	✓	3							✓	2		
Dr L Gwagwa	✓	3							Chair	4		
Dr D Konar	✓	5	Chair	3	Chair	2					✓	3
Prof. O Latiff[1]	✓	3	✓	2	✓	1	✓	2				
Mrs W Lucas-Bull[3]	✓	5					Chair	6			✓	4
Dr C Manning	✓	6					✓	8				
Mr I Mzimela[4]	✓	3									Chair	1
Ms T Ramano[1]	✓	2	✓	1	✓	2	✓	2				
Prof. E Webster[1]	✓	3							✓	1		
Members co-opted to Board Committees[5]												
Dr R Kfir									✓	3		
Mr JB Magwaza							✓	3				
Mr JR Modise			✓	3	✓	0						
Mr O Mlaba									✓	1		
Mr M Silinga									✓	4		
Mr Z Titus							✓	8				

✓ *Depicts membership of the Board and relevant Board Committee.*

1. *Appointed to the DBSA Board on 1 August 2007.*
2. *Appointed to the Knowledge Strategy Committee on 22 February 2007.*
3. *Appointed as Chairperson of the Investment Committee on 1 November 2007.*
4. *Appointed to the DBSA Board on 1 August 2007 and as Chairperson of the Human Resources, Remuneration and Nominations Committee on 22 October 2007.*
5. *The DBSA Act allows for the Board to co-opt any person with expert knowledge to any of its Committees.*

The following Board members retired during the year upon expiry of their tenure of office: Dr I Abedian, Ms T Chikane, Ms L Msengana-Ndlela and Mr S Nondwangu.

Corporate Secretary

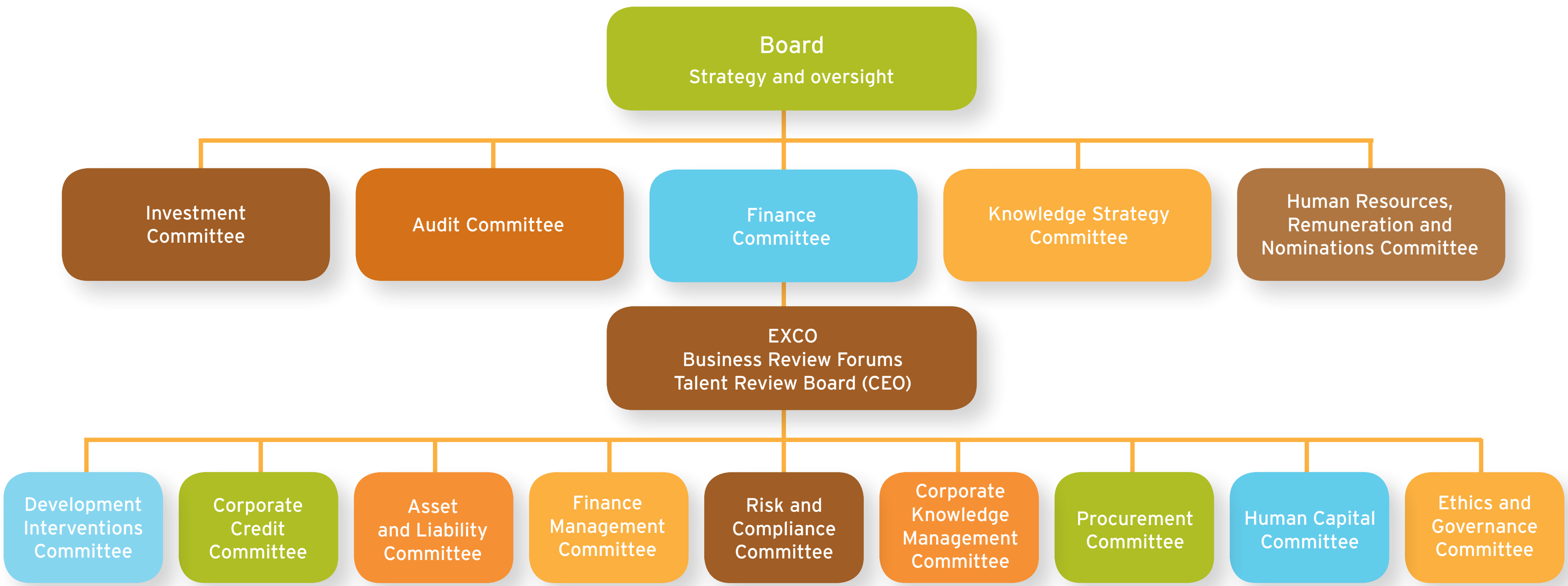
All Directors have access to the advice and services of the Corporate Secretary. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act. The DBSA has lodged with the National Treasury all such returns as are required of public entities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

Directors' remuneration policy

The Minister of Finance, in his capacity as the shareholder representative, approves the remuneration of non-executive Directors on recommendation of the Human Resources, Remuneration and Nominations Committee. With the exception of the Chairman of the Board and chairpersons of Board Committees, Board members are paid on the basis of their contribution and attendance of meetings. As prescribed by the DBSA Act, Board members are remunerated for providing strategic guidance to management outside normal Board and committee meetings. Additionally, they are compensated for expenses actually incurred on account of the Bank's business. The Chairman of the Board and the chairpersons of committees are paid an approved monthly retainer in addition to attendance fees. With respect to shareowner representative Directors (ex officio), no remuneration is payable.

Board remuneration is benchmarked periodically against comparable financial services organisations, in order to ensure that the Bank can attract and retain the skills required to deliver on its mandate. Details of all the fees and expenses paid to Board members during the year are shown on page 138.

DBSA decision-making structure



Governance and management overview (continued)

Human Capital and Technology

Group Executive:
Mrs Loyiso Ndlovu

Strategic overview

As a development finance institution, the DBSA operates in a changing landscape that is characterised by the scarcity of critical development finance skills. To improve the Bank's execution capacity and increase its competitive advantage in attracting, retaining and building its human capital capability, at both strategic and sustainable levels, the Human Capital and Technology Cluster employs a three-lever strategy focusing on people, processes and systems. This human capital strategy, which is underpinned by the vision, mission and culture of the organisation, is discussed below in relation to three aims:

- Developmental resonance through alignment
- Leveraging human capital
- Building the employer brand

Developmental resonance through alignment

During the year, the Bank undertook a substantial review of human capital management philosophies, policies and frameworks to strengthen the organisation's internal alignment on these issues. The Cluster developed or refined a range of human capital policies, procedures and guidelines to provide a comprehensive framework that will assist the Bank in delivering on its mandate efficiently and effectively. This has resulted in more focused human capital management, including improved recruitment processes to ensure the attraction and retention of the "right people for the right jobs". For example, by decentralising human capital management through the appointment of Heads of Human Capital, the span of control of executive management was improved across the Bank while the provision of human capital support was strengthened. This provides the Bank with a platform for improved human capital decision-making at all levels.

The Cluster also focused on instilling a new understanding of the culture architecture among executive leaders. With a common leadership voice emphasising the importance of living the culture of the Bank, a change in behaviour is already being measured within the performance management framework. This will be extended so that staff at all levels are held more accountable for their contribution to the organisational culture.

Leveraging human capital

The Bank always strives to strengthen its ability to deliver on its mandate. In this regard, a review of skills and competencies was required to identify and deal with gaps. The structural human capital review outlined above was therefore augmented by an assessment of the Bank's current capacity and future skills needs. As a first step, competency profiles were compiled at a divisional level (a similar exercise at organisational level will follow).

In addition, various training and development interventions were undertaken, while the Bank continued to provide staff with opportunities for learning and growth, within the organisation and outside it. The Bank has also committed itself to working with other development finance institutions on talent management issues to ensure a growing pool of skills in development finance.

Building the employer brand

Another aspect of attracting and retaining the right people for the right jobs is appropriate reward and recognition mechanisms. The Bank has reviewed its reward and recognition policies and introduced a revised total reward model to promote behaviour in support of its developmental agenda. This includes a long-term reward horizon for employees who seek to invest in the Bank over a longer period and who demonstrate appropriate levels of capability and delivery. In its recruitment, therefore, the Bank focused on projecting an appropriate brand to attract the best people.

Both the Development Bank and the DBSA Development Fund have increased their staff complements, with many employees and especially Siyenza Manje deployees working off site. This required the Bank to improve its remote connectivity services through the application of mobile ICT. A comprehensive technology solution was put in place to extend the DBSA "office" to deployees located at municipalities; this service is being refined continually. For "office-bound" employees, the Bank has adopted an open-plan solution to improve the use of the available space and accommodate the increase in staff numbers. The premises are also being upgraded to establish high-class facilities and a conducive work environment. The upgrade includes additional parking, an extension of the auditorium and a new canteen. These improved working conditions have had a positive impact on the culture of the organisation with regard to productivity and collaboration.

Regarding governance and control, the Bank has developed a number of policies to reinforce information and personal security in line with the Promotion of Access to Information Act, No. 2 of 2000; the Regulation of Interception of Communications and Provision of Communication-related Information Act, No. 70 of 2002; and the Occupational Health and Safety Act, No. 85 of 1993. By protecting the integrity of its information and human capital asset base, the Bank has strengthened the platform for professional and organisational integrity and depth.

Operations overview

People: The decentralisation of the human capital function required a refinement of the operational support model to define the roles and responsibilities for human capital management among the Heads of Human Capital, Human Capital Consultants and Administrators, Unit Managers and Executive Managers. The model defines a dual reporting line for the Heads of Human Capital to the relevant Executive Manager and the Human Capital Manager, as they fulfil a specialised and decentralised role on corporate human capital functions.

Processes: The focus this year was on strengthening the Bank's governance and execution platform through the revision of the policy framework. This included an assessment of the robustness of business process and IT partnerships and platforms to support the operational imperatives of the organisation. Building on the establishment of a dedicated Business Processes Unit in 2006/07, this year the Cluster focused on integrating the value chain processes of the Bank through the development of the business architecture. This architecture, which is a key strategic integration tool, provides an understanding of business processes, and makes it possible to plan thoroughly and find operational solutions to the business challenges arising from major changes. As such, it forms part of the Bank's change management capability. During 2007/08, the Cluster set baseline and threshold measurements to benchmark operational processes against performance targets. Additional measures were identified to enable regular assessment of improvements. A new initiative, the New Operational Support System (NOSS), was also established to improve the core operational processes of the value chain.

Systems: NOSS will contribute to the integration of operational supporting technologies. Again, the focus will be on leveraging existing synergies and augmenting these to ensure more efficient operations. In addition, the following IT initiatives undertaken this year stand in support of creating a sustainable and stable operations environment:

- IBM blade servers were procured to house the Bank's main systems and enhance their availability.
- A disaster recovery site was commissioned (and is tested regularly).
- Additional capacity was added to the communications infrastructure to improve connectivity for Siyenza Manje deployees.
- A secure wireless network was installed in the Bank.

The year ahead

The Bank will continue to focus on enriching, extending and enabling human capital. The skills assessment undertaken during 2007/08 will inform the search for key developmental competencies. The current recruitment drive is a short-term measure to assist the Bank in delivering on its vision. However, the Bank is committed to the longer-term development of its human capital; this will remain a key focus in the coming years. In addition, the decentralisation of the human capital function will be implemented fully in the year ahead.

On the technology and systems side, the Bank will pursue three strategic objectives:

- Implementing the first phase of the NOSS
- Refining IT governance
- Improving mobility by addressing the connectivity challenges facing Siyenza Manje deployees in rural municipalities

Finally, the Bank will continue with the implementation of the strategic space planning project to reconfigure and refurbish the existing facilities. During 2008/09, the final phase of this project will attend to security and the management of assets.

Risk management

Group Risk Assurance

Group Executive:
Mrs Leonie van Lelyveld

Strategic overview

As a development finance institution, the DBSA plays a particular role in the financial markets, specifically in addressing both institutional and market failure. Early in 2006, the Bank foresaw the tightening of market conditions that has recently become evident. We are pleased that the strengthening of the Bank's risk management environment over the past 18 months has had the desired effect on the overall management of its portfolio.

The Bank has expanded its roles of financier, advisor and partner to include those of implementer and integrator. This more hands-on approach to development entails an increase both in the range and complexity of risks that the Bank faces and in its risk appetite. During the year, the Bank therefore focused on enhancing its capacity to identify and assess risks more accurately, and to mitigate and manage them more effectively, thus ensuring that it remained financially viable and sustained its interventions.

Objectives of risk management

In this context, risk management aims to ensure that:

- The Bank makes sustainable interventions, and therefore achieves the desired development objectives and outcomes
- The Bank remains financially strong, and is able to leverage this strength to broaden and deepen development impact

Risk management framework

Governance structure

In line with the principles of best practice and good corporate governance, the Board of Directors is accountable for the management of risk in the DBSA. The Board's Audit Committee is mandated to oversee the implementation of the Bank's enterprise-wide risk management framework. The Board and its Committees are assisted by the Group Risk Assurance Division.

The Bank reviewed its approach to risk management in 2006. Central to the new approach was the philosophy that risk management is an enterprise-wide activity involving every employee. While the ownership of risk management rests with the operational units that take the risk, the Bank also recognised the need for an expanded central function to provide assurance in all areas of risk, particularly credit, market and operational risk. The creation of the Group Risk Assurance Division as a centre of excellence in risk management was the first step towards this more comprehensive approach. The new Division consists of five units – Credit Risk, Operational Risk, Workout and Recovery, Legal Services, Group Compliance. In order to maximise the coordination between the risk assurance functions, Internal Audit works closely with

the Division, while retaining its independent reporting lines to the Chief Executive Officer and the Board.

An enterprise risk management framework was also developed and approved. This distinguishes between three spheres of risk management – governance, assurance and control – and the associated functions that contribute to the effective management of risk throughout the organisation.

This year, the Division focused on institutionalising the expanded enterprise risk management model by acquiring new skills; finalising policies, procedures, models, systems and reporting mechanisms; and inculcating the new culture of decentralised ownership of risk management.

The decentralised risk management model requires the operational units to build their capacity for managing risk as an essential part of their day-to-day activities, with the support and oversight of the Group Risk Assurance Division. The Bank's central assurance functions continue to monitor risk exposures and provide consolidated reporting to management and the Board, thereby ensuring that risk management is thorough and effective.

Regulatory environment

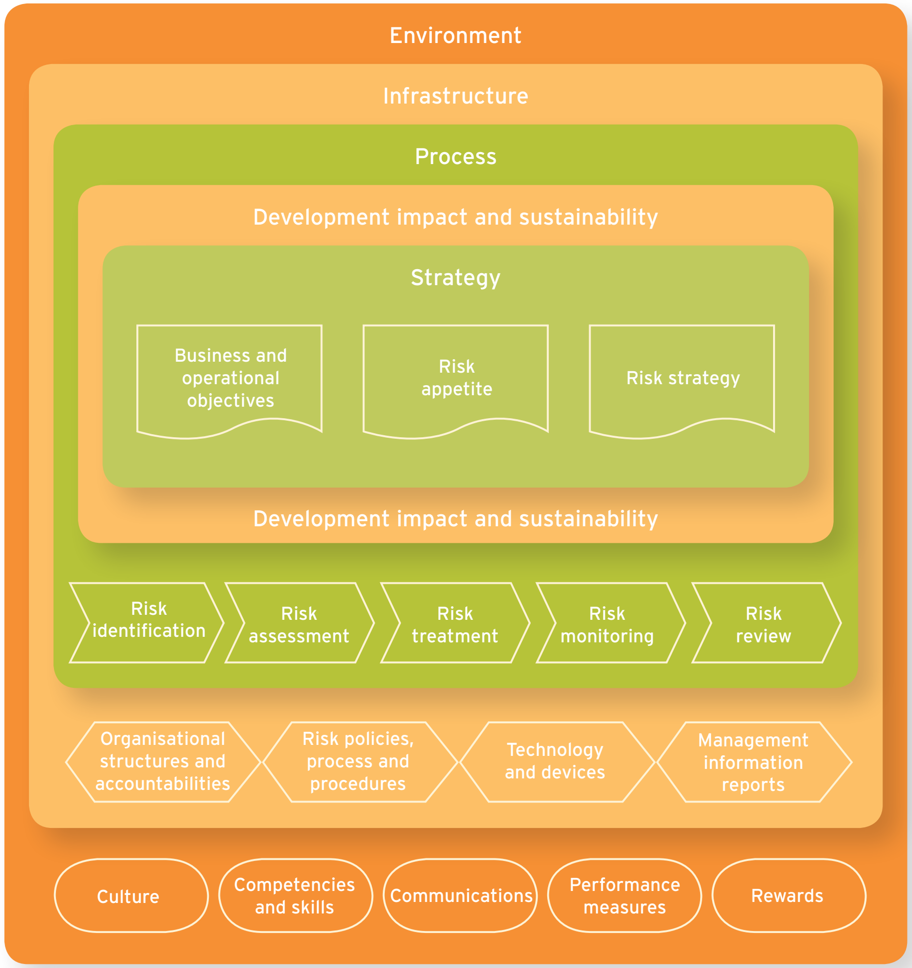
The DBSA is not regulated under the Banks Act and is therefore not formally obliged to comply with Basel II, as are registered banks. However, as a leveraged financial institution, prudence requires it to maintain the same levels of risk management, particularly with regard to capital. Accordingly, the Bank has implemented a Capital Adequacy Management framework, which was approved by the Board. In line with Basel II, it is also considering the adoption of the capital-at-risk (economic capital) model to:

- Ensure a more precise assessment, measurement and management of risk and capital requirements based on transaction and counterparty-specific information
- Provide a common metric for comparing credit, market and operational risk
- Allow for the aggregation of exposures across risk types and lines of business
- Align its processes with Basel II (Pillar 2) regulatory requirements

The DBSA's approaches to Basel II principles are under review, but at year-end were as follows:

- Standardised approach for credit risk
- Basic Indicator approach for operational risk
- Internal Models approach for market risk

Overview of the enterprise risk management framework



Strengthening risk management throughout the enterprise

If the Bank is to attain its strategic goals, risks must be managed proactively and effectively. To this end, the Board endorsed the implementation of the enterprise risk management approach, which allows for a holistic view of the strategic, business and operational risks faced by the Bank in all its activities. The approach needs to be embedded in management processes, while accountability for reducing vulnerability to risks must be entrenched at all levels of the organisation.

Risk management (continued)

The enterprise risk management framework builds on the progress made in institutionalising the Integrated Risk Management framework adopted in 2001. It also draws on more recent principles and practices in this regard as expressed in the regulatory requirements and codes of excellence for banking institutions.

The framework allows the Bank to:

- Apply risk management in setting its strategy for achieving development impact and financial sustainability in relation to the risk appetite
- Integrate risk management activities into its business processes
- Build an enabling infrastructure for risk management
- Create a conducive environment for risk management
- Embed a culture of risk awareness among all employees through effective communication and performance measures

Credit risk management

Credit risk governance

The Board of Directors has delegated operational responsibility for the management of credit risk to its Investment Committee.

The Board Investment Committee is supported by an internal, management-level Corporate Credit Committee. The latter Committee has been strengthened so that it can approve credit and investment facilities within the limits of its delegated authority and facilitate quality risk decisions at the Board Investment Committee level.

Within the Group Risk Assurance divisional structure, the Credit Risk Unit reports to the Chief Risk Officer and is responsible for formulating credit risk policy, developing models for the assessment and monitoring of credit risk, and monitoring and reporting on the overall risk profile of the Bank's investment portfolio and operational risk within the credit process. During the year under review it also continued to provide an independent risk opinion on each credit or investment application.

The Development Bank addresses post-signature risk management through asset and portfolio management, and also provides turnaround support to distressed and defaulting clients.

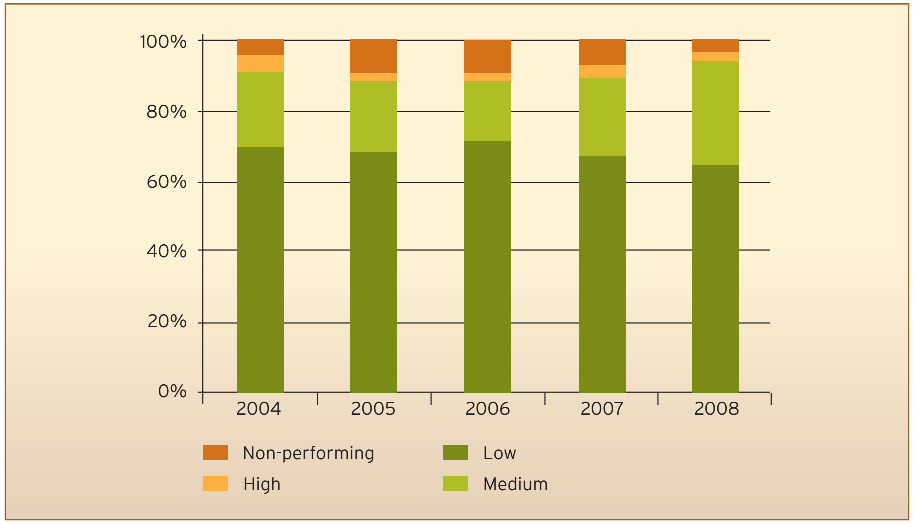
The Workout and Recovery Unit has increased its capacity to support non-municipal clients and has provided proactive support to distressed clients in the operational units, in addition to assisting with the rehabilitation of defaulters. The Bank requires collateral in various forms, based on the risk grading of the borrower. Estimates of the fair value of such collateral are based on the value assessed at the time of borrowing, and are monitored on an ongoing basis to ensure fair value of all security.

Strengthening credit risk management

During the year under review, emphasis was placed on enhancing the governance structures, as described above, along with the policies, procedures and systems for managing credit risk effectively. In conjunction with the operational units, the Credit Risk Unit updated the credit risk policy regarding collateral requirements; credit assessment; risk grading; concentrations of exposure to counterparties, countries and sectors; and documentary, reporting and legal procedures. The assessment and monitoring of credit were also strengthened by enhancing the existing rating models and tools, and introducing new models. The Bank is now able to understand and mitigate the risks inherent in new business with greater rigour, and to improve the overall credit risk management of its entire investment portfolio.

Risk within the loan portfolio

The Bank's total loan portfolio remains well within the acceptable tolerances for credit risk. Reviewed over several years, the overall portfolio shows neither significant changes in the quality of credit nor noticeable trends in strategic risk migration, as evidenced by the graph on page 62 and the risk profile below.



Risk profile of the total book debt, 2003/04 to 2007/08

The graph indicates a gradual shift in the profile towards the higher end of the risk continuum, in line with the imperative to broaden the impact through less capacitated intermediaries. However, as described above, the Bank has enhanced the risk management processes to accommodate its risk taking activities.

Borrowers classified as non-performing or in default accounted for approximately 5,2% of the total outstanding book debt at 31 March 2008 (4,9% in the previous year).

Over the years, the Bank has increased its exposure to private sector intermediaries from an average of between 19% and 21% of the loan portfolio (2002/03 to 2005/06) to 23% (2006/07 and 2007/08). Investment in this portfolio responds to specific areas of market failure: the Bank aims to play a catalytic role, promoting investment in sectors where it would not occur without the involvement of a development finance institution. Due to the inherent susceptibility of this portfolio to adverse market and economic conditions, the private sector portfolio has been placed on special watch, with specific interventions being implemented to identify distresses in the portfolio and ensure timeous intervention where required. Although non-performing loans have increased marginally year-on-year in line with the growth of the asset portfolio, the Bank has been successful in rehabilitating high-risk assets and turning them into performing assets. This demonstrates its ability to build the capacity of entities vulnerable to both market and institutional failure.

Further detailed disclosure is contained within the financial risk management note to the annual financial statements.

Operational risk management

The DBSA uses "operational risk" to refer to strategic and reputational risk, as well as risks related to human resources, legislative and regulatory requirements, processes and systems, and business continuity.

Established at the beginning of the period under review and now fully capacitated, the Operational Risk Unit coordinates regular risk identification exercises and updates across the Bank. The Unit works closely with the Internal Audit Unit to identify processes with inherent risks, enabling the audit function to assist management in improving the system of internal controls. Management retains the responsibility for effective and efficient systems of internal control to manage risks, ensure compliance with the relevant legal and internal requirements, and prevent or detect fraud. Internal Audit provides independent assurance to the Board, the Audit Committee and management on the effectiveness of such controls.

The Operational Risk Unit provides ongoing support to the Development Bank to ensure the appropriate oversight and mitigation of operational risk, especially in Divisions that face higher levels of risk, such as Human Capital and Technology, and Capacity Development and Deployment. In the new financial year, the Bank will implement the Cura risk management software package on a pilot basis, with full implementation scheduled for September 2008. It will also continue implementing the Business Continuity Management strategy, including emergency evacuation drills, the testing of IT disaster recovery procedures, and the development of detailed plans at unit level. Finally, the Bank has set up a separate Group Compliance Unit in the Group Risk Assurance Division to oversee compliance activities and strengthen the management of regulatory risk.

Market risk

Given the nature of the DBSA's activities, the main market-related risk arises from movements in interest rates. The Board recently approved an interest rate limits structure that introduces limits for net interest income and the market value of equity.

In addition, the detailed risk management strategy approved during the year precisely defines strategies and instruments for containing interest rate risk exposures within acceptable boundaries.

Further detailed disclosure is contained within the financial risk management note refered to below.

Risk reporting

The Bank's risk reporting has been extended to meet IFRS 7 requirements, as shown in the notes to the financial statements on pages 92 to 156.

The Bank's risk exposure remained within acceptable limits over the past year. Details are contained in the Directors' report on pages 83 to 87.

The year ahead

The enterprise risk management framework provides a platform for appropriate processes, accountabilities and assurance covering all aspects of the Bank's risk management. Recruiting, developing and retaining top professionals was a significant element of the risk strategy in 2007/08 and will remain so in the new year.

The key focus areas for building the risk management capabilities of the organisation for the next financial year will include the following:

Risk management (continued)

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

Annual financial statements

Contents

Development Bank
of Southern Africa

Directors' responsibility for financial reporting

The Directors are responsible for overseeing 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 the period presented in this report.

In preparing the financial statements:

- The Development Bank of Southern Africa Limited Act, No. 13 of 1997, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adopted.

In order to fulfil this responsibility, and to enable the Directors to meet their financial reporting responsibilities:

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

The Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls and auditing and financial reporting matters. The joint external auditors have unrestricted access to the Audit Committee.

Based on the information received from management and internal and external auditors, nothing has come to the attention of the Directors to indicate a material breakdown in the systems of internal control during the 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 83 to 156 were approved by the Board of Directors on 19 June 2008 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Paul Cambo Baloyi
Managing Director

D Konar

Deenadayalen Konar
Chairman of the Audit Committee

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2008.

The Audit Committee members and attendance are reflected on page 70 in the corporate governance statement.

Audit Committee responsibility

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

s51(1)(a)(ii) of the PFMA states the following:

(a) The accounting authority must ensure that the public entity has and maintains:

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

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

The effectiveness of internal control

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

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

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

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

Evaluation of financial statements

The Audit Committee has:

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

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

D Konar

Deenadayalen Konar
Chairman of the Audit Committee

Independent auditors' report to the Minister of Finance

Report on the financial statements

We have audited the financial statements of the Development Bank of Southern Africa, which comprise the balance sheet at 31 March 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 83 to 156, excluding the performance information on pages 83 to 85.

Accounting Authority's responsibility for the financial statements

The Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and the Companies Act of South Africa, sections 284 to 303 and schedule 4. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa at 31 March 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and by the Companies Act of South Africa, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act.

Report on other legal and regulatory requirements

Reporting on performance information

We have completed our assurance engagement regarding the performance information as set out on pages 83 to 85.

Responsibilities of the Accounting Authority

The Accounting Authority has additional responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the performance against predetermined objectives that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

We conducted our assurance engagement in accordance with section 13 of the Public Audit Act, 2004 read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 (the General Notice).

In terms of the foregoing, our engagement included performing procedures of an assurance nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. Our procedures performed included those contained in the General Notice and such other procedures as we considered necessary in the circumstances.

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

Findings

Based on our work performed, we have not identified any material shortcomings in the processes, systems and procedures of the entity's reporting against predetermined performance objectives.

KPMG Inc.

Registered Auditor

Per S van den Boogaard
Chartered Accountant (SA)
Registered Auditor
Director
5 August 2008
KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

Gobodo Inc.

Registered Auditor

Per L Govender
Chartered Accountant (SA)
Registered Auditor
Director
5 August 2008
1st Floor, Block B Empire Park
55 Empire Road
Parktown
Johannesburg

Directors' report

The Directors have pleasure in presenting this report as part of the annual financial statements of the DBSA for the year ended 31 March 2008.

Nature of business

The DBSA is a development finance institution wholly owned by the South African government. The Bank aims to deepen development impact in the southern African region by expanding access to development finance and effectively integrating and implementing sustainable development solutions.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 83 to 156. The financial highlights for the year under review are:

- Net interest income increased by 16,4% (2006/07: 9,9%) and realised operating income of R2,23 billion (2006/07: R1,84 billion).
- The cost-to-income ratio increased slightly from 33,8% to 35,7%.
- The Bank earned a profit from operations of R1,27 billion in the year under review (2006/07: R1,28 billion).
- During the year under review, the Bank disbursed development loans amounting to R6,16 billion (2006/07: R3,70 billion).
- The quality of the loan book remains within acceptable parameters, with non-performing loans amounting to 5,2% of the total loan book (2006/07: 4,9%), while the provision for loan impairment is R589 million (2006/07: R440 million).
- The long-term debt-to-equity ratio increased to 107,6% (2006/07: 88,3%).

High-level performance overview

The strategy of the Bank emphasises the importance of achieving development impact while maintaining financial sustainability. The Bank uses the Balanced Scorecard (BSC) methodology to implement this strategy. In terms of this methodology, the corporate strategic objectives and targets are developed and approved by the Board of Directors, and progress against these objectives and targets is assessed on a regular basis. The table below reflects the high-level corporate strategic objectives for 2007/08, as well as performance against them.

The Bank achieved considerable success in the year under review, largely meeting its strategic objectives. This reflects its commitment to delivering on its vision of a region progressively free of poverty and dependence.

Performance information

Balanced Scorecard perspective: Development impact

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure; and promote broad-based economic growth, job creation, regional integration and prosperity	Provide assistance for our clients' social and economic infrastructure projects	Commitments: Total value of commitments	R5,1 billion	R8,9 billion
		Disbursements: Total value of disbursements	R3,9 billion	R6,2 billion
		% of commitments that were converted to disbursements in the financial year	70%	76%
		Municipal Infrastructure Grant Fund: Total value implemented into projects as a result of DBSA intervention	R2,0 billion	R2,57 billion
		Co-funding ratio (DBSA: Co-funding)	1:1,3	1:3,2
	Provide assistance to previously disadvantaged groups to accelerate their participation in the mainstream economy	% of total value of loans, grants and equity approvals granted to identified target groups	21%	40%
	Originate, appraise and develop new projects in identified sectors	Number of new approved projects originated by the DBSA	12	15

Build human and institutional capacity	Provide development grants; project management and project implementation expertise; planning, financial management and asset management expertise; training, mentoring, coaching and skills transfer to enhance our clients' institutional capacity	Number of external learners trained	2 000	2 676
		Number of project managers appointed, trained in the Development Fund and deployed in municipalities with acute needs	100 over 3 years	154
		External clients' satisfaction with the Bank's delivery on its major capacity building initiatives	Satisfaction level of 3,5	4,4

Balanced Scorecard perspective: Development sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development finance scene, in the areas of development expertise, effectiveness and sustainability; effective corporate governance; and financial sustainability	Market perception of the Bank's image in the development finance scene	Rating of 3,6	4,2
		Quality of the implemented research agenda	Rating of 3,7	4,2
		Number of innovative projects, interventions and/or products piloted	6	6
		Number of lessons learnt: case studies submitted to and approved by the Knowledge Committee	17	17

Balanced Scorecard perspective: Financial sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender internal financial sustainability	Secure financial sustainability by managing income and the direct cost thereof	Net interest income as a % of total interest income	Minimum of 55%	53%
		Number of new financial products/instruments developed	2	2
	Apply integrated risk management to mitigate business risks	Non-performing loan arrears as a % of total book debt	Maximum of 4%	2,1%
		Non-performing book debt as a % of total book debt	Maximum of 5,7%	5,2%
	Apply policies and systems of financial management, administration, planning and governance that collectively ensure ongoing financial sustainability	Cost-to-income ratio	37%	35,7%

Balanced Scorecard perspective: Business processes

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender internal financial sustainability	Deliver high levels of client service	Client and partner satisfaction with the value, quality and relevance of expertise offered by the DBSA	Rating of 3,5	4,2

Balanced Scorecard perspective: Learning and growth

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender internal financial sustainability	Maintain appropriate levels of competent, motivated and empowered staff to achieve strategic objectives	Staff competency levels	90% of staff trained in line with their Division/ Cluster training programme	81,6%
	Optimise and leverage our knowledge and intellectual capital to add value to our clients, partners and stakeholders	Staff satisfaction with internal knowledge management	Satisfaction level of 3,2	3,9
	Develop an ICT capability that enables streamlined efficiencies and easy access	Staff satisfaction with all aspects of the Bank's ICT to information	Satisfaction level of 3,2	3,3

Dividend

A Rnil dividend (2006/07: Rnil) has been declared for the current financial year.

Share capital

There were no changes to the authorised and issued share capital of the Bank.

Going concern

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

Borrowing powers

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

Directorate and Secretariat

The names of the members of the Board of Directors and the Secretariat appear on pages 6 to 11.

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

Directors' report (continued)

Details of the Directors' service contracts are as follows:

		Period	
Name	**Position**	**From**	**To**
Mr J Naidoo	Chairperson	24 August 2000	31 July 2008
Mr P Baloyi	Chief Executive Officer and Managing Director	1 July 2006	31 July 2011
Mr A Boraine	Non-executive Director	1 August 2005	31 July 2008
Mrs T Dingaan	Non-executive Director	1 August 2007	31 July 2010
Prof B Figaji	Non-executive Director	1 August 1997	31 July 2009
Mr T Fowler	Non-executive Director	1 August 2004	31 July 2010
Mr L Fuzile	Non-executive Director	1 July 2006	31 July 2009
Ms N Gasa	Non-executive Director	1 August 2003	31 July 2009
Dr L Gwagwa	Non-executive Director	1 August 2004	31 July 2010
Dr D Konar	Non-executive Director	1 August 2001	31 July 2009
Prof O Latiff	Non-executive Director	1 August 2007	31 July 2010
Mrs W Lucas-Bull	Non-executive Director	1 August 2005	31 July 2008
Dr C Manning	Non-executive Director	1 August 2005	31 July 2008
Mr I Mzimela	Non-executive Director	1 August 2007	31 July 2010
Ms T Ramano	Non-executive Director	1 August 2007	31 July 2010
Prof E Webster	Non-executive Director	1 August 2007	31 July 2010
Dr I Abedian	Non-executive Director	1 August 2001	31 July 2007
Ms T Chikane	Non-executive Director	1 August 2004	31 July 2007
Ms L Msengana-Ndlela	Non-executive Director	1 August 2004	31 July 2007
Mr S Nondwangu	Non-executive Director	1 August 2004	31 July 2007

The details of the Directors' interests in related party transactions and Directors' emoluments are set out respectively in notes 32 and 38 of the financial statements.

Business and registered address

Details of the Bank's business and registered address appear on page 157.

Events subsequent to balance sheet date

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

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

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

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

iii. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business; none of these was material.

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

Balance sheet

at 31 March 2008

in thousands of rands	Notes	2008	2007
Assets			
Cash and cash equivalents	15	**2 313 803**	890 357
Other receivables	16	**114 930**	168 839
Investment securities	17	**2 902 469**	3 704 714
Investments under resale agreements	18	**1 089 008**	640 374
Derivative assets held for risk management	19.1	**1 086 651**	872 007
Post-retirement medical benefits investment	20	**72 002**	74 175
Home ownership scheme loans	21	**19 208**	21 203
Equity investments	22	**2 041 427**	1 025 485
Development loans	23	**23 288 329**	20 197 036
Property and equipment	24	**316 424**	279 996
Intangible assets	25	**2 046**	3 716
Total assets		**33 246 297**	27 877 902
Liabilities			
Other creditors	26	**486 629**	497 459
Liability for funeral benefits	27.1	**3 509**	3 371
Liability for post-retirement medical benefits	27.2	**195 769**	172 204
Medium- to long-term funding debt securities	28.1	**9 199 167**	7 281 303
Medium- to long-term funding lines of credit	28.2	**5 499 019**	4 223 367
Funding under repurchase agreements	29	**1 862 054**	1 137 685
Derivative liabilities held for risk management	19.2	**220 277**	24 282
Total liabilities		**17 466 424**	13 339 671
Equity			
Share capital	30.1	**200 000**	200 000
Retained earnings		**10 904 976**	9 746 769
Permanent government funding	30.2	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	30.3	**196 558**	191 079
Hedging reserve	30.4	**9 914**	13 251
Reserve for general loan risks	30.5	**721 102**	613 420
Fair value reserve	30.6	**(45 021)**	(18 632)
Total equity		**15 779 873**	14 538 231
Total liabilities and equity		**33 246 297**	27 877 902

Income statement

for the year ended 31 March 2008

in thousands of rands	Notes	2008	2007
Interest income	7.1	**2 853 603**	2 545 947
Interest expense	7.2	**(1 338 115)**	(1 243 424)
Net interest income		**1 515 488**	1 302 523
Net fee income	8	**54 096**	46 807
Net foreign exchange gain	9	**37 515**	159 291
Net gain from financial assets and liabilities	10	**545 997**	185 699
Other operating income	11	**79 108**	142 303
		716 716	534 100
Operating income		**2 232 204**	1 836 623
Grants		**(46 295)**	(32 102)
Net impairment loss on financial assets	12	**(331 192)**	(17 925)
Personnel expenses	13	**(398 363)**	(346 798)
Other expenses	14	**(184 688)**	(151 378)
Depreciation and amortisation	14.1	**(5 777)**	(5 648)
Profit for the year		**1 265 889**	1 282 772

Statement of cash flows

for the year ended 31 March 2008

in thousands of rands	2008	2007
Cash flows from operating activities		
Profit for the period	**1 265 889**	1 282 772
Adjustments for:		
Depreciation and amortisation	**5 777**	5 648
Grants paid	**46 295**	32 102
Dividends received	**(61 431)**	(86 227)
Realised capital gain	**(13 967)**	(49 783)
Profit on sale of non-current assets	**–**	(2 726)
Net foreign exchange gain	**(33 798)**	(159 291)
Net gain from financial assets and liabilities	**(519 676)**	(180 166)
Impairment on financial assets	**331 192**	19 129
Net interest income	**(1 515 488)**	(1 302 523)
	(495 207)	(441 065)
Change in other receivables	**34 917**	(68 788)
Change in other assets	**1 995**	(4 037)
Change in other creditors	**(46 829)**	(111 553)
Change in provisions	**23 703**	41 184
	(481 421)	(584 259)
Interest and dividends received	**3 218 473**	2 292 015
Interest paid	**(1 302 119)**	(1 233 131)
Net cash from operating activities	**1 434 933**	474 625
Cash flows from development activities		
Development loan disbursements	**(5 375 403)**	(3 557 786)
Development loan principal repayments	**2 014 262**	1 325 819
Increase in equity investments	**(367 653)**	(51 335)
Grants paid	**(46 295)**	(32 102)
Net cash used in development activities	**(3 775 089)**	(2 315 404)
Cash flows from investing activities		
Purchase of property and equipment	**(30 750)**	(2 695)
Proceeds from the sale of property and equipment/non-current assets	**–**	5 913
Movement in financial market assets	**146 303**	232 556
Net cash from investing activities	**115 553**	235 774
Cash flows from financing activities		
Financial market liabilities repaid	**(243 476)**	(66 452)
Financial market liabilities raised	**3 754 617**	1 047 416
Net cash from financing activities	**3 511 141**	980 964
Net increase/(decrease) in cash and cash equivalents	**1 286 538**	(624 041)
Effect of exchange rate fluctuations on cash held	**136 908**	60 401
Movement in cash and cash equivalents after exchange rate effect	**1 423 446**	(563 640)
Cash and cash equivalents at the beginning of the year	**890 357**	1 453 997
Cash and cash equivalents at the end of the year	**2 313 803**	890 357

Statement of changes in equity

for the year ended 31 March 2008

in thousands of rands	Share capital	Retained earnings	Permanent government funding	Revaluation reserve on land and buildings	Hedging reserve	Reserve for general loan risks	Fair value reserve	Total capital and reserves at the end of the period
Balance at 1 April 2006	200 000	8 545 642	3 792 344	115 109	19 511	531 775	14 275	13 218 656
Fair value movements of cash flow hedges	–	–	–	–	(6 260)	–	–	(6 260)
Fair value adjustment of available-for-sale financial market instruments	–	–	–	–	–	–	(32 907)	(32 907)
Profit for the year	–	1 282 772	–	–	–	–	–	1 282 772
Transfer to revaluation reserve on land and buildings	–	–	–	75 970	–	–	–	75 970
Transfer to reserve for general loan risks	–	(81 645)	–	–	–	81 645	–	–
Balance at 31 March 2007	200 000	9 746 769	3 792 344	191 079	13 251	613 420	(18 632)	14 538 231
Fair value movements of cash flow hedges	**–**	**–**	**–**	**–**	**(3 337)**	**–**	**–**	**(3 337)**
Fair value adjustment of available-for-sale financial market instruments	**–**	**–**	**–**	**–**	**–**	**–**	**(26 389)**	**(26 389)**
Profit for the year	**–**	**1 265 889**	**–**	**–**	**–**	**–**	**–**	**1 265 889**
Transfer to revaluation reserve on land and buildings	**–**	**–**	**–**	**5 479**	**–**	**–**	**–**	**5 479**
Transfer to reserve for general loan risks	**–**	**(107 682)**	**–**	**–**	**–**	**107 682**	**–**	**–**
Balance at 31 March 2008	**200 000**	**10 904 976**	**3 792 344**	**196 558**	**9 914**	**721 102**	**(45 021)**	**15 779 873**

Notes to the financial statements
for the year ended 31 March 2008

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

2. Basis of preparation
2.1 Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on 19 June 2008.

2.2 Basis of measurement
The financial statements have been prepared on the historical cost basis except for the following:
- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Land and buildings are measured at fair value.
- Post-retirement medical benefit and funeral benefit obligations are measured at actuarial values.
- Equity investments are measured at fair value.

The methods used to measure fair values are discussed further in note 3.8.

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:
- Note 3.1.6 – valuation of financial instruments
- Note 3.2.3 – depreciation and the useful lives of property and equipment
- Notes 17, 18, 19, 28 and 29 – valuation of financial instruments
- Note 22 – valuation of equity investments
- Note 23 – measurement of the recoverable amounts of development loans
- Note 24.2 – valuation of land and buildings
- Note 27 – measurement of funeral benefit obligations and post-retirement medical benefit

The Bank's risk management policies and procedures are disclosed in the risk management section starting on page 74 of the Annual Report.

3. Significant accounting policies

3.1 Financial instruments

3.1.1 Financial assets

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

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

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

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

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

Subsequent to initial recognition, the fair values of financial assets are based on quoted bid prices, excluding transaction costs (refer to policy note 3.8.4).

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

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

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

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

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

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

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment as per policy note 3.1.8 and 3.1.9.

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

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

3.1.1 Financial assets (continued)

Held-to-maturity financial assets

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

The only class of financial asset classified as held to maturity is investments in municipal and government bonds.

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

Available-for-sale financial assets

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

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

3.1.2 Financial liabilities

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

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds, net of transaction costs incurred.

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Financial liabilities at fair value through profit or loss

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

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

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

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

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

Financial liabilities at amortised cost

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

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

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

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

3.1.3 Derivative financial instruments

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

Qualifying derivatives

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (see accounting policy on hedge accounting).

Non-qualifying derivatives

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

Embedded derivatives

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

3.1.4 Measurement of financial instruments

All loans and receivables, held-to-maturity investments and all financial liabilities except for those held at fair value through profit or loss and those that form part of an effective fair value hedge, are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Subsequent to initial recognition all assets and liabilities held at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

3.1.5 Derecognition

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

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

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

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

3.1.6 Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either:
- A hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge)

A hedging relationship exists where:
- At the inception of the hedge there is formal documentation of the hedge
- The hedge is expected to be highly effective
- The effectiveness of the hedge can be reliably measured
- The hedge is highly effective throughout the reporting period
- For hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss

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

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to accounting note 3.8 below).

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

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

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

Hedge of monetary assets and liabilities

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

3.1.7 Repurchase and resale agreements

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

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

3.1.8 Offsetting of financial instruments

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

3.1.9 Impairment of financial instruments

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

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

Available-for-sale financial instruments

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

Loans and advances and held-to-maturity investments

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

Calculation of recoverable amount

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

3. Significant accounting policies (continued)

3.1 Financial instruments (continued)

Reversals of impairment

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

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

Impairment of development loans

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

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

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

3.1.10 Impairment of non-financial assets

Assets that have an idenfinite useful life are not subject to amortisation and are tested annually for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset.

3.1.11 Cash and cash equivalents

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

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

3. Significant accounting policies (continued)

3.2 Property and equipment

3.2.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings which are stated at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued on an annual basis.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss. When revalued property and equipment are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3.2.2 Subsequent costs

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in profit or loss when incurred.

3.2.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings	40 years
• Fixtures and fittings	10 years
• Office equipment	5–10 years
• Motor vehicles	4 years
• Computer equipment	3 years

The residual values and useful lives of assets are reviewed at each balance sheet date and adjusted if appropriate. If the carrying amount of the asset is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

3.3 Intangible assets

3.3.1 Recognition and measurement

Intangible assets that are acquired by the Bank, and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software and the direct costs associated with the customisation and installation thereof, are capitalised and amortised over the lesser of the useful life of the asset or three years.

3.3.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

3. Significant accounting policies (continued)

3.3 Intangible assets (continued)

3.3.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

• Computer software	3 years

3.4 Share capital and reserves

3.4.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

3.4.2 Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank.

3.4.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not occurred.

3.4.4 Fair value reserve

The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments.

3.4.5 Reserve for general loan risks

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. A risk review process for all clients is conducted twice per annum. The reserve for each risk category is calculated as follows:

• Low risk	3%
• Medium risk	5%
• High risk	7%

Any adjustment to the reserve is recognised as a movement directly between retained earnings and the reserve for general loan risks.

3.4.6 Revaluation reserve on land and buildings

This reserve represents the valuation adjustment recognised on the revaluation of land and buildings.

3.5 Revenue

Revenues described below represent the most appropriate equivalent of turnover. Revenue is derived substantially from the business of development activities and comprises interest income and interest expense.

3.5.1 Interest income and interest expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

3. Significant accounting policies (continued)

3.5 Revenue (continued)

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- Interest on available-for-sale investment securities on an effective interest basis
- The effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income/expense

Interest excludes the effect of interest rate hedges, which is included under the revaluation of financial instruments line.

Where non-performing financial assets have been impaired, interest income continues to be recognised to the extent that the asset is not impaired on the original effective interest rate.

3.5.2 Fees and commission

Fees and other income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, is recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.6 Foreign currency translations

Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Bank, financial statements are presented in South African rand, which is the Bank's functional currency.

Foreign exchange gains and losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

3.7 Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.8 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3. Significant accounting policies (continued)

3.8 Determination of fair values (continued)

3.8.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed by an independent quantity surveyor using the income capitalisation approach.

3.8.2 Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Equity investment valuations are based on the underlying value of the net assets within the investment vehicles concerned. These valuations are calculated based on the financial statements provided by the directors of the investee companies.

3.8.3 Post-retirement medical benefits investment

The fair value of the post-retirement medical benefits investment is based on the listed market price.

3.8.4 Fair value determination

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, as reflected in the table under note 6.

Capital market securities
In the case of instruments for which actively quoted market prices are available the fair value of financial instruments is based on the quoted market price at balance sheet date, without any deduction for transaction costs. Where actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

Derivatives
The fair value of forward exchange contracts is determined through discounting the contractual future cash flows at the relevant market curves and netting off at the ZAR spot exchange rate as at balance sheet date.

The fair value of interest rate and cross-currency swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and foreign exchange rates and the creditworthiness of the respective swap counterparties. The fair value of derivatives that are not exchange-traded is estimated using discounted cash flow valuation methods with inputs limited, to the extent possible, to market observable data.

Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Interest-bearing loans and borrowings
The fair value of interest-bearing loans is determined through discounted cash flow analyses using market-derived discount rates as at balance sheet date.

Interest rates used for determining fair value
The Bank uses market-derived discount curves as at balance sheet date. Future cash flows are based on contractual cash flows, and where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply.

3.9 Provisions

Provisions are recognised when the Bank has a present legal or contructive obligation, as a result of past events, for which it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provision is made for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

3. Significant accounting policies (continued)

3.10 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

3.11 Employee benefits

3.11.1 Defined contribution plans

Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

3.11.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in profit and loss immediately.

3.11.3 Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3.11.4 Short-term benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.11.5 Home ownership scheme

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 Ltd have entered into an agreement whereby Nedcor Bank Ltd administers the loan scheme on behalf of the Bank. The loans are held at amortised cost less impairment losses.

Notes to the financial statements (continued)

for the year ended 31 March 2008

3. Significant accounting policies (continued)

3.12 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control. Items are classified as commitments when the Bank commits itself to future transactions with external parties.

3.13 Other operating income

Fees that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee income (appraisal, commitment, guarantee and penalty fees) is recognised as the related services are performed.

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

3.14 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 and no benefit is derived.

A full set of financial statements has been prepared in a separate Annual Report for the Development Fund.

3.15 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 and adjusted in the financial statements.

Those events that are indicative of conditions that came into existence after balance sheet date are not adjusted for.

3.16 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.

3.17 Related parties

The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Bank.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Bank.

3. Significant accounting policies (continued)

3.17 Related parties (continued)

Other related party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

3.18 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2008, and have not been applied in preparing these financial statements:

- IAS 1 (AC 101) amendment – Presentation of financial statements
- IAS 23 (AC 114) – Borrowing costs
- IAS 32 (AC 125) – Financial instruments: Presentation
- IAS 1 (AC 101) amendment – Presentation of financial statements: Puttable financial instruments and obligations arising on liquidation
- IFRS 2 (AC 139) amendment – Share-based payment: Vesting conditions and cancellations
- IFRS 8 (AC 145) – Operating segments
- IFRIC 12 (AC 445) – Service concession arrangements
- IFRIC 13 (AC 446) – Customer loyalty programmes
- IFRIC 14 (AC 447) – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The effect of implementing these standards has not yet been determined.

4. Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates (see 2.4).

These disclosures supplement the commentary on financial risk management (see note 39).

5. Segment reporting

A segment is a distinguishable component of the Bank that is either providing related products or services (business segment) or is providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on geographical segments. It represents the classification of the Bank's development loans in different geographical markets.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Enabling services (unallocated items) comprise mainly treasury activities, corporate assets and expenses.

Geographical segments

The Bank's development loan portfolio is managed in South Africa, but the clients and projects are located in different countries. Thus, the Bank's geographical segment is classified into South Africa and SADC countries other than South Africa.

Business segments

The Bank's secondary segment is business and has been determined according to the type of client as follows:

- Private sector clients
- Public sector clients

Notes to the financial statements (continued)

for the year ended 31 March 2008

	South Africa		SADC (excluding South Africa)		*Corporate services		Total	
in thousands of rands	2008	2007	2008	2007	2008	2007	2008	2007
5. Segment reporting (continued)								
Primary segments								
Income	**1 824 992**	1 533 491	**1 272 645**	935 881	**472 682**	610 675	**3 570 319**	3 080 047
Interest income on development loans	**1 725 447**	1 514 629	**586 402**	467 112	**–**	–	**2 311 849**	1 981 741
Interest income on investments	**5 611**	–	**293**	–	**535 850**	564 206	**541 754**	564 206
Non-interest income	**45 607**	122 256	**81 193**	60 023	**6 404**	6 831	**133 204**	189 110
Other income	**48 327**	(103 394)	**604 757**	408 746	**(69 572)**	39 638	**583 512**	344 990
Net foreign exchange gain/(loss)	**–**	(205 356)	**95 821**	304 246	**(58 306)**	60 401	**37 515**	159 291
Net gain/(loss) from financial assets and liabilities	**48 327**	101 962	**508 936**	104 500	**(11 266)**	(20 763)	**545 997**	185 699
Grants	**(43 585)**	(16 544)	**(45)**	(5 185)	**(2 665)**	(10 373)	**(46 295)**	(32 102)
Expenses	**(1 400 384)**	(945 639)	**(409 657)**	(411 494)	**(448 094)**	(408 040)	**(2 258 135)**	(1 765 173)
Interest expense	**(1 088 533)**	(853 320)	**(249 582)**	(390 104)	**–**	–	**(1 338 115)**	(1 243 424)
Operating expenses	**(115 843)**	(77 877)	**(25 363)**	(16 703)	**(441 845)**	(403 596)	**(583 051)**	(498 176)
Depreciation and amortisation	**–**	–	**–**	–	**(5 777)**	(5 648)	**(5 777)**	(5 648)
Net impairment on financial assets	**(196 008)**	(14 442)	**(134 712)**	(4 687)	**(472)**	1 204	**(331 192)**	(17 925)
Profit for the year	**381 023**	571 308	**862 943**	519 202	**21 923**	192 262	**1 265 889**	1 282 772
Total assets	**17 566 069**	15 902 298	**7 763 687**	5 320 223	**7 916 541**	6 655 381	**33 246 297**	27 877 902
Total liabilities	**13 650 649**	8 725 710	**3 129 868**	3 989 045	**685 907**	624 916	**17 466 424**	13 339 671
Key ratios by segment								
Operating cost to income (%)	**17**	10	**6**	12	**83**	72	**36**	34
Leverage (%)	**78**	55	**40**	75	**9**	10	**53**	48
Net interest to income (%)	**37**	44	**57**	16	**100**	100	**53**	51
Return on assets (%)	**2**	4	**11**	10	**0,3**	3	**4**	5

** Corporate services include Treasury, Human Capital and Technology, Finance, Capacity Deployment, Research and Information, Office of CEO, Strategic Operations, and Strategic Governance and Communication.*

in thousands of rands	Private sector 2008	Private sector 2007	Public sector 2008	Public sector 2007	*Corporate services 2008	*Corporate services 2007	Total 2008	Total 2007
5. Segment reporting (continued)								
Secondary segments								
Income	**1 275 068**	676 764	**1 822 569**	1 792 608	**472 682**	610 675	**3 570 319**	3 080 047
Interest income on development loans	**530 102**	446 533	**1 781 747**	1 535 208	**–**	–	**2 311 849**	1 981 741
Interest income on investments	**5 904**	–	**–**	–	**535 850**	564 206	**541 754**	564 206
Non-interest income	**98 715**	148 431	**28 085**	33 848	**6 404**	6 831	**133 204**	189 110
Other income	**640 347**	81 800	**12 737**	223 552	**(69 572)**	39 638	**583 512**	344 990
Grants	**–**	(7 860)	**(43 630)**	(13 869)	**(2 665)**	(10 373)	**(46 295)**	(32 102)
Expenses	**(690 799)**	(375 018)	**(1 119 242)**	(982 115)	**(448 094)**	(408 040)	**(2 258 135)**	(1 765 173)
Profit for the year	**584 269**	293 886	**659 697**	796 624	**21 923**	192 262	**1 265 889**	1 282 772
Total assets	**6 962 920**	5 780 169	**18 366 836**	15 442 352	**7 916 541**	6 655 381	**33 246 297**	27 877 902
Total liabilities	**4 801 361**	3 467 877	**11 979 156**	9 246 878	**685 907**	624 916	**17 466 424**	13 339 671
Key ratios by segment								
Operating cost to income (%)	**10**	12	**14**	10	**83**	71	**36**	34
Leverage (%)	**69**	60	**65**	60	**9**	10	**53**	48
Net interest to income (%)	**29**	25	**46**	41	**100**	100	**53**	51
Return on assets (%)	**8**	5	**4**	5	**0,3**	3	**4**	5

** Corporate services include Treasury, Human Capital and Technology, Finance, Capacity Deployment, Research and Information, Office of CEO, Strategic Operations, and Strategic Governance and Communication.*

in thousands of rands	Note	Designated at fair value through profit or loss*	Held-to-maturity	Available-for-sale	Loans and receivables	Total carrying amount	Fair value
6. Financial assets and liabilities							
Accounting classification and fair values							
The table below sets out the Bank's classification of financial assets and liabilities, and their fair values.							
31 March 2008							
Cash and cash equivalents	15	–	–	–	2 313 803	2 313 803	2 313 803
Other receivables	16	–	–	–	114 930	114 930	114 930
Investment securities	17	1 707 890	515 030	679 549	–	2 902 469	2 917 205
Investments under resale agreements	18	–	–	–	1 089 008	1 089 008	1 089 008
Derivative assets held for risk management	19.1	1 086 651	–	–	–	1 086 651	1 086 651
Home ownership scheme loans	21	–	–	–	19 208	19 208	19 208
Equity investments	22	1 567 352	474 075	–	–	2 041 427	2 041 427
Development loans	23	–	–	–	23 288 329	23 288 329	22 875 437
		4 361 893	989 105	679 549	26 825 278	32 855 825	32 457 669
Other creditors	26	–	–	–	486 629	486 629	486 629
Medium- to long-term funding debt securities	28.1	3 510 356	–	–	5 688 811	9 199 167	10 495 994
Medium- to long-term funding lines of credit	28.2	307 774	–	–	5 191 245	5 499 019	5 373 079
Funding under repurchase agreements	29	–	–	–	1 862 054	1 862 054	1 862 054
Derivative liabilities held for risk management	19.2	220 277	–	–	–	220 277	220 277
		4 038 407	–	–	13 228 739	17 267 146	18 438 033

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

in thousands of rands	Note	Designated at fair value through profit or loss*	Held-to-maturity	Available-for-sale	Loans and receivables	Total carrying amount	Fair value
6. Financial assets and liabilities (continued)							
31 March 2007							
Cash and cash equivalents	15	–	–	–	890 357	890 357	890 357
Other receivables	16	–	–	–	168 839	168 839	168 839
Investment securities	17	2 149 440	782 291	772 983	–	3 704 714	3 751 447
Investments under resale agreements	18	–	–	–	640 374	640 374	640 374
Derivative assets held for risk management	19.1	872 007	–	–	–	872 007	872 007
Home ownership scheme loans	21	–	–	–	21 203	21 203	21 203
Equity investments	22	736 747	288 738	–	–	1 025 485	1 025 485
Development loans	23	–	–	–	20 197 036	20 197 036	21 255 035
		3 758 194	1 071 029	772 983	21 917 809	27 520 015	28 624 747
Other creditors	26	–	–	–	497 459	497 459	497 459
Medium- to long-term funding debt securities	28.1	2 875 826	–	–	4 405 477	7 281 303	9 683 978
Medium- to long-term funding lines of credit	28.2	328 672	–	–	3 894 695	4 223 367	4 031 352
Funding under repurchase agreements	29	–	–	–	1 137 685	1 137 685	1 137 685
Derivative liabilities held for risk management	19.2	24 282	–	–	–	24 282	24 282
		3 228 780	–	–	9 935 316	13 164 096	15 374 756

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands		2008	2007
7.	**Net interest income**		
7.1	**Interest income**		
	Cash and cash equivalents	**164 303**	121 679
	Investment securities	**300 401**	359 124
	Repurchase agreements	**68 544**	73 690
	Development loans	**2 311 849**	1 981 741
	Performing	**2 242 117**	1 927 017
	Non-performing	**69 732**	54 724
	Equity investments	**5 902**	5 134
	Home ownership scheme	**2 590**	2 014
	Other interest received	**14**	2 565
	Total interest income	**2 853 603**	2 545 947
7.1.1	Client classification for development loans		
	Development finance institutions	**29 260**	21 031
	Educational institutions	**42 490**	34 398
	Local government	**1 085 538**	957 157
	National and provincial government	**42 901**	45 398
	Private sector	**530 102**	429 699
	Public utilities	**581 558**	494 058
		2 311 849	1 981 741
7.2	**Interest expense**		
	Medium- to long-term funding debt securities	**927 822**	905 391
	Medium- to long-term funding lines of credit	**243 890**	220 933
	Resale agreements	**166 403**	110 477
	Other interest expense	**–**	6 623
	Total interest expense	**1 338 115**	1 243 424
	Net interest income	**1 515 488**	1 302 523

7. Net interest income (continued)

7.2 Interest expense (continued)

The only component of interest income and expense reported above that relates to financial assets or liabilities carried at fair value through profit or loss is the interest income and expenses on designated items, which include investment securities, medium- to long-term debt securities and medium- to long-term lines of credit.

Included within interest income on investment securities for the year ended 31 March 2008 is R69 million (2007: R96 million) relating to investment securities held to maturity.

Included within interest income on investment securities for the year ended 31 March 2008 is R199 million (2007: R209 million) relating to investment securities designated held at fair value through profit or loss.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2008 is R214 million (2007: R200 million) relating to debt securities designated held at fair value through profit or loss.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2008 is R179 million (2007: R179 million) relating to debt securities qualifying as effective hedge relationships.

Included within interest expense on medium- to long-term funding lines of credit for the year ended 31 March 2008 is R30 million (2007: R69 million) relating to other funding that qualifies as effective hedge relationships.

in thousands of rands	2008	2007
8. Net fee income		
8.1 Fee income		
Guarantee fees	**8 542**	9 571
Management fees	**11 180**	12 058
Commitment fees on funding	**8 466**	12 265
Upfront fees	**18 313**	15 625
Appraisal fees	**50**	1 292
Other	**20 237**	3 504
Total fee and commission income	**66 788**	54 315
8.2 Fee expense		
Brokerage fee	**293**	300
Commitment fees on funding	**1 367**	1 814
Guarantee fees	**7 161**	3 278
Appraisal fees	**3 871**	1 232
Other	**–**	884
Total fee and commission expense	**12 692**	7 508
Net fee income	**54 096**	46 807

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
9. Net foreign exchange gain		
Unrealised	**31 131**	86 055
Foreign exchange gain: Development loans and sundry	**331 040**	277 671
Foreign exchange (loss)/gain: Hedging derivatives – development loans (FEC)	**(182 396)**	917
Foreign exchange gain: Cash and cash equivalents (CFCs)	**136 908**	60 401
Foreign exchange gain: Equity investments	**95 773**	53 262
Foreign exchange loss: Funding	**(859 106)**	(570 521)
Foreign exchange gain: Hedging derivatives – funding	**508 912**	264 325
Realised	**6 384**	73 236
Foreign exchange gain: Development loans	**2 667**	67 193
Foreign exchange gain: Funding and hedging	**3 717**	6 043
	37 515	159 291
10. Net gain from financial assets and liabilities		
Net income on derivatives held for risk management:		
Interest rate	**(231 902)**	(50 760)
Unrealised	**(307 582)**	(192 981)
Realised	**75 680**	142 221
Foreign exchange	**(46 149)**	(79 912)
Unrealised	**(6 558)**	(62 253)
Realised	**(39 591)**	(17 659)
Investment securities designated at fair value through profit or loss:		
Government bonds	**(108 165)**	(55 669)
Unrealised	**(111 352)**	(55 669)
Realised	**3 187**	–

in thousands of rands	2008	2007
10. Net gain from financial assets and liabilities (continued)		
Available-for-sale investments realised		
Government bonds – realised	**(5 274)**	–
Corporate bonds – realised	**(5 508)**	6 662
Money market instruments – realised	**–**	(2 227)
Debt securities issued designated at fair value through profit or loss – unrealised	**181 271**	49 229
Equity investments designated at fair value through profit or loss – unrealised	**559 437**	161 901
Medipref designated at fair value through profit or loss – unrealised	**(2 173)**	5 532
Qualifying hedged funding held at fair value through profit or loss – unrealised	**204 460**	150 943
	545 997	185 699

The DBSA DV23 bond spread relative to the swap curve changed from -18 basis points in April 2007 to zero basis points in March 2008. However, a thorough analysis of the spread has revealed that this movement in spread was not due to deterioration in DBSA credit quality, but due to the strong correlation in the movements in spreads of AAA rated entities. Therefore, the DV23 spread movement was not specific to the DBSA but systemic in nature.

It should also be noted that the credit ratings of the DBSA bonds remained unchanged during the financial year ending 31 March 2008. Thus there is no change in fair value that is attributable to changes in credit risk of financial liabilities designated at fair value through profit or loss.

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
11. Other operating income		
Non-interest income:		
– Dividend income	**61 431**	86 227
Less recovered expenses – travel and subsistence	**–**	(110)
	61 431	86 117
Profit on sale of non-current asset held for sale	**–**	2 726
Sundry income	**17 677**	53 460
	79 108	142 303
12. Net impairment loss on financial assets		
Other receivables	**479**	(1 204)
Impairment on development loans	**323 792**	19 129
Impairment on equity investments: held to maturity	**6 921**	–
	331 192	17 925
13. Personnel expenses		
Post-retirement medical benefits liability movement (refer to note 27.2)	**27 688**	44 606
Other personnel expenses	**370 675**	302 192
	398 363	346 798
Included in other personnel expenses are Directors' emoluments and Executive management remuneration as detailed below:		
Directors' emoluments	**5 500**	7 847
Executive management remuneration	**18 129**	14 039
	23 629	21 886

Full details are provided in the Schedule of Directors' emoluments, note 38.

in thousands of rands	2008	2007
14. Other expenses		
Auditors' remuneration	**5 587**	5 482
– audit fee	**5 489**	5 390
– expenses	**98**	92
Technical services	**23 732**	17 340
Communication costs	**7 064**	5 424
Information technology	**38 179**	34 415
Regional Service Council levies	**–**	1 369
Subsistence and travel	**28 166**	23 709
Assets acquired below R1 000 expensed	**1 215**	263
Other	**80 745**	63 376
	184 688	151 378
14.1 Depreciation and amortisation		
Buildings	**148**	–
Computer equipment	**1 812**	2 365
Furniture and fittings	**643**	505
Motor vehicles	**177**	135
Office equipment	**421**	383
Intangible assets	**2 576**	2 260
	5 777	5 648
15. Cash and cash equivalents		
Fixed deposits	**47 000**	–
Call deposits	**1 289 990**	532 090
Cash at bank	**976 813**	358 267
	2 313 803	890 357

The average annual interest rate earned on cash and cash equivalents detailed above was 8,64% (2007: 8,41%).

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands		2008	2007
16.	**Other receivables**		
	Other trade receivables	**32 757**	103 157
	Accrued interest income	**48 016**	66 528
	Staff loans	**453**	787
	Prepayments	**38 079**	2 263
	Impairment (note 16.1)	**(4 375)**	(3 896)
		114 930	168 839
16.1	**Impairment reconciliation**		
	Balance at the beginning of the year	**(3 896)**	(5 100)
	(Increase)/decrease in provision	**(479)**	1 204
	Balance at the end of the year	**(4 375)**	(3 896)
17.	**Investment securities**		
	Investment securities at fair value through profit or loss	**1 707 890**	2 149 440
	Held-to-maturity investment securities	**515 030**	782 291
	Available-for-sale investment securities	**679 549**	772 983
		2 902 469	3 704 714
17.1	**Investment securities at fair value through profit or loss**		
	Government bonds	**1 707 890**	2 149 440

Investment securities have upon initial recognition been designated at fair value through profit or loss when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.

		2008	2007
17.2	**Held-to-maturity investment securities**		
	Government bonds	**265 059**	532 318
	Municipal bonds	**249 971**	249 973
		515 030	782 291
17.3	**Available-for-sale investment securities**		
	Government bonds	**263 299**	369 827
	Corporate bonds	**212 358**	301 621
	Money market instruments	**203 892**	101 535
		679 549	772 983

in thousands of rands		2008	2007
18.	**Investments under resale agreements**	**1 089 008**	640 374

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such transaction is either to place additional cash or raise short-term funding through the repo market.

The assets thus received as collateral include government and corporate bonds. The Bank does not retain risks and rewards associated with the transferred assets, hence such assets are not recognised, whereas corresponding financial asset considerations are recognised in investments under resale agreements.

At 31 March 2008, the fair value of assets received as collateral was R1,1 billion (2007: R417 million).

19. Derivative assets and liabilities held for risk management

		2008	2007
19.1	**Derivative assets held for risk management**		
	Instrument type:		
	Interest	**326 959**	558 919
	Foreign currency	**759 692**	313 088
		1 086 651	872 007
19.2	**Derivative liabilities held for risk management**		
	Instrument type:		
	Interest	**71 565**	5 554
	Foreign currency	**148 712**	18 728
		220 277	24 282
19.3	**Net derivatives held for risk management**		
	Fair value hedges of interest rate risk	**255 394**	553 365
	Cash flow hedges of foreign exchange risk	**407 016**	156 942
	Economic hedges	**203 964**	137 418
		866 374	847 725

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007

19. Derivative assets and liabilities held for risk management (continued)

19.3 Net derivatives held for risk management (continued)

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate ZAR funding and investments. Interest rate swaps are matched to specific issuance of fixed rate notes or loans.

Cash flow hedges of foreign currency debt securities issued

The Bank uses cross-currency interest rate swaps to hedge both the foreign currency and interest rate risks arising from the Euro and USD funding raised to finance operational activities.

Economic hedges

This category consists of forward foreign exchange contracts, interest rate swaps and cross-currency swaps that are designated as derivative components of the held at fair value through profit or loss classification. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

Fair values of all the derivatives are shown in the table above.

	2008	2007
20. Post-retirement medical benefits investment	**72 002**	74 175

This asset represents the market value of the Bank's contribution to Medipref Management Ltd to fund the post-retirement medical benefits for eligible employees and pensioners.

Details of the post-retirement medical benefit liability are contained in note 27.2. This investment does not meet the definition of a "Plan Asset" and is therefore not offset against the liability.

	2008	2007
21. Home ownership scheme loans	**19 208**	21 203

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 Ltd have entered into an agreement whereby Nedcor Bank Ltd 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 2008, the effective interest rate was 14,5% per year (2007: 11,0%).

in thousands of rands	2008	2007
22. Equity investments		
Equity investments at fair value through profit and loss	**1 567 352**	736 747
Held-to-maturity equity investments	**474 075**	288 738
	2 041 427	1 025 485

Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained in terms of paragraph 27 of Schedule 4 of the South African Companies Act. The register is available for inspection at the registered office of the Development Bank of Southern Africa Limited.

in thousands of rands	2008	2007
22.1 Equity investments at fair value through profit and loss		
Cost		
Balance at 01 April	**503 709**	442 275
Acquisitions	**411 317**	117 887
Disposals	**(137 877)**	(56 453)
Balance at 31 March	**777 149**	503 709
Fair value adjustments and impairment losses		
Balance at 01 April	**186 395**	24 494
Current year fair value adjustment	**568 622**	161 901
Disposals	**(65 981)**	–
Balance at 31 March	**689 036**	186 395
Forex adjustments		
Balance at 01 April	**46 643**	(6 709)
Current year fair value adjustment	**94 077**	53 352
Disposals	**(39 553)**	–
Balance at 31 March	**101 167**	46 643
Fair value at the end of the year	**1 567 352**	736 747

Notes to the financial statements (continued)

for the year ended 31 March 2008

22. Equity investments (continued)

22.1 Equity investments at fair value through profit and loss (continued)

Equity investment valuations are based on the underlying value of the net assets within the investment vehicles concerned. These valuations are calculated based on the financial statements provided by the directors of the investee companies.

The discounted cash flow technique has been used on direct equity investments. The discount rates used range from 16% to 23% and were determined using the Capital Asset Pricing Model. Fundamental and growth rates were used depending on the life cycle of the investment and its dividends and free cash flow profile. The risk free rate used in establishing the discount rate is the long-term interest rate adjusted for the financial risk profile of the underlying investment. The growth rates were assumed to be for a period of five years and adjusted lower to the GDP growth rates after five years. A marketability discount of between 20% and 40% was deducted in arriving at the fair value of each equity instrument. Marketability discount was determined from the perspective of market participants after taking a number of factors into account, including but not limited to:

- The proximity and certainty of the realisation of the underlying investment.
- The extent of management's influence over the realisation of the investment.

All direct equity investments are not listed, and therefore the discounted cash flow valuation technique was used.

Fair values on third Party Private Equity Funds (PEFs) are obtainable from independent fund managers on a quarterly basis.

in thousands of rands	2008	2007
22.2 Held-to-maturity equity investments		
Amortised cost		
Balance at the beginning of the year	**288 738**	252 062
Acquisition	**387 300**	39 684
Amortised interest on effective interest method	**5 325**	(2 918)
Cumulative forex adjustment	**1 695**	(90)
Less repayments	**(202 062)**	–
Less impairment	**(25 000)**	–
Reversal of impairment loss recognised in income	**18 079**	
Balance at the end of the year	**474 075**	288 738

These equity investments have fixed or determinable payments and fixed maturity, and the Bank has the positive intent to hold them to maturity. The Bank has not, during the current financial year or two preceding financial years, sold or reclassified before maturity, more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

An impairment loss on cumulative redeemable preference shares in Motrade (Pty) Ltd resulted from the liquidation of the company. The recoverable amount of preference shares in Motrade (Pty) Ltd is its liquidation value of R1 based on the lawyers' assessment.

In the 2005 financial year, a convertible debenture in Durban Marine Theme Park was impaired to its recoverable amount of R35,113 million resulting from adverse financial results of the company. Subsequent to this impairment, the financial position of Durban Marine Theme Park consistently improved. A significant loan made by the DBSA to Durban Marine Theme Park was fully paid, which confirmed the financial strength of the company. It is expected that this trend will continue. The recoverable amount based on value in use, using the effective interest method, was estimated on 31 March 2008 at R70,485 million.

in thousands of rands	2008	2007
23. Development loans		
23.1 Analysis of development loans		
Balance at the beginning of the year	**20 636 571**	17 696 161
Movements during the year:	**3 240 500**	2 940 410
– Loans disbursed	**5 375 403**	3 557 786
– Interest accrued	**2 356 084**	2 019 373
Interest per income statement	**2 311 849**	1 981 741
Impairment of current year interest	**44 235**	37 632
– Development loans written off	**(218 820)**	(14 212)
– Foreign exchange adjustment	**338 872**	344 864
– Gross repayments	**(4 611 039)**	(2 967 401)
Gross development loans	**23 877 071**	20 636 571
Impairment against development loans (per note 23.9)	**(588 742)**	(439 535)
Net development loans	**23 288 329**	20 197 036
23.2 Maturity analysis of development loans		
2008	**–**	3 043 439
2009	**2 864 366**	1 624 893
2010	**1 966 844**	1 722 713
2011	**2 082 752**	1 692 208
2012	**1 618 037**	1 258 742
2013–2017	**9 361 114**	7 135 358
2018–2022	**4 523 621**	3 558 539
2023 and thereafter	**1 460 337**	600 679
	23 877 071	20 636 571

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
23. Development loans (continued)		
23.3 Sectoral analysis		
Commercial infrastructure	**2 903 944**	2 768 789
Communication and transport infrastructure	**1 485 195**	1 002 912
Energy	**5 056 439**	3 765 364
Human resources development	**727 669**	468 448
Institutional infrastructure	**20 612**	21 157
Residential facilities	**2 538 557**	1 355 553
Roads and drainage	**2 506 531**	2 489 734
Sanitation	**1 053 891**	974 792
Social infrastructure	**2 542 761**	2 248 715
Water	**5 041 472**	5 541 107
	23 877 071	20 636 571
23.4 Geographical analysis		
Eastern Cape	**981 899**	985 770
Free State	**648 038**	668 655
Gauteng	**4 001 731**	3 950 536
KwaZulu-Natal	**6 206 533**	5 141 756
Limpopo	**579 382**	505 901
Mpumalanga	**1 200 395**	1 114 556
North West	**563 553**	654 630
Northern Cape	**323 038**	262 238
Western Cape	**2 458 878**	2 057 503
Multi-regional – South Africa	**186 773**	226 804
SADC (excluding South Africa) and multinationals*	**6 726 851**	5 068 222
Angola	**254 056**	143 209
Botswana	**270 705**	228 770
Lesotho	**378 091**	475 457
Malawi	**259 557**	277 627
Mauritius	**206 915**	170 047
Mozambique	**1 423 999**	1 452 632
Namibia	**552 055**	591 667
Swaziland	**238 517**	265 483
Tanzania	**362 480**	222 935
Uganda	**–**	57 624
Zambia	**1 063 279**	1 062 590
Multinationals	**1 717 197**	120 181
	23 877 071	20 636 571
** Amount in US$ included in the above SADC loans*	**388 010**	353 025

in thousands of rands		2008	2007
23.	**Development loans (continued)**		
23.5	**Client classification**		
	Development finance institutions	**564 253**	399 606
	Educational institutions	**585 211**	342 800
	Local government	**10 883 639**	9 716 130
	National and provincial government	**294 003**	309 659
	Private sector	**5 424 837**	4 733 871
	Public utilities	**6 125 128**	5 134 505
		23 877 071	20 636 571
23.6	**Fixed and variable interest rate loans**		
	Fixed interest rate loans	**15 315 536**	13 954 029
	Variable interest rate loans	**8 561 535**	6 682 542
		23 877 071	20 636 571
23.7	**Non-performing loans (included in total development loans)**		
23.7.1	Sectoral analysis		
	Commercial infrastructure	**749 021**	532 833
	Communication and transport infrastructure	**53 434**	166 343
	Energy	**156 057**	45 916
	Human resources development	**8 064**	6 438
	Institutional infrastructure	**742**	96
	Residential facilities	**18 028**	–
	Roads and drainage	**22 709**	28 251
	Sanitation	**91 515**	92 103
	Social infrastructure	**56 588**	63 011
	Water	**80 294**	66 691
		1 236 452	1 001 682

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
23. Development loans (continued)		
23.7 Non-performing loans (included in total development loans) (continued)		
23.7.2 Geographical analysis		
Eastern Cape	**134 858**	75 622
Free State	**90 152**	81 558
Gauteng	**156 682**	205 973
KwaZulu-Natal	**1 897**	4 639
Limpopo	**98 309**	34 442
Mpumalanga	**68 880**	23 704
North West	**255 998**	280 696
Northern Cape	**35 544**	32 251
Western Cape	**74 650**	16 517
Multi-regional – South Africa	**–**	36 686
SADC (excluding South Africa)	**319 482**	209 594
Lesotho	**1 890**	1 819
Malawi	**109 024**	79 753
Mauritius	**149 148**	–
Mozambique	**28 716**	6 922
Swaziland	**30 704**	121 100
	1 236 452	1 001 682
23.7.3 Client classification		
Development finance institutions	**–**	65 850
Educational institutions	**6 970**	5 468
Local government	**262 555**	273 474
Private sector	**705 379**	361 959
Public utilities	**261 548**	294 931
	1 236 452	1 001 682
23.8 Client concentration		
One client as percentage of total loan portfolio (%)	**15,6**	13,5
Seven clients as percentage of total loan portfolio (%)	**40,5**	39,1

in thousands of rands	2008	2007
23. Development loans (continued)		
23.9 Impairment against development loans		
Balance at the beginning of the year	**439 535**	396 986
Impairment of current year interest	**44 235**	37 632
Loans written off during the year	**(218 820)**	(14 212)
Charge through income statement	**323 792**	19 129
– in respect of non-performing book	**262 635**	599
– in respect of performing book	**61 157**	18 530
Balance at the end of the year	**588 742**	439 535

in thousands of rands	Revalued land	Revalued buildings	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
24. Property and equipment							
24.1 Reconciliation of property and equipment							
At 31 March 2008							
Cost or revaluation							
At the beginning of the year	20 000	256 574	10 415	4 751	721	4 601	297 062
Revaluation	6 000	(521)	–	–	–	–	5 479
Additions and improvements	–	20 947	1 418	5 946	1 080	4 684	34 075
Assets written off	–	–	(227)	(1 179)	(301)	(2 517)	(4 224)
At the end of the year	26 000	277 000	11 606	9 518	1 500	6 768	332 392
Accumulated depreciation							
At the beginning of the year	–	1 574	8 170	3 221	586	3 515	17 066
Depreciation	–	148	1 812	643	177	421	3 201
Assets written off or sold	–	–	(301)	(1 184)	(301)	(2 513)	(4 299)
At the end of the year	–	1 722	9 681	2 680	462	1 423	15 968
Net carrying value	26 000	275 278	1 925	6 838	1 038	5 345	316 424

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	Revalued land	Revalued buildings	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
24. Property and equipment (continued)							
24.1 Reconciliation of property and equipment (continued)							
At 31 March 2007							
Cost or revaluation							
At the beginning of the year	18 800	181 120	9 812	4 200	1 022	4 442	219 396
Revaluation	1 200	74 770	–	–	–	–	75 970
Additions and improvements	–	684	801	565	–	159	2 209
Assets written off	–	–	(198)	(14)	(301)	–	(513)
At the end of the year	20 000	256 574	10 415	4 751	721	4 601	297 062
Accumulated depreciation							
At the beginning of the year	–	1 574	6 003	2 730	752	3 132	14 191
Depreciation	–	–	2 365	505	135	383	3 388
Assets written off	–	–	(198)	(14)	(301)	–	(513)
At the end of the year	–	1 574	8 170	3 221	586	3 515	17 066
Net carrying value	20 000	255 000	2 245	1 530	135	1 086	279 996

24.2 Valuation

24.2.1 Land

The land constitutes Portion 465 (of Portion 442) of the farm Randjesfontein 405 measuring 25,066 hectares, donated by the South African government in 1985.

The land was valued at a fair value of R26,0 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2008, using the income capitalisation approach (March 2007: R20,0 million). The land is raised at the revalued amount, as the cost was nil.

24.2.2 Buildings

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R20,9 million were effected during the 2008 financial year (2007: R0,68 million).

The buildings were valued at a fair value of R277,0 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2008, using the income capitalisation approach (March 2007: R256,6 million).

The historical book value of the existing buildings is R104,8 million (2007: R84,2 million).

in thousands of rands	2008	2007
25. Intangible assets		
Computer software		
Cost		
At the beginning of the year	**6 898**	6 412
Additions	**906**	486
At the end of the year	**7 804**	6 898
Accumulated amortisation		
At the beginning of the year	**3 182**	922
Amortisation	**2 576**	2 260
At the end of the year	**5 758**	3 182
Net carrying value	**2 046**	3 716
26. Other creditors		
Sundry payables	**179 824**	58 306
DBSA Development Fund	**95 947**	214 449
Sundry accruals	**14 117**	63 959
Accrued interest	**196 741**	160 745
	486 629	497 459
27. Employee benefits		
27.1 Liability for funeral benefits	**3 509**	3 371

This benefit is in respect of all current and retired employees of the Bank.

In respect of these employees, an amount of R33 000 is paid out to the family upon the death of the employee or retired employee.

The obligation was actuarially valued on 31 March 2008.

The principal assumptions in determining the funeral benefits obligation are as follows:

	2008	2007
Discount rate (before taxation) (%)	**7,75**	7,75
Inflation rate (%)	**4,75**	6,75

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

in thousands of rands	2008	2007
27. Employee benefits (continued)		
27.1 Liability for funeral benefits (continued)		
Movement in liability for funeral benefits recognised in the balance sheet		
Balance at the beginning of the year	**3 371**	3 253
Increase in the liability	**250**	118
Company contributions	**(112)**	–
Balance at the end of the year	**3 509**	3 371

27.2 Liability for post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. Under the plan, the Bank pays 100% of the medical aid contributions of retired employees who qualify.

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

The investment in Medipref, as specified in note 20, has been set aside to fund this obligation.

The amount recognised in the balance sheet in respect of the Bank's post-retirement medical benefit is detailed below:

	2008	2007
Present value of unfunded obligation at the beginning of the year	**172 204**	130 902
Interest cost	**13 147**	9 570
Current service cost (includes interest to year-end)	**5 972**	5 497
Expected employer benefit payments	**(4 123)**	(3 304)
Past service cost	**10 439**	–
Actuarial (gain)/loss for the year	**(1 870)**	29 539
Present value of unfunded obligation at the end of the year	**195 769**	172 204

The amount recognised in the profit or loss in respect of the defined benefit plan is as follows:

	2008	2007
Interest cost	**13 147**	9 570
Current service cost	**5 972**	5 497
Past service cost	**10 439**	–
Actuarial (gain)/loss for the year	**(1 870)**	29 539
Total charge for the year (included in staff costs in the income statement)	**27 688**	44 606

in thousands of rands	2008	2007
27. Employee benefits (continued)		
27.2 Liability for post-retirement medical benefits (continued)		
Market value of Medipref at the beginning of the year	**74 175**	68 643
(Decrease)/increase in market value for the year	**(2 173)**	5 532
Market value of Medipref at the end of the year	**72 002**	74 175
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	**8,75**	7,75
Medical aid inflation rate (%)	**7,50**	6,75

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

Sensitivity analysis

The valuation results set out above are based on a number of assumptions. The value of the liability could turn out to be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

The liability was recalculated to show the effect of a one percentage point decrease or increase in the rate of medical aid inflation.

		Health care cost inflation	
	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	7,50%	-1%	+1%
Accrued liability 31 March 2008 (R 000)	195 769	165 359	234 524
% change	–	-15,5%	+19,8%
Current service cost + interest cost 2008/09 (R 000)	26 178	21 512	32 284
% change	–	-17,8%	+23,3%
Sensitivity results from previous valuation: Medical aid inflation rate 2007 (%)	6,75%	-1%	+1%
Current service + interest cost 2007/08 (R 000)	19 119	12 695	18 035
% change	–	-15,7%	+19,7%
The obligation for the three years prior to March 2007 is as follows:	R 000		
March 2006	130 902		
March 2005	96 452		
March 2004	105 086		

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
28. Debt securities		
28.1 Medium- to long-term funding debt securities		
Debt securities held at fair value through profit or loss	**3 510 356**	2 875 826
Debt securities held at amortised cost	**5 688 811**	4 405 477
	9 199 167	7 281 303

Debt securities designated at fair value through profit or loss consists of those securities that form part of an effective hedging relationship as well as those designated to eliminate or significantly reduce an accounting mismatch that would otherwise arise. At March 2008, the total amount designated at fair value through profit or loss was R1,9 billion (2007: R1,2 billion).

Debt securities carried at amortised cost consists of Eurorand, bridging bonds and the DBSA's debt securities.

Other debt securities issued are held at amortised cost.

	2008	2007
28.2 Medium- to long-term funding lines of credit		
Other funding held at fair value through profit or loss	**307 774**	328 672
Other funding held at amortised cost	**5 191 245**	3 894 695
	5 499 019	4 223 367

Other funding held at fair value through profit or loss represents the hedged funding that forms part of effective qualifying hedge relationships.

	2008	2007
29. Funding under repurchase agreements	**1 862 054**	1 137 685

Refer to note 18.

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such transaction is either to place additional cash or raise short-term funding through the repo market.

The stock thus transferred includes government bonds and the DBSA's own stock, DV07. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets, and continues to recognise this stock within investment and debt securities, whilst the corresponding financial liability considerations are recognised in funding under repurchase agreements.

At 31 March 2008, the fair value of this stock was R1,9 billion (2007: R941 million).

in thousands of rands	2008	2007
30. Capital and reserves		
30.1 Share capital		
Authorised		
500 000 ordinary shares (2007: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares (2007: 20 000) at a par value of R10 000 each	**200 000**	200 000
All issued capital is fully paid.		
Callable capital		
480 000 ordinary shares (2007: 480 000) 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.		
30.2 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.		
There are no repayment terms and this funding is interest-free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.		
Received to date	**3 792 344**	3 792 344
30.3 Revaluation reserve on land and buildings		
This reserve represents the valuation surplus recognised on the revaluation of the land and buildings.	**196 558**	191 079
30.4 Hedging reserve		
Opening balance	**13 251**	19 511
Fair value adjustments of cash flow hedges	**(3 337)**	(6 260)
	9 914	13 251

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedge transaction has not yet occurred.

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
30. Capital and reserves (continued)		
30.5 Reserve for general loan risks	**721 102**	613 420
The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 3.4.5 and movements are recognised directly between reserve for general loan risk and retained earnings.		
30.6 Fair value reserve		
Opening balance	**(18 632)**	14 275
Fair value adjustments of available-for-sale financial instruments	**(26 389)**	(32 907)
	(45 021)	(18 632)
The reserve comprises all fair value adjustments for available-for-sale financial market instruments.		
31. Contingencies		
31.1 Employee loans		
The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.		
Loan balances secured	**266**	340
31.2 Guarantees		
31.2.1 The Bank has approved and issued guarantees on behalf of borrowers amounting to	**501 450**	492 973
It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the balance sheet as a liability.		
The total book debt to the credit provider is	**481 450**	472 973

31.2.2 The Bank has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

31.3 Litigation

Litigation is in process against the Bank in terms of a so-called guarantee that was issued by the DBSA on behalf of borrowers. The matter has been set down for hearing on 21 August 2008.

It is the opinion of management that it is unlikely this litigation against the DBSA will be successful, and therefore this litigation was not recognised in the balance sheet as a liability.

In the unlikely event that the Bank is unsuccessful, the amount payable is estimated at R7 000 000.

32. Related parties

The DBSA is one of 19 schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that fall within the national sphere of government.

In addition, the Bank has a related party relationship with the Development Fund, Directors and Executive Management. Unless specifically disclosed, these transactions are concluded on an arm's length basis and the Bank is able to transact with any entity.

The South African government, through the Ministry of Finance, is the parent of the Bank and exercises ultimate control.

32.1 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at year-end:

32.2 Major public entities

32.2.1 National public entities

The total book debt for loans extended to national public entities amounts to R2 082 328 149. None of these loans are non-performing.

32.2.2 Development Fund

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market rate of 4% of operating costs of the Fund. At year-end, the net balance owed to the DBSA Development Fund was R92 million (2007: R214 million).

The transaction costs for management fee income were R5,8 million (2007: R2,4 million).

Notes to the financial statements (continued)

for the year ended 31 March 2008

32. Related parties (continued)

32.2 Major public entities (continued)

32.2.3 Related party transactions with key management personnel funded by DBSA 2007/08 financial year

Name of Director	Name of project	Borrower	Amount	Declared at meeting	Interest rate	Nature of interest
Dr Lulu Gwagwa	Facility for Inner City Student Accommodation – Project No. 103027	Lereko Metier Capital Growth Fund	R169,5 million	Corporate Credit Committee – 28/02/2008 & Board Investment Committee – 25/03/2008	Fixed – to be determined 2 days before each disbursement, based on the amortising swap rate for a 10-year maturity, plus a spread of 220 bp	Chief Operating Officer and 8% shareholder of Lereko Investments
Dr Lulu Gwagwa	Independent Power Producers (IPP) Equity Loan Facilities – Project No. 102473	AES Khanya Consortium: Kurisani LoveLife Trust Investments 4 (Pty) Ltd, Mbane Peaking Power (Pty) Ltd, Tiso Energy (Pty) Ltd	R835 million	Corporate Credit Committee – 14/03/2008 & Board Investment Committee – 25/03/2008	3 month JIBAR plus 295 bp	Shareholder – 10%
Mr Jay Naidoo	Independent Power Producers (IPP) Equity Loan Facilities – Project No. 102473	AES Khanya Consortium: Kurisani LoveLife Trust Investments 4 (Pty) Ltd, Mbane Peaking Power (Pty) Ltd, Tiso Energy (Pty) Ltd	R835 million	Corporate Credit Committee – 14/03/2008 & Board Investment Committee – 25/03/2008	3 month JIBAR plus 295 bp	Trustee of LoveLife Trust
DBSA Nominee Directors						
Mr Emile du Toit	Savannah Resources (Pty) Ltd – Project No. 101391	Savannah Resources (Pty) Ltd – Project No. 101391	R200 million preference shares	Corporate Credit Committee – 05/10/2007 & Board Investment Committee – 11/10/2007	3 month JIBAR plus 185 bp (nacq) (12,39%)	DBSA Nominee Director
Mr Admassu Tadesse	Proparco Equity Investment – Project No. 102995	Proparco	€25 million	Corporate Credit Committee – 30/01/2008 & Board Investment Committee – 07/02/2008	n/a	DBSA Nominee Director

Note: All transactions were approved at arm's length and the normal DBSA terms and conditions applied.

32. Related parties (continued)

32.2 Major public entities (continued)

32.2.3 Related party transactions with key management personnel funded by the DBSA for the 2006/07 financial year

Name of Director	Name of project	Borrower	Amount	Declared at meeting	Interest rate	Nature of interest
Mr Jay Naidoo	Gautrain Infrastructure Project	Bombela (Pty) Ltd and Strategic Partners Group	Senior loan - R150 million Standby senior loan - R50 million Additional empowerment equity - R35 million	29 June 2006	6 month JIBAR plus 2,05% 6 month JIBAR plus 2,05% 6 month JIBAR plus 3,0%	Chairperson and shareholder of the J&J Group with interests in Murray & Roberts, which is a member of the consortium
Dr Iraj Abedian	Pan African Infrastructure Development Fund (PAIDF)	PAIDF	Equity - US$100 million	22 February 2007	n/a	Chief Executive of Pan-African Advisory Services, which provided consultancy services for the conceptualisation of the PAIDF
Dr Claudia Manning	PAIDF	PAIDF	Equity - US$100 million	22 February 2007	n/a	Director of Sangena Investments, which has been approached by the fund managers to provide consulting services
	Department of Foreign Affairs Building	SPV of Imbumba-Aganang Consortium	Senior loan - R150 million BEE equity finance - R79,8 million Performance guarantees - R70 million	29 March 2007	Indicative terms not yet finalised	Director of Sangena Investments, which is a transaction advisor on behalf of the Department of Foreign Affairs
Dr Lulu Gwagwa	Neotel Bridging & Nexus Empowerment Equity Finance	Neotel and Nexus Empowerment	Bridging facility - R466,7 million Equity loan - R151,5 million Preference shares - R100,5 million	18 October 2006	3 month JIBAR plus 2,5% 3 month JIBAR plus 2,5% 75% of prime rate	Involvement of close family member in Nexus

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousands of rands	2008	2007
33. Commitments		
At the date of the balance sheet, the Bank had the following commitments:		
33.1 Loan commitments		
Loans signed but not disbursed	**4 658 454**	5 317 004
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.		
33.2 Grants		
Grants signed but not disbursed	**72 359**	44 082
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.		
33.3 Capital commitments		
Capital expenditure in respect of property and equipment authorised but not contracted for	**91 387**	27 703
These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.		
34. Funds administered on behalf of third parties		
Balance at the beginning of the year	**244 942**	162 021
Funds received	**620 227**	484 708
Funds disbursed	**(483 772)**	(401 787)
Funds at the end of the year	**381 397**	244 942
35. Taxation		
The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, No. 58 of 1962, as amended and consequently no provision for normal taxation has been made.		
36. Retirement benefits		
36.1 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 Funds 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: 632 (2007: 530).		
Total amount expensed during the year (including group life assurance and income continuity benefits)	**36 208**	30 821

37. Restatements

Consequent to the adoption of IFRS 7, the following reclassifications have been performed on results previously disclosed:
Financial market assets and liabilities have been reclassified into investment securities, repurchase agreements, derivative assets and liabilities held for risk management, medium- to long-term funding debt securities and medium- to long-term funding lines of credit.

37.1 Balance sheet reclassifications and restatements at 31 March 2007

	As previously reported	IFRS 7	Restated
Assets			
Cash and cash equivalents	890 357	–	890 357
Other receivables	168 839	–	168 839
Financial market assets	5 265 217	(5 265 217)	–
Investment securities	–	3 704 714	3 704 714
Investments under resale agreements	–	640 374	640 374
Derivative assets held for risk management	–	872 007	872 007
Post-retirement medical benefits investment	74 175	–	74 175
Home ownership scheme loans	21 203	–	21 203
Equity investments	1 025 485	–	1 025 485
Development loans	20 197 036	–	20 197 036
Property and equipment	279 996	–	279 996
Intangible assets	3 716	–	3 716
Total assets	27 926 024	(48 122)	27 877 902
Liabilities			
Other creditors	497 463	(4)	497 459
Liability for funeral benefits	3 371	–	3 371
Liability for post-retirement medical benefits	172 204	–	172 204
Financial market liabilities	12 714 755	(12 714 755)	–
Medium- to long-term funding debt securities	–	7 281 303	7 281 303
Medium- to long-term funding lines of credit	–	4 223 367	4 223 367
Funding under repurchase agreements	–	1 137 685	1 137 685
Derivative liabilities held for risk management	–	24 282	24 282
Total liabilities	13 387 793	(48 122)	13 339 671
Equity			
Share capital	200 000	–	200 000
Retained earnings	9 746 769	–	9 746 769
Permanent government funding	3 792 344	–	3 792 344
Revaluation reserve on land and buildings	191 079	–	191 079
Hedging reserve	13 251	–	13 251
Reserve for general loan risks	613 420	–	613 420
Fair value reserve	(18 632)	–	(18 632)
Total equity	14 538 231	–	14 538 231
Total liabilities and equity	27 926 024	(48 122)	27 877 902

Notes to the financial statements (continued)

for the year ended 31 March 2008

37. Restatements (continued)

37.2 Income statement reclassifications and restatements at 31 March 2007

Consequent to the adoption of IFRS 7, fee and commission expenses relating to financial assets or liabilities that are not at fair value through profit or loss have been included in a separate line item in the income statement.

	As previously reported	IFRS 7	Restated
Interest income	2 540 813	5 134	2 545 947
Interest expense	(1 243 424)	–	(1 243 424)
Net interest income	1 297 389	5 134	1 302 523
Net fee income	–	46 807	46 807
Net foreign exchange gain	159 291	–	159 291
Net gain from financial assets and liabilities	190 833	(5 134)	185 699
Other operating income	189 110	(46 807)	142 303
	539 234	(5 134)	534 100
Operating income	1 836 623	–	1 836 623
Grants	(32 102)	–	(32 102)
Net impairment loss on financial assets	(17 925)	–	(17 925)
Personnel expenses	(346 798)	–	(346 798)
Other expenses	(151 378)	–	(151 378)
Depreciation and amortisation	(5 648)	–	(5 648)
Profit for the year	1 282 772	–	1 282 772

38. Schedule of Directors' emoluments

38.1 Remuneration of non-executive Directors and co-opted members of the Board

	Fees for services as Directors R	Subsistence and travel R	**Total 2008 R**	Total 2007 R
Dr I Abedian	135 000	360	**135 360**	249 480
Prof. B Figaji	90 000	–	**90 000**	79 424
Dr D Konar	345 000	720	**345 720**	434 940
Mr JB Magwaza	22 500	–	**22 500**	25 535
Mr J Naidoo	330 000	360	**330 360**	360 540
Ms N Gasa	37 500	420	**37 920**	53 133
Mr N Payne	–	–	**–**	38 580
Mr S Nondwangu	7 500	–	**7 500**	15 225
Ms T Chikane	15 000	–	**15 000**	90 720
Dr L Gwagwa	180 000	504	**180 504**	38 004
Dr C Manning	112 500	1 260	**113 760**	53 400
Mrs W Lucas-Bull	240 000	1 080	**241 080**	195 900
Mr A Boraine	67 500	41 002	**108 502**	52 608
Mr M Silinga	30 000	–	**30 000**	19 345
Mrs T Dingaan	90 000	684	**90 684**	52 932
Dr R Kfir	22 500	–	**22 500**	3 500
Mr O Mlaba	7 500	–	**7 500**	–
Mr JR Modise	22 500	180	**22 680**	53 400
Mr I Mzimela	105 000	2 920	**107 920**	–
Prof. O Latiff	75 000	–	**75 000**	–
Ms T Ramano	67 500	540	**68 040**	–
Prof. E Webster	45 000	360	**45 360**	–
	2 047 500	50 390	**2 097 890**	1 816 666

Notes to the financial statements (continued)

for the year ended 31 March 2008

38. Schedule of Directors' emoluments (continued)

38.2 Executive members' remuneration

	Basic salaries/fees R	Medical aid, group life and provident fund contributions R	Other allowances and benefits R	**Total 2008 R**	Total 2007 R
Chief Executive Officer and Managing Director					
P Baloyi	1 650 210	151 552	100 813	**1 902 575**	1 337 517
MSV Gantsho[1]	–	–	–	**–**	1 048 779
Executive managers	9 082 020	1 271 525	870 948	**11 224 493**	8 498 099
S Asamoah[2]	538 920	–	1 074	**539 994**	–
JH de V Botha[3]	–	–	–	**–**	302 660
P de la Rey[4]	639 214	105 453	102 240	**846 907**	–
E Dietrich	836 403	207 748	73 200	**1 117 351**	1 050 270
SJ Khoza	1 077 513	240 155	203 013	**1 520 681**	1 441 459
G Mantashe[5]	727 733	177 195	95 818	**1 000 746**	712 500
L Mashaba	978 633	199 117	227 033	**1 404 783**	1 274 724
LM Musasike	–	–	–	**–**	1 321 176
L Ndlovu	963 393	168 161	87 444	**1 218 998**	420 068
J Nhlapo[6]	48 755	13 020	9 004	**70 779**	75 797
A Tadesse[7]	1 137 502	–	8 930	**1 146 432**	823 196
L van Lelyveld	926 979	160 676	61 249	**1 148 904**	1 076 249
H Weilert[8]	1 206 975	–	1 943	**1 208 918**	–
Total	10 732 230	1 423 077	971 761	**13 127 068**	10 884 395

Note:

1. *Contract ended 30 June 2006.*
2. *Amount paid to third party from 1 October 2007 to 15 December 2007 (pound based).*
3. *Contract ended 30 June 2006.*
4. *Appointed 1 August 2007.*
5. *Resigned 31 January 2008.*
6. *Resigned 31 July 2007.*
7. *Amount paid to third party from 1 September 2006 (pound based).*
8. *Amount paid to third party from 1 October 2007.*

in thousands of rands	2008	2007

38. Schedule of Directors' emoluments (continued)

38.2 Executive members' remuneration (continued)

Performance incentives

	2008	2007
Chief Executive Officer and Managing Director		
P Baloyi	**1 500 000**	1 300 000
Executive managers	**6 905 000**	5 410 000
S Asamoah[1]	**–**	–
P de la Rey[2]	**800 000**	–
E Dietrich	**930 000**	735 000
SJ Khoza	**900 000**	720 000
G Mantashe[3]	**–**	680 000
L Mashaba	**1 000 000**	830 000
L Ndlovu	**850 000**	780 000
J Nhlapo[4]	**–**	75 000
A Tadesse[5]	**900 000**	780 000
L van Lelyveld	**1 000 000**	810 000
H Weilert[6]	**525 000**	–
Total	**8 405 000**	6 710 000

Severance payments

	2008	2007
Chief Executive Officer and Managing Director		
MSV Gantsho[7]	**–**	2 343 975
Executive managers		
JH de V Botha[8]	**–**	130 778
Total	**–**	2 474 753

Note:

1. *Amount paid to third party from 1 October 2007 to 15 December 2007 (pound based).*
2. *Appointed 1 August 2007.*
3. *Resigned 31 January 2008.*
4. *Resigned 31 July 2007.*
5. *Amount paid to third party from 1 September 2006 (pound based).*
6. *Amount paid to third party from 1 October 2007.*
7. *Contract ended 30 June 2006.*
8. *Contract ended 30 June 2006.*

39. Financial risk management

39.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements by containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury Division and is governed by the asset and liability management (ALM) policy, incorporating interest rate, currency and liquidity risk parameters. As with all risk management policies of the Bank, the ALM policy resides under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset and Liability Management Committee (ALCO). ALCO, under the oversight of the Finance Committee of the Board, is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance Division.

39.1.1 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their effect on interest rate sensitive assets and liabilities. At the same time, movements in interest rates impact on the Bank's capital through their effect on the market value of assets and liabilities. Interest rate risk in the Bank arises as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities repricing at any one time and, to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The Treasury Division, under oversight of the ALCO, is charged with managing and containing the Bank's interest rate risk exposures within acceptable boundaries. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure over both the short and the long term, in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative repricing gap-to-total earning assets ratio and, in the longer term, with respect to the duration of the Bank's net assets. As at 31 March 2008, the 12-month cumulative gap amounted to 9,4% of total earning assets, well within the approved limit of 22,5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks, both up and down, of at least 200 basis points.

The repricing profile as at financial year-end is encapsulated in the table below. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R11 million (2007: R17 million).

39.1.1.1 Hedging of interest rate risk exposure

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

At 31 March 2008, the Bank had interest rate swaps with a total notional contract amount of R3,9 billion (2007: R2,6 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value. The net fair value of swaps as at 31 March 2008 was R255 million (2007: R553 million), comprising assets of R327 million (2007: R559 million) and liabilities of R72 million (2007: R6 million). These amounts are recognised as derivative assets and liabilities (refer to note 19 for details).

39. Financial risk management (continued)

39.1 Market risk (continued)

39.1.1.2 Interest rate sensitivity analysis

The table below reflects the repricing periods in respect of interest-bearing financial assets and liabilities.

in millions of rand	Currency	<1 month	1–3 months	3–12 months	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	Total
Cash and cash equivalents	ZAR	1 289,59	–	–	–	–	–	–	–	1 289,59
	EUR	1,37	–	–	–	–	–	–	–	1,37
	USD	544,13	–	–	–	–	–	–	–	544,13
Money market instruments	ZAR	172,00	–	–	–	–	–	–	–	172,00
Repurchase assets	ZAR	1 089,01	–	–	–	–	–	–	–	1 089,01
Investment: Government bonds	ZAR	–	–	288,43	–	658,40	–	–	1 042,70	1 989,53
Investment: Municipal bonds	ZAR	–	–	–	–	50,00	–	–	200,00	250,00
Investment: Corporate bonds	ZAR	–	80,00	80,00	10,00	40,00	–	30,00	60,00	300,00
Development loans	EUR	–	–	1,54	1,54	2,31	2,70	1,55	11,22	20,86
	USD	39,99	61,43	2 820,83	24,66	25,28	25,95	26,74	37,87	3 062,75
	ZAR	273,19	2 719,24	3 382,68	1 012,67	1 024,24	876,12	1 098,18	9 494,97	19 881,29
	ZMK	–	40,46	–	–	–	–	–	–	40,46
Cross-currency swaps: Development loans	USD	(290,77)	36,13	(124,39)	(151,78)	(212,56)	(43,60)	(41,73)	(82,59)	(911,29)
	ZAR	260,45	–	117,65	149,07	223,56	45,65	44,84	94,68	935,90
	ZMK	–	(40,46)	–	–	–	–	–	–	(40,46)
Financial market assets		3 378,96	2 896,80	6 566,74	1 046,16	1 811,23	906,82	1 159,58	10 858,85	28 625,14
Cross-currency swaps: Lines of credit	EUR	41,97	36,51	98,93	169,98	178,01	182,70	155,24	1 321,01	2 184,35
	USD	–	–	5,94	5,79	5,63	5,48	5,33	5,17	33,34
	ZAR	(99,71)	(626,03)	(27,91)	(50,58)	(54,85)	(54,69)	(54,53)	(387,52)	(1 355,82)
Funding: Bonds	ZAR	–	–	–	–	(1 895,25)	–	–	(5 912,77)	(7 808,02)
Funding: Lines of credit	EUR	(41,97)	(36,50)	(98,92)	(169,95)	(177,99)	(182,67)	(155,22)	(1 321,13)	(2 184,35)
	USD	–	(927,83)	(1 074,12)	(5,02)	(5,02)	(5,02)	(5,02)	(5,02)	(2 027,05)
	ZAR	–	–	(351,40)	(100,00)	(200,00)	–	–	–	(651,40)
Interest rate swaps: Funding bonds	ZAR	(215,00)	(2 000,00)	(1 000,00)	–	–	–	–	3 215,00	–
Interest rate swaps: Lines of credit	ZAR	–	(300,00)	100,00	100,00	100,00	–	–	–	–
Funding: Money market debt	USD	–	(569,10)	–	–	–	–	–	–	(569,10)
	ZAR	(334,00)	(830,00)	(30,00)	–	–	–	–	–	(1 194,00)
Repurchase liability	ZAR	(1 862,05)	–	–	–	–	–	–	–	(1 862,05)
Financial market liabilities total		(2 510,76)	(5 252,95)	(2 377,48)	(49,78)	(2 049,47)	(54,20)	(54,20)	(3 085,26)	(15 434,10)
Repricing gap		868,20	(2 356,15)	4 189,26	996,38	(238,24)	852,62	1 105,38	7 773,59	13 191,04
Cumulative repricing gap		–	(1 487,95)	2 701,31	3 697,69	3 459,45	4 312,07	5 417,45	13 191,04	–

These are principal amounts only,
and therefore exclude interest

Spot exchange rate used: EUR/USD: 1,581
USD/ZAR: 8,13
USD/ZMK: 3,660

39. Financial risk management (continued)

39.1 Market risk (continued)

39.1.2 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

As at 31 March 2008, the net open foreign currency position on the Bank's interest-bearing assets and liabilities amounted to assets of USD11 million (2007: USD28 million) and EUR1,7 million (2007: EUR1,9 million). In addition, foreign currency equity investments amounted to a net asset position of USD29 million (2007: USD48 million) and EUR778 839 (2007: EUR974 000).

39.1.2.1 Hedge of foreign currency risk exposure

The Bank uses cross-currency swaps to hedge its foreign currency risk. The principal terms of these swaps are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values and amortisation profile. As at 31 March 2008, the Bank had cross-currency swaps with a notional amount of R2,7 billion (2007: R1,6 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at balance sheet date.

39.1.2.2 Foreign currency sensitivity analysis

	Currency	
in thousands	EUR	USD
Cash: Customer foreign currency	107	66 929
Development loans	1 623	376 723
Equity investments	779	68 595
Derivatives: funding	169 942	4 101
Derivatives: Development loans	–	(112 091)
Derivatives: Equity investments	–	(40 000)
Euro funding	(169 942)	
USD funding	–	(324 330)
Net open positions	2 509	39 927

39. Financial risk management (continued)

39.1 Market risk (continued)

39.1.2.2 Foreign currency exchange rate sensitivity analysis (continued)

in thousands	ZAR	EUR potential impact	EUR/ZAR	USD potential impact	USD/ZAR
		12,85353		8,13000	
FX sensitivity impact combined	Exchange rate shock				
(R89 212)	(25,00%)	(8 060)	9,64015	(81 152)	6,09750
(R53 527)	(15,00%)	(4 836)	10,92550	(48 691)	6,91050
(R35 685)	(10,00%)	(3 224)	11,56818	(32 461)	7,31700
R0	0,00%	–	12,85353	–	8,13000
R35 685	10,00%	3 224	14,13888	32 461	8,94300
R53 527	15,00%	4 836	14,78156	48 691	9,34950
R89 212	25,00%	8 060	16,06691	81 152	10,16250
Spot exchange rate used:	EUR/USD: 1,581 USD/ZAR: 8,13 USD/ZMK: 3,660				

Potential impact of exchange rate shock on profit/(loss) based on current net open position/currency exposures.

39.1.3 Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBSA, this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors, and operational expenditure. In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management objective is to maintain a level of liquid assets sufficient to meet the Bank's cash requirements for a period of at least 12 months. To this effect, the Bank's policy requires the maintenance of prudential liquidity levels based on 12-month projected net cash requirements.

In order to balance the prudential requirement for sufficient levels of liquidity against the potentially adverse impact of negative carry cost from time to time, the liquidity portfolio consists of two pools, viz, the Operational Liquidity Pool, which is aimed at ensuring sufficient cash to meet the Bank's near term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposits, banker's acceptances as well as liquid debt issues from government, parastatals and other approved issuers. It also includes bonds designated as "held to maturity" if the remaining maturity is less than three months. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity gross of funds raised on the bond repo market averaged R4,4 billion (2007: R4,3 billion), with a year-end figure of R4,7 billion (2007: 4,8 billion). This includes cash and cash equivalents of R2,5 billion, corporate bonds of R212 million, and government bonds amounting to R1,97 billion.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term note programme, and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report, which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2008 was approximately R1,4 billion.

39. Financial risk management (continued)
39.1 Market risk (continued)
39.1.3.1 Liquidity sensitivity analysis

in millions of rand	Currency	<1 month	1–3 months	3–12 months	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	Total
Cash and cash equivalents	ZAR	1 289,59	–	–	–	–	–	–	–	1 289,59
	EUR	1,37	–	–	–	–	–	–	–	1,37
	USD	544,13	–	–	–	–	–	–	–	544,13
Money market instruments	ZAR	47,00	125,00	–	–	–	–	–	–	172,00
Repurchase assets	ZAR	1 089,01	–	–	–	–	–	–	–	1 089,01
Investment: Government bonds	ZAR	–	–	288,43	–	658,40	–	–	1 042,70	1 989,53
Investment: Municipal bonds	ZAR	–	–	–	–	50,00	–	–	200,00	250,00
Investment: Corporate bonds	ZAR	–	80,00	80,00	10,00	40,00	–	30,00	60,00	300,00
Development loans	EUR	–	–	1,54	1,54	2,31	2,70	1,55	11,22	20,86
	USD	39,99	14,19	273,22	393,66	454,11	350,94	445,38	1 091,26	3 062,75
	ZAR	6,31	285,42	1 337,71	1 562,70	1 617,43	1 253,55	1 572,19	12 245,97	19 881,28
	ZMK	–	5,06	5,06	10,11	10,11	10,11	0,00	0,00	40,45
Cross-currency swaps: Development loans	USD	(48,49)	4,52	(140,00)	(182,99)	(249,58)	(86,43)	(73,47)	(134,86)	(911,30)
	ZAR	45,11	–	135,93	185,64	265,06	92,09	72,99	139,07	935,89
	ZMK	–	(5,06)	(5,06)	(10,11)	(10,11)	(10,11)	–	–	(40,45)
Financial market assets total		3 014,02	509,13	1 976,83	1 970,55	2 837,73	1 612,85	2 048,64	14 655,36	28 625,11
Cross-currency swaps: Lines of credit	EUR	41,97	36,51	98,93	169,98	178,01	182,70	155,24	1 321,01	2 184,35
	USD	–	–	5,94	5,79	5,63	5,48	5,33	5,17	33,34
	ZAR	(19,80)	(25,58)	(61,57)	(107,04)	(112,71)	(115,49)	(97,26)	(816,36)	(1 355,81)
Funding: Bonds	ZAR	–	–	–	–	(1 895,25)	–	–	(5 912,77)	(7 808,02)
Funding: Lines of credit	EUR	(41,97)	(36,50)	(98,92)	(169,95)	(177,99)	(182,67)	(155,22)	(1 321,13)	(2 184,35)
	USD	–	(9,56)	(269,26)	(278,83)	(278,83)	(274,04)	(236,02)	(680,51)	(2 027,05)
	ZAR	–	–	(141,90)	(141,90)	(241,90)	(41,90)	(41,90)	(41,90)	(651,40)
Interest rate swaps: Funding bonds	ZAR	–	–	–	–	–	–	–	–	–
Interest rate swaps: Lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: Money market debt	USD	–	(569,10)	–	–	–	–	–	–	(569,10)
	ZAR	(334,00)	(830,00)	(30,00)	–	–	–	–	–	(1 194,00)
Repurchase liability	ZAR	(1 862,05)	–	–	–	–	–	–	–	(1 862,05)
Financial market liabilities total		(2 215,85)	(1 434,23)	(496,78)	(521,95)	(2 523,04)	(425,92)	(369,83)	(7 446,49)	(15 434,09)
Liquidity gap		798,17	(925,10)	1 480,05	1 448,60	314,69	1 186,93	1 678,81	7 208,87	13 191,02
Cumulative liquidity gap			(126,93)	1 353,12	2 801,72	3 116,41	4 303,34	5 982,15	13 191,02	

These are principal amounts only, and therefore exclude interest

Spot exchange rate used: EUR/USD: 1,581
USD/ZAR: 8,13
USD/ZMK: 3,660

39. Financial risk management (continued)

39.2 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. Credit risk arises primarily from the Bank's lending activities in South Africa and other SADC countries, and from its Treasury operations.

Credit risk is inherent to the DBSA's development finance operations and constitutes the single largest component of the Bank's overall risk. In recognition of its importance in ensuring continued financial sustainability, credit risk is proactively managed through a suite of stringent risk policies and limit structures approved by the Board of Directors from time to time.

39.2.1 Credit risk management

Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities. The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee. An authorisation structure has been established for the approval and renewal of credit facilities within the limits of the delegated authority. Tiered authorisation limits are allocated to business unit managers, divisional executives, the CEO, and the Corporate Credit Committee. Credit authorisations falling outside of the mandates of the CEO and Corporate Credit Committee require approval by the Board Investment Committee.

The Credit Risk Unit, reporting to the Chief Risk Officer, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, determining collateral requirements, credit assessment, measurement, quantification and reporting;
- Limiting concentrations of exposure to counterparties, countries and sectors
- Reviewing compliance of business units with approved exposure limits, including those for selected sectors and country risk. Reporting regularly to the Risk and Compliance Committee and the Audit Committee of the Board on the credit quality of the loan book, and making recommendations on appropriate corrective action where deemed prudent
- Undertaking pre-signature risk analyses and post-signature asset monitoring (asset management) and portfolio analyses

At a transactional level, 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 internally developed methodologies, specifically calibrated to allow differentiation between different client categories (e.g. municipalities, parastatals, utilities and tertiary education institutions) to ensure a thorough and all-embracing risk assessment of each client. The model relies on Moody's KMV Probability of Defaults (PDs), which are released annually. Each borrower is assigned an internal credit rating, which is in turn mapped to Moody's PDs. The Bank therefore categorises its current exposures according to the Moody's KMV 16–grade rating scale default probabilities, which correspond to a statistical probability of customers in each rating class defaulting within a 12-month period. The results of the internal rating process are periodically validated by reputable credit rating agencies to test the model's accuracy, stability and continued relevance.

The internal credit ratings of all clients are reassessed on a semi-annual basis, as part of the ongoing risk monitoring process. At the client or transactional level, these assessments serve as one of the Bank's primary mechanisms through which client credit quality is monitored. At the portfolio level, results of the semi-annual rating reviews are aggregated on the basis of consistent criteria, viz. default probabilities, industry and geographical sector, and the portfolio assessed to measure and monitor changes in its credit quality and diversification.

The semi-annual risk classification process is documented in a credit risk migration report, which forms the basis for determining the Bank's provision for impaired assets. 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 decision process, the Bank also requires collateral in the form of eligible assets or third-party guarantees when deemed prudent.

All lending decisions are further subject to an independent risk review performed by the Credit Risk Unit. This review aims to ensure that all significant risks have been identified and, where deemed prudent, appropriately mitigated.

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.2 Country risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country reduce the ability of counterparties in that country to meet their financial obligations. It arises from the Bank's lending operations in other SADC countries. Country risk is managed through an all-inclusive risk assessment process, which takes cognisance of political, economic and legal factors that determine the risk profile of individual countries. The risk profiles of the respective countries form the basis for the Bank's country exposure limit structure, aimed at managing concentration risk at the country level. Country ratings are reviewed annually and the limits adjusted accordingly for each financial year. In addition, aggregate investment in other SADC countries is limited to one-third of the Bank's maximum total investment portfolio.

39.2.3 Financial counterparty credit risk

Credit risk also arises in the form of financial counterparty risk from Treasury operations, primarily from the Bank's cash and liquidity management activities, from in-the-money derivatives positions established to hedge undesired market and credit risk exposures, and from transactions in the bond carry and repo markets. Financial counterparty credit risk comprises two components, namely:

- Pre-settlement risk, which is defined as the risk of loss from the failure of a counterparty to honour its obligations during the life, up to maturity or sale, of an asset
- Settlement risk, which relates to the risk of loss resulting from the failure of a couterparty to a trade to meet its obligations in full on the agreed value date

Credit risk exposure on investment and derivative transactions is measured in terms of current exposure, representing the loss to the Bank in the event of counterparty default. The credit exposure to a particular counterparty is defined as the aggregate sum of all individual transaction and instrument exposures to that counterparty, net of acceptable collateral posted, and in cases where appropriate set-off agreements are in place, net of eligible obligations to such party.

The Bank maintains stringent rating eligibility criteria for counterparties and adheres to a framework of exposure limits based on the counterparty's external credit rating, subject to a maximum of 10% of the Bank's capital. All transactions are governed by approved counterparty and settlement limits. Exposure to pre-settlement risk is reduced through the execution of master netting agreements, such as the International Swaps and Derivatives Association (ISDA) agreements between the Bank and its derivative counterparties. Settlement risk is further mitigated through simultaneous settlement of transactions.

Counterparty limits are complemented by instrument limits and portfolio concentration limits. Compliance to credit limits and policy is overseen by an independent risk analyst. 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.

As at 31 March 2008, the Bank's financial counterparty credit portfolio, excluding the government bond portfolio, amounted to R3,0 billion (2007: R2,1 billion). The table below presents a summary of the maximum exposure to financial counterparty credit risk by financial instrument type, gross of acceptable collateral and set-off agreements.

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure

Tables 1.1, 1.2 and 1.3 below depict the Bank's credit risk exposures as at 31 March 2008 under the categories loan book (including guarantees and undisbursed loan commitments), other receivables, and financial counterparty exposures, respectively.

in thousand of rands		2008 Gross amount	2008 Allowance for impairment	2008 Carrying amount
1.1 Maximum exposure				
1.1.1 Development loans:				
Non-performing book				
Municipalities		262 555	72 702	189 853
Other		973 897	389 097	584 800
		1 236 452	461 799	774 653
Performing book				
Low risk	Municipal	9 277 078	4 932	9 272 146
	Other	5 562 972	40 010	5 522 962
Medium risk	Municipal	1 238 882	3 204	1 235 678
	Other	6 023 582	50 503	5 973 079
High risk	Municipal	105 124	8	105 116
	Other	432 981	28 286	404 695
		22 640 619	126 943	22 513 676
Included re-negotiated loans		144 528	329	144 199
Total book debt		23 877 071	588 742	23 288 329

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousand of rands		2008 Gross amount	2008 Allowance for impairment	2008 Carrying amount
39. Financial risk management (continued)				
39.2 Credit risk (continued)				
39.2.4 Credit risk exposure (continued)				
1.1.2 Commitments:				
(Loans signed, but not yet fully disbursed)				
Low risk	Municipal	**2 639 872**		
	Other	**577 855**		
Medium risk	Municipal	**58 566**		
	Other	**1 275 794**		
High risk	Municipal	**1 825**		
	Other	**104 542**		
Total fixed commitments		**4 658 454**		
1.1.3 Guarantees		**501 450**		

in thousands of rands	Total	3 months	2008 3–6 months	6–12 months	>12 months

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure (continued)

1.2 Loans that are past due or individually impaired

1.2.1 Loans past due but not individually impaired:

in thousands of rands	Total	3 months	3–6 months	6–12 months	>12 months
Overdue amounts	**105 651**	**97 322**	**4 468**	**3 384**	**477**
Not yet due	**2 859 513**				
Total	**2 965 164**				

The fair value of collateral held in respect of the above amounted to R670 million. For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

1.2.2 Individually impaired loans (non-performing book):

Expected recovery rate for individually impaired loans

	Gross amount	Allowance for impairment	Carrying amount
0% to 10%	**91 666**	**91 666**	**–**
11% to 40%	**130 787**	**92 997**	**37 790**
41% to 60%	**290 099**	**144 263**	**145 836**
61% to 99%	**723 900**	**132 873**	**591 027**
	1 236 452	**461 799**	**774 653**

The fair value of collateral held in respect of the above amounted to R434 million. For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments, insurance policies and promissory notes.

Notes to the financial statements (continued)

for the year ended 31 March 2008

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure (continued)

1.1 Maximum exposure

1.1.1 Development loans:

in thousand of rands		2007 Gross amount	2007 Allowance for impairment	2007 Carrying amount
Non-performing book				
Municipalities		273 474	58 556	214 918
Other		728 208	315 194	413 014
		1 001 682	373 750	627 932
Performing book				
Low risk	Municipal	8 280 822	2 594	8 278 228
	Other	7 518 346	32 572	7 485 774
Medium risk	Municipal	1 013 352	2 211	1 011 141
	Other	2 297 155	15 637	2 281 518
High risk	Municipal	148 488	1 432	147 056
	Other	376 726	11 339	365 387
		19 634 889	65 785	19 569 104
Included re-negotiated loans		149 566	764	148 802
Total book debt		20 636 571	439 535	20 197 036

1.1.2 Commitments:

(Loans signed, but not yet fully disbursed)		Gross amount
Low risk	Municipal	1 433 297
	Other	1 512 928
Medium risk	Municipal	181 162
	Other	1 429 106
High risk	Municipal	74 878
	Other	685 631
Total fixed commitments		5 317 002
1.1.3 Guarantees		492 937

in thousand of rands	Total	3 months	3 to 6 months	2007 6 to 12 months	More than 12 months

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure (continued)

1.2 Loans that are past due or individually impaired

1.2.1 Loans past due but not individually impaired:

	Total	3 months	3 to 6 months	6 to 12 months	More than 12 months
Overdue amounts	13 771	6 161	4 913	1 903	794
Not yet due	4 938 659				
Total	4 952 430				

The fair value of collateral held in respect of the above amounted to R523 million. For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

1.2.2 Individually impaired loans (non-performing book):

Expected recovery rate for individually impaired loans

	Gross amount	2007 Allowance for impairment	Carrying amount
0% to 10%	136 545	136 545	–
11% to 40%	124 773	88 407	36 366
41% to 60%	142 949	67 617	75 332
61% to 99%	597 415	81 181	516 234
	1 001 682	373 750	627 932

The fair value of collateral held in respect of the above amounted to R293 million. For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments, insurance policies and promissory notes.

Notes to the financial statements (continued)

for the year ended 31 March 2008

in thousand of rands		Gross amount (2008)	Allowance for provision (2008)	Carrying amount (2008)
39. Financial risk management (continued)				
39.2 Credit risk (continued)				
39.2.4 Credit risk exposure (continued)				
1.2 Maximum exposure				
1.2.1 Other receivables				
Debtors 90 days and over	Fees and sales invoiced	3 233	2 476	757
	Special programmes/projects/miscellaneous	1 528	1 528	–
		4 761	4 004	757
Debtors current to 90 days				
Low risk	Fees and sales invoiced	22 213	–	22 213
Current – 30 days	Travel advances	120	–	120
	Special programmes/projects/miscellaneous	320	–	320
Medium risk	Fees and sales invoiced	2 143	–	2 143
30 days – 60 days	Special programmes/projects/miscellaneous	(16)	–	(16)
High risk	Fees and sales invoiced	376	–	376
60 days – 90 days	Special programmes/projects/miscellaneous	179	–	179
		25 335	–	25 335
Staff and study loans		453	371	82
Municipal deposits		111	–	111
Prepaid expenses		2 097	–	2 097
		2 661	371	2 290
Total book debt		32 757	4 375	28 382

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure (continued)

1.2 Maximum exposure

1.2.1 Other receivables

in thousand of rands		2007 Gross amount	2007 Allowance for provision	2007 Carrying amount
Debtors 90 days and over	Fees and sales invoiced	1 004	1 004	–
	Special programmes/projects/miscellaneous	(1 088)	2 469	(3 557)
		(84)	3 473	(3 557)
Debtors current to 90 days				
Low risk	Fees and sales invoiced	11 111	–	11 111
Current – 30 days	Travel advances	71	–	71
	Special programmes/projects/miscellaneous	2 633	–	2 633
Medium risk	Fees and sales invoiced	3 549	–	3 549
30 days – 60 days	Special programmes/projects/miscellaneous	(6 420)	–	(6 420)
High risk	Fees and sales invoiced	2 916	–	2 916
60 days – 90 days	Special programmes/projects/miscellaneous	112	–	112
		13 972	–	13 972
Staff and study loans		787	423	364
Municipal deposits		111	–	111
Prepaid expenses		2 262	–	2 262
		3 160	423	2 737
Total book debt		17 048	3 896	13 152

39. Financial risk management (continued)

39.2 Credit risk (continued)

39.2.4 Credit risk exposure (continued)

	2008 Exposure R 000	2007 Exposure R 000
1.3 Financial counterparty exposure		
Bonds	**480 955**	598 434
Derivatives	**951 429**	860 249
Cash and money market instruments	**2 527 918**	991 892
Repurchase agreements	**36 294**	21 098
Grand total	**3 996 596**	2 471 673

39.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulations made under section 17 of the Development Bank of Southern Africa Act (No. 13 of 1997).

The Bank's objectives in managing its capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities
- To maintain an adequate credit rating to ensure the Bank continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a selfimposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28,6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises all financial market liabilities (as shown on the balance sheet). Capital comprises share capital, permanent government funding, retained earnings, reserve for general loan risks, and fair value reserve. As at 31 March 2008, the debt to equity ratio stood at 107,8% (2007: 88,3%), with the capital ratio at 46,8% (2007: 51,6%).

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DBSA

Development Bank
of Southern Africa

Annual report team

Project sponsor	Pieter de la Rey
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Assisted by	Saleh Coovadia; Thami Dlalisa; Lynn Dube; Rewai Gandidzanwa; Mansoor Gaffar; Keneiloe Kgoroeadira; Ntokozo Langa; Mabana Makhakhe; Lucky Madikiza; Dumisani Magadlela; Stephen Mamabolo; Portia Matamela; Rita McClarys; Bernard Mhango; Lanushar Moodley; Nelly Rampete; Fikile Rouget; Booye Rousseau; Preetha Sooful; Khathutshelo Tshipala; Dries van Niekerk; Susan Visser; Anthoula Walton
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DBSA Development Fund

Vision

The DBSA Development Fund's vision is to be a leading catalyst in institutional capacity building in order to maximise the impact of development finance in South Africa.

Mission

The mission of the DBSA Development Fund is to capacitate municipalities and communities for effective and sustainable service delivery and economic development in order to improve the quality of life.

Products and services

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

- **Funds:** Capacity building through grants and unlocking of other financial resources through effective collaboration and partnerships, both within the public and private sectors.
- **Expertise:** Mobilisation and deployment of technical expertise to ensure implementation of infrastructure projects, particularly through the Siyenza Manje programme.
- **Development facilitation:** Technical support and sharing of knowledge to support sustainable development of local communities, through the Sustainable Communities programme.
- **Training:** Delivery and facilitation of training courses to address skills gaps and training needs within institutions, through the Vulindlela Academy of the DBSA.
- **Institutional turnaround interventions:** The identification and planning of catalytic projects to enable sustainable local economic development through the recently launched Local Economic Development Initiative (LEDI).

Guiding principles

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

- **Additionality:** to add value to the funding, experience and expertise provided by other development agencies
- **Forming strategic alliances:** to provide support in partnership with other stakeholders who have a common interest with the Fund
- **Focusing on development impact:** to ensure that programmes or projects improve the quality of life of communities
- **Sustainability:** to ensure that programmes or projects have a lasting effect on institutions, the environment and the economy, and that they benefit future generations
- **Empowerment:** to ensure that programmes or projects bring communities into the mainstream economy, and that skills are transferred to recipients and beneficiaries

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DBSA Development Fund

Contents

Abbreviations

BEE	black economic empowerment
BSC	Balanced Scorecard
CAPEX	capital expenditure
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa Limited
€	euro
Fund	DBSA Development Fund
HESA	Higher Education South Africa
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
JIPSA	Joint Initiative for Priority Skills Acquisition
LED	local economic development
LGSETA	Local Government Sector Education and Training Authority
MIG	Municipal Infrastructure Grant
NEPAD	New Partnership for Africa's Development
R	South African rand
SAICE	Southern African Institution of Civil Engineering
SALGA	South African Local Government Association
US$	United States dollar

Financial year

The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2007/08, are to the financial year ended 31 March.

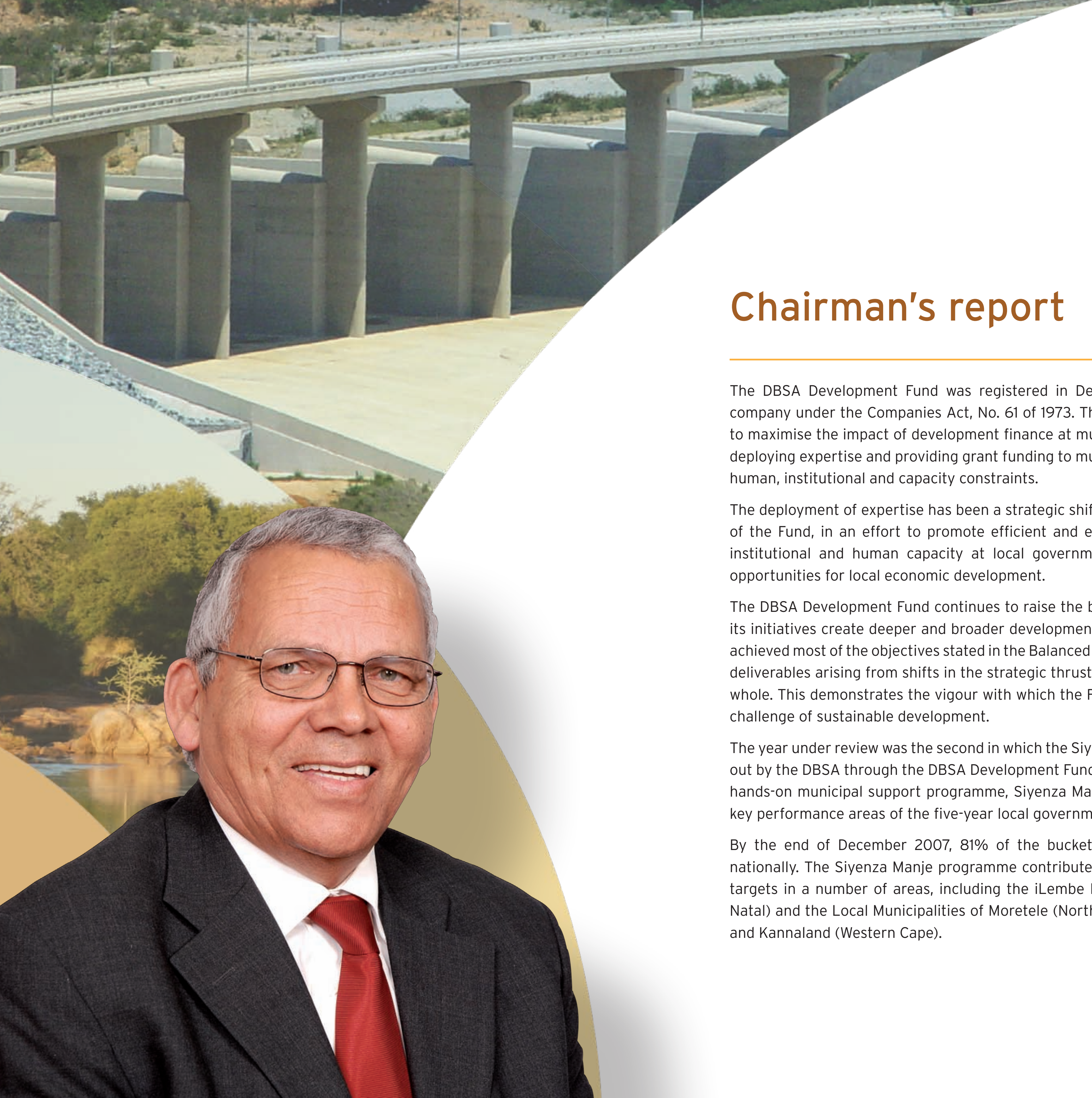
Business and financial overview

Financial results	2008 R million	2007 R million	2006 R million
Grant received from the DBSA	**–**	–	172,0
Grant received from the National Treasury[1]	**85,0**	–	–
Capacity building grants disbursed[2]	**59,8**	67,3	120,4
Development facilitation costs	**2,9**	6,6	9,6
Siyenza Manje costs[3]	**121,3**	42,2	–
Operating expenditure[4]	**6,6**	5,8	9,0
Funding reserve	**104,2**	209,9	331,8
Approvals for the year	**49,3**	20,4	70,0
Grant commitments at end of year	**102,3**	139,3	227,2

Comments on the summary of results

1. The National Treasury transferred a grant of R168,9 million to the Siyenza Manje programme, of which R85 million is recognised as a grant received in the income statement, while the balance is reflected as deferred income in the balance sheet. This is in terms of the accounting statements on government grants, which require that such grants be recognised as income over the period necessary to match them with the related costs they are intended to compensate. The interest received on the National Treasury contribution is also included in deferred income in the balance sheet.
2. Capacity building grants decreased marginally from the previous year and were in line with expected disbursements.
3. The Siyenza Manje programme gained momentum as a growing number of experts and young professionals were deployed in local authorities. This resulted in a 188% increase in this expenditure from the previous year.
4. Operating expenditure grew marginally even though the management fee increased by 140%, largely due to certain costs previously recognised as operating expenditure and now reflected as Siyenza Manje due to the programme being the main focus of the Development Fund.


2001



Chairman's report

The DBSA Development Fund was registered in December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance at municipal level by mobilising and deploying expertise and providing grant funding to municipalities in order to address human, institutional and capacity constraints.

The deployment of expertise has been a strategic shift from the traditional mandate of the Fund, in an effort to promote efficient and effective service delivery, build institutional and human capacity at local government level, and help to create opportunities for local economic development.

The DBSA Development Fund continues to raise the bar in its efforts to ensure that its initiatives create deeper and broader development impact. In 2007/08, the Fund achieved most of the objectives stated in the Balanced Scorecard, including additional deliverables arising from shifts in the strategic thrust of the Development Bank as a whole. This demonstrates the vigour with which the Fund's staff have embraced the challenge of sustainable development.

The year under review was the second in which the Siyenza Manje initiative was rolled out by the DBSA through the DBSA Development Fund. As the government's flagship hands-on municipal support programme, Siyenza Manje is aimed at addressing the key performance areas of the five-year local government strategic agenda.

By the end of December 2007, 81% of the bucket system had been eradicated nationally. The Siyenza Manje programme contributed to the achievement of these targets in a number of areas, including the iLembe District Municipality (KwaZulu-Natal) and the Local Municipalities of Moretele (North West), Thabazimbi (Limpopo) and Kannaland (Western Cape).

"The DBSA Development Fund continues to raise the bar in its efforts to ensure that its initiatives create deeper and broader development impact."

During the year, on-the-job training of municipal officials by experts went well. In order to strengthen the initiative, the Board approved full funding for follow-up classroom training of selected officials. The facility has also been extended to councillors, allowing them to benefit from training on the financial management of public entities.

The Board of the Fund has also engaged Higher Education South Africa (HESA) to find ways of improving the supply of graduates in the critical skills and to review curricula so that they align with municipal requirements. The process provides good opportunities to build a pipeline of skills for municipalities on a more sustainable basis and reduce graduate unemployment.

Another training-related initiative is the structured Young Professionals Programme implemented in partnership with the South African Institution of Civil Engineering (SAICE) and the Institute of Municipal Finance Officers (IMFO), which will supply 100 registered professionals by 2011. Additionally, a pilot programme for artisans has been initiated in North West to provide municipalities with staff for operations and maintenance.

Following the signing of a Memorandum of Understanding between the Fund and the Gauteng Provincial Department of Local Government on 1 December 2007, the Siyenza Manje programme was extended to cover all nine provinces. An additional 14 municipalities in Gauteng now receive support in areas such as technical and financial expertise.

In the year ahead, the Fund will be working with national stakeholders such as the National Treasury, the Department of Water Affairs and Forestry, the Department of Provincial and Local Government, and the South African Local Government Association (SALGA) to prepare Consolidated Infrastructure Plans aimed at improving baseline data for municipalities. This information will be critical for preparing municipal infrastructure plans and analysing the contribution and development impact of the Siyenza Manje programme.

I would like to congratulate the team on achieving significantly better results than last year. As a result of the Fund's operations:

- R2,57 billion of the government's municipal infrastructure grants were unlocked
- 1 605 infrastructure projects are under implementation
- 271 667 households were connected to water
- 132 921 households received upgraded sanitation facilities

Finally, I am grateful to my fellow Board members for their invaluable support with implementing and expanding the Siyenza Manje programme, reviewing the mandate of the Fund and accordingly providing strategic guidance to management.

Brian Figaji

Board of Directors

Prof Brian de Lacy Figaji (63)
Company Director

Chairman of the DBSA Development Fund Board as from:
21 February 2006

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)

Other directorships:
- Bovidae Investments – Non-executive Director
- Cape Lime – Non-executive Director
- Development Bank of Southern Africa – Non-executive Director
- Dormell – Chairman of the Board (non-executive)
- Gemini Moon Ltd – Non-executive Director
- HHO Africa – Chairman of the Board (non-executive)
- I&J Holdings – Chairman of the Board (non-executive)
- Marib Holdings – Chairman of the Board (non-executive)
- Nedbank Ltd – Non-executive Director
- PetroSA – Non-executive Director

Mr Paul Cambo Baloyi (52)
Chief Executive Officer and Managing Director: DBSA

DBSA Development Fund Chief Executive Officer as from:
1 July 2006

Academic qualifications:
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

Other directorships:
- Business Ventures – Non-executive Director
- Chrometco Ltd – Non-executive Director
- Harith Fund Managers – Non-executive Director
- Nulane Investment Holdings PL – Non-executive Director
- Pan African Investment Fund – Non-executive Director
- Platinum High Tech Park Development (Pty) Ltd – Non-executive Director
- TCX Investment Management Company – Non-executive Director

Dr Iraj Abedian (52)
Chief Executive Officer and Chief Economist: Pan-African Advisory Services

DBSA Development Fund Director as from:
21 December 2001

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

Other directorships:
- Applied Fiscal Research Centre (AFReC), University of Cape Town – Non-executive Director
- IAMA Global Trade – Non-executive Director
- Munich Re – Non-executive Director
- National Business Initiative – Non-executive Director
- Transnet Ltd – Non-executive Director
- Velvet Moon Stones – Non-executive Director

Mr Andrew Boraine (49)
Chief Executive Officer: Cape Town Partnership

DBSA Development Fund Director as from:
24 November 2005

Academic qualifications:
- BA Hons (Economic History), University of Cape Town (1987)
- BA (History), University of Cape Town (1983)

Other directorships:
- Accelerate Cape Town – Non-executive Director
- Cape Town City Hall Redevelopment and Management Company – Non-executive Director
- Convenco – Chairman of the Board (Non-executive)
- Development Bank of Southern Africa – Non-executive Director
- SA Cities Network – Non-executive Director
- St Patrick's Trust – Trustee

Mr Nick Christodoulou (59)

Chief Executive: Business Development, Sanlam

DBSA Development Fund Director as from:

22 August 2002

Academic qualifications:

MBA, University of Pretoria (1976)

BSc Engineering (Industrial), University of Pretoria (1973)

Other directorships:

Coris Capital (Pty) Ltd – Non-executive Director

Gensec Property Services Ltd – Non-executive Director

Punter Southall Group – Non-executive Director

Sanlam Employee Benefits – Non-executive Director

University of the Western Cape – Council Member

Ms Nomboniso Gasa (40)

Independent gender and policy analyst

DBSA Development Fund Director as from:

1 August 2003

Academic qualifications:

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

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

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

Other directorships:

Development Bank of Southern Africa – Non-executive Director

Human Sciences Research Council – Non-executive Director

Ploughback Initiative, St Mark's, Cofimvaba – Non-executive Director

Mr Johannes Bhekumuzi Magwaza (66)

Company Director

DBSA Development Fund Director as from:

26 October 2004

Academic qualifications:

MA (Industrial Relations), Warwick University (1985)

BA (Psychology and Social Anthropology), University of Zululand (1966)

Other directorships:

Anglo American Corporation of SA Ltd – Non-executive Director

Dorbyl Ltd – Non-executive Director

Ithala Development Finance Corporation Ltd – Non-executive Director

Moreland Estates (Pty) Ltd – Non-executive Director

Motseng Marriott Property Services – Non-executive Director

Mutual and Federal Ltd – Chairman of the Board

Nedbank Group Ltd – Non-executive Director

Nedbank Ltd – Non-executive Director

Pamodzi Investment Holdings – Non-executive Director

Rainbow Chicken Ltd – Non-executive Director

Tongaat-Hulett Group Ltd – Non-executive Director

Resigned from Board:
9 July 2008

Mrs Malijeng Theresa Ngqaleni (49)

Chief Director: Provincial and Local Government Infrastructure, National Treasury

DBSA Development Fund Director as from:

15 November 2007

Academic qualifications:

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

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

Board of Directors (continued)

Mr Madoda Vilakazi (44)
Executive Director: Ekapa Mining (Pty) Ltd

DBSA Development Fund Director as from:
20 November 2001

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)

Other directorships:
Nungu Trading 730 (Pty) Ltd – Non-executive Director
PBS (Pty) Ltd – Non-executive Director

Prof Edward Charles Webster (65)
Professor of Sociology: University of the Witwatersrand

DBSA Development Fund Director as from:
18 October 2007

Academic qualifications:
PhD, University of the Witwatersrand (1983)
BPhil, University of York (1972)
MA (Politics, Philosophy and Economics), Oxford University (1971)
University Education Diploma, Rhodes University (1964)
BA Hons (History), Rhodes University (1964)

Other directorships:
Chris Hani Institute – Non-executive Board Member
Development Bank of Southern Africa – Non-executive Director
Human Sciences Research Council – Member of the Council
Labour Job Creation Trust – Trustee

Board members during the year under review

Mr Samson Gwede Mantashe (53)
Executive Manager: DBSA Strategic Operations

DBSA staff member and Executive Manager between:
1 July 2006 and 12 January 2008

Ms Jeanette Nhlapo (38)
Chief Operating Officer: DBSA Development Fund

DBSA staff member between:
18 December 2000 and 31 July 2007

Executive Manager between:
26 February 2006 and 31 July 2007

Executive management

Mr Heinz Maria Weilert (44)

Group Executive: Capacity Development and Deployment (Acting); Group Chief Operating Officer (DBSA)

DBSA staff member and Group Executive as from:

1 October 2007

Academic qualifications:

Fellow of Insurance Institute of South Africa (2002)

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

CA (SA) (1990)

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

BCom, University of the Witwatersrand (1985)

Other directorships:

Nedbank Namibia Ltd and NedNamibia Holdings Ltd – Non-executive Director

Southern African Association for Learning and Educational Difficulties – Treasurer

Mr André Johan Bouwer (43)

Chief Operating Officer: Capacity Development and Deployment

DBSA staff member and Divisional Executive as from:

1 March 2008

Academic qualifications:

MEng (Engineering Management), University of Pretoria (1992)

MEng (Transportation), Rand Afrikaans University (1988)

BEng (Civil), Rand Afrikaans University (1986)

Dr Paul Kiyingi Kibuuka (46)

Divisional Executive: Siyenza Manje

DBSA staff member as from:

1 August 1994

Divisional Executive as from:

1 October 2007

Academic qualifications:

DPhil (Demography), University of Pretoria (1999)

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

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

BStat, Makerere University, Uganda (1984)

Other directorships:

Headway Investment Club – Non-executive Director

Lincoln Consultants Ltd – Non-executive Director

Executive management (continued)

Mr Mlulami Hlombe Manjezi (52)

Divisional Executive: Sustainable Communities

DBSA staff member as from:

6 August 1990

Divisional Executive as from:

1 July 2008

Academic qualifications:

MBL (Corporate Strategy, Financial Management and Investment Analysis), University of South Africa (2004)

Management Development Programme (General Management), University of South Africa (1996)

BCom, University of Fort Hare (1979)

Other directorships:

Agricultural and Rural Development Research Institute, University of Fort Hare – Non-executive Director

Ms Sinazo Judy Charlotte Sibisi (40)

Divisional Executive: Local Economic Development Initiative

DBSA staff member and Divisional Executive as from:

12 November 2007

Academic qualifications:

Postgraduate Diploma (Human Resource Management), University of Cape Town (1998)

BA Hons (History, Social and Economic History), University of Birmingham, UK (1989)

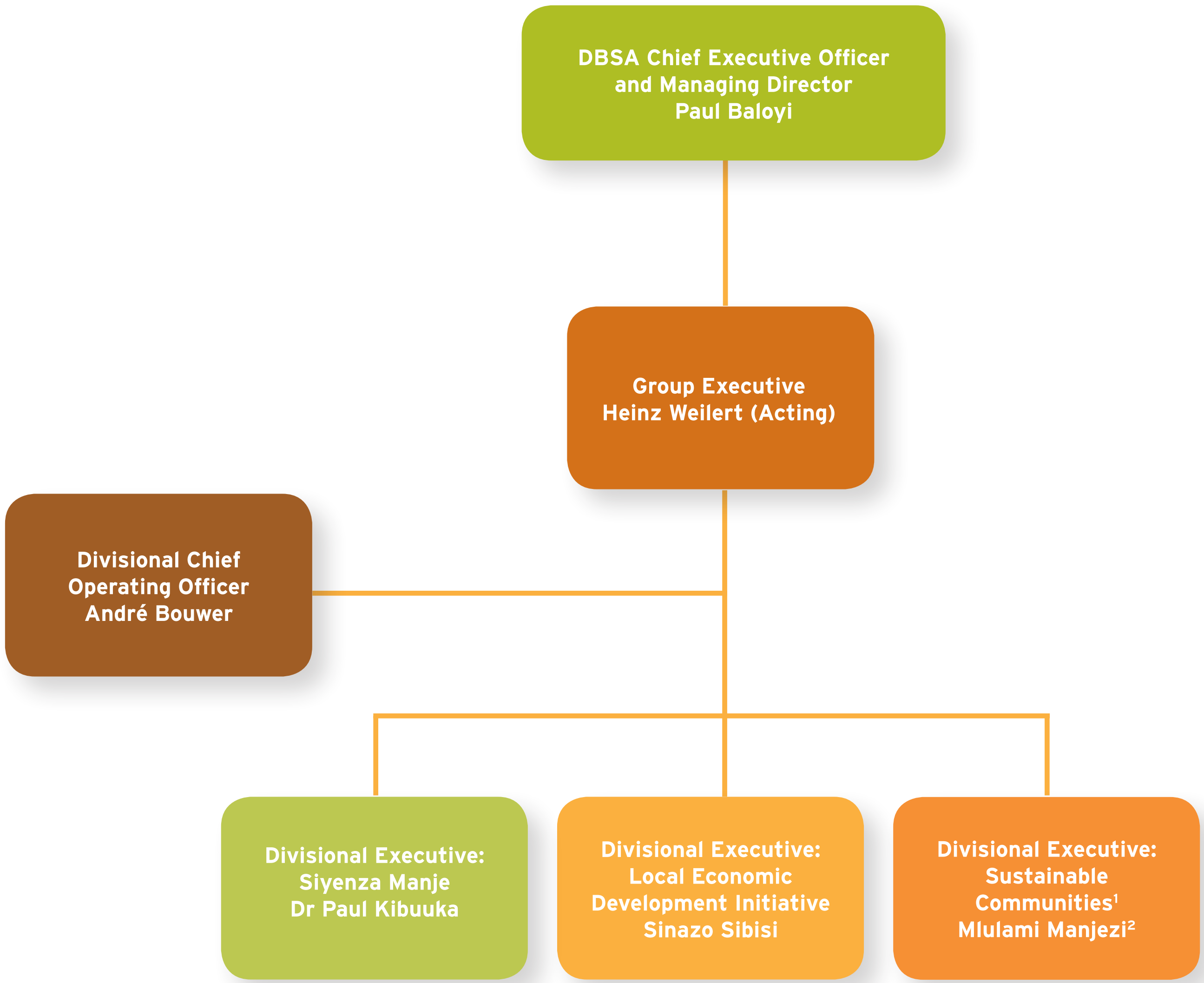
Other directorships:

Isandla Institute – Non-executive Director

Mikai Investment Holdings (Pty) Ltd – Non-executive Director

Street Spirit Trading (Pty) Ltd – Non-executive Director

Organisational structure



Changes after 31 March 2008

1. *The Sustainable Communities programme was incorporated into the DBSA Development Fund with effect from 1 April 2008.*
2. *As from 1 July 2008.*

Chief Executive Officer's report

The Bank operates in an environment where economic development, especially with regard to infrastructure, is constrained by low levels of human and institutional capital in local governments. By definition, this is the strategic space the DBSA Development Fund occupies through its programmes to build sustainable human, institutional and economic capacities.

The key focus of the Development Fund during 2007/08 was the continued rollout of the Siyenza Manje programme and its expansion to cover municipalities not already on the Project Consolidate list. In addition, the Board has agreed to incorporate all of the DBSA Group's other capacity building initiatives, including the Sustainable Communities programme and the Vulindlela Academy, into the Fund (effective from 1 April 2008). To cater for this expansion and ensure effective administration of all its activities, the Fund reorganised and enhanced its back-office capabilities, systems and operations. By contrast, the Fund's grant funding role remained limited, with resources focused on maximising development impact, although support was still extended to municipalities that fall outside the Siyenza Manje programme.

The Fund has now deployed 338 individual experts, young professionals and artisans across 155 municipalities. Operating and monitoring systems have been enhanced to enable online reporting and get as close to real-time reporting as possible, and in the coming year attention will be paid to the reliability and accuracy of data. The intention is to incorporate these systems into LGNet, the Bank's network for sharing knowledge and resources among local governments, thus providing a more dynamic national database for statistical analysis and reporting.

“The key focus of the Development Fund was the continued rollout of the Siyenza Manje programme and its expansion to cover municipalities not already on the Project Consolidate list.”

The consolidation of a number of projects within the Fund has allowed for a more direct and focused approach to reducing backlogs in service delivery. The successful completion of projects under management will be of great benefit to the Department of Provincial and Local Government and SALGA, the Development Bank’s valued partners in this arena.

The Sustainable Communities programme has moved beyond the pilot phase and has achieved sufficient credibility, both internally and externally, to be allocated greater resources. The programme has deepened the DBSA Group’s development impact, reaching the poorest of the poor and empowering communities to initiate projects that will sustain them both socially and economically.

The exploitation of internal synergies is evident in the support given to the Siyenza Manje and Sustainable Communities programmes by the Vulindlela Academy. This has enabled the Fund to offer integrated capacity building services to stakeholders, imparting knowledge and improving skills simultaneously. The Academy has been acknowledged by development finance institutions, both locally and internationally, and has obtained financial support from external sources. In the year under review, the Fund gained an important new strategic partner in Agence Française de Développement. This partnership draws in significant financial and operational support, and makes it possible for the first time to provide access to international training in the Academy’s effort to broaden the regional skills base.

The Agencies Unit continues to crowd in resources for the benefit of communities. The number of donor programmes under management remains high and funds under management have increased.

In the year ahead, the Fund will focus on consolidating the synergies between its various activities, improving the quality of its outputs and deepening the impact of its initiatives.

I am grateful to the Board and especially its Chairman, Prof. Brian Figaji, for their unstinting support during the year. The management and staff of the Fund have been committed and enthusiastic about their role. The new Divisional Executives have already taken the reins and I am confident that the Fund will make a substantial contribution in the year ahead.

Paul Baloyi

Operations overview

During 2007/08, the DBSA Development Fund focused on rolling out the Siyenza Manje programme and expanding it to municipalities not served by Project Consolidate, in line with the five-year local government strategic agenda. Increased support from its key stakeholders also enabled the Fund to integrate its capacity building grant funding with the hands-on Siyenza Manje programme. This allowed the programme to deepen its development impact through improving the absorption capacity of municipalities and reducing the non-disbursing grants.

The other main components of the DBSA Development Fund are the Agencies Unit, the Vulindlela Academy and the Sustainable Communities programme (effective from 1 April 2008).

- Through its Agencies Unit, the Fund assisted government departments and donors that do not have a local institutional presence or sufficient permanent capacity to deliver development initiatives. Acting as an agent for such entities, the Unit provided efficient and effective fund management and disbursement systems to facilitate the implementation of these development initiatives.
- The DBSA Vulindlela Academy is being repositioned: the Academy is planning to expand its network and provide high-level training in partnership with reputable local and international institutions.
- The Sustainable Communities programme focused on driving the implementation of sustainable and integrated socio-economic development at a number of pilot sites throughout South Africa.

The Development Fund would not have achieved its objectives without the unwavering support of the National Treasury in approving the mandate and programme funding for the DBSA; the Department of Provincial and Local Government, which is the custodian of the local government mandate; SALGA, which facilitated political buy-in at the district and local levels of government; and the Department of Water Affairs and Forestry, the custodian of the water and sanitation mandate.

Siyenza Manje

Siyenza Manje used a Project Portfolio Office system to manage its operations, which enabled it to track projects, standardise formats, and consolidate reporting on a real-time basis. The information on the system was used for operations management and reporting purposes only and has therefore not been audited. However, the information used in the Directors' report has been audited, based on third-party sources and other DBSA systems.

Deployments

The DBSA Development Fund initially implemented the Siyenza Manje capacity deployment programme in eight provinces; Gauteng was added in December 2007. Deployments were made mainly to Project Consolidate municipalities, those visited by the Presidency during the Izimbizo, and cross-boundary municipalities. During the year, the programme deployed 197 experts and 90 young professionals to 155 municipalities, up from 81 experts and 16 young professionals in 86 municipalities the previous year. Deployees were also stationed in the national and regional offices of the Department of Water Affairs and Forestry, the Eastern Cape Department of Local Government and Housing, and the Western Cape Provincial Government to fast-track project registration and the processing of technical reports.

In addition, in March 2008, 51 artisans were deployed as part of a pilot programme in the North West province to operate and maintain municipal infrastructure under the supervision of senior artisans and Siyenza Manje experts. If successful, the programme will be rolled out with the Bank's partners to the rest of the country in the next year.

As a result of the extension of the programme to Gauteng in December 2007, two Professional Service Providers were deployed in 14 municipalities in the province. The team comprised 32 technical experts, 11 financial experts, 10 young professionals and 18 engineering students. This meant that the total deployments for Siyenza Manje stood at 197 experts, 90 young professionals, 51 artisans and 18 students by year-end.

Development impact

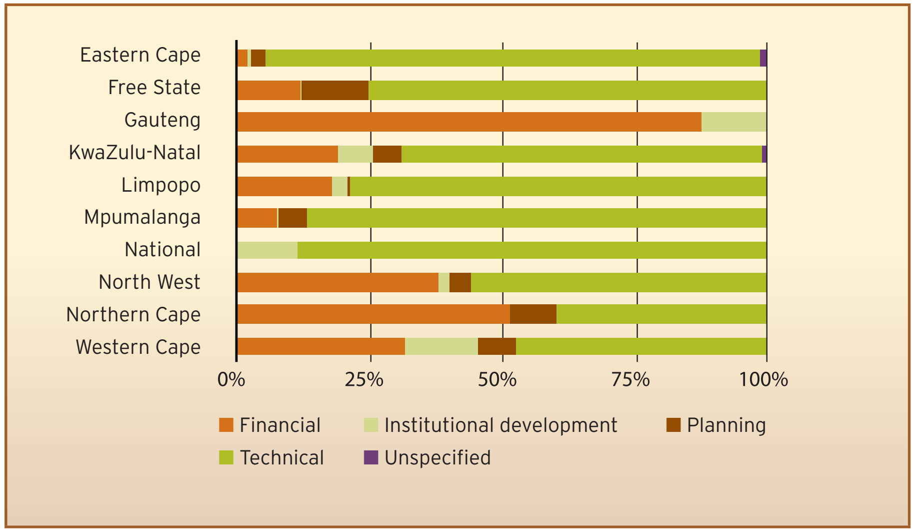
The deployees helped municipalities to develop 68 finance and infrastructure management systems during the year, an increase of 54 on the previous year. In addition, 283 municipal policies were developed in response to new legislative requirements, exceeding the target significantly. Of these policies, only 29 have been implemented; the remainder are awaiting adoption by municipal council structures. The Department of Provincial and Local Government and SALGA have been engaged to address the delays in council adoption processes and find ways of fast-tracking the adoption and implementation of these critical policies.

Project management training was provided to 338 officials (against a target of 120), while financial deployees trained 143 officials in preparing financial statements, communication and reporting, service delivery and budget implementation plans.

During the last quarter of the year, government accelerated the provision of bulk water infrastructure, for which the Siyenza Manje programme provided reticulation services. This led to the connection of 271 667 households to water, exceeding the target of 150 000 by 81%. Many of these households are in Limpopo province. In addition, 132 921 households were connected to sanitation, 16% above the target of 115 000.

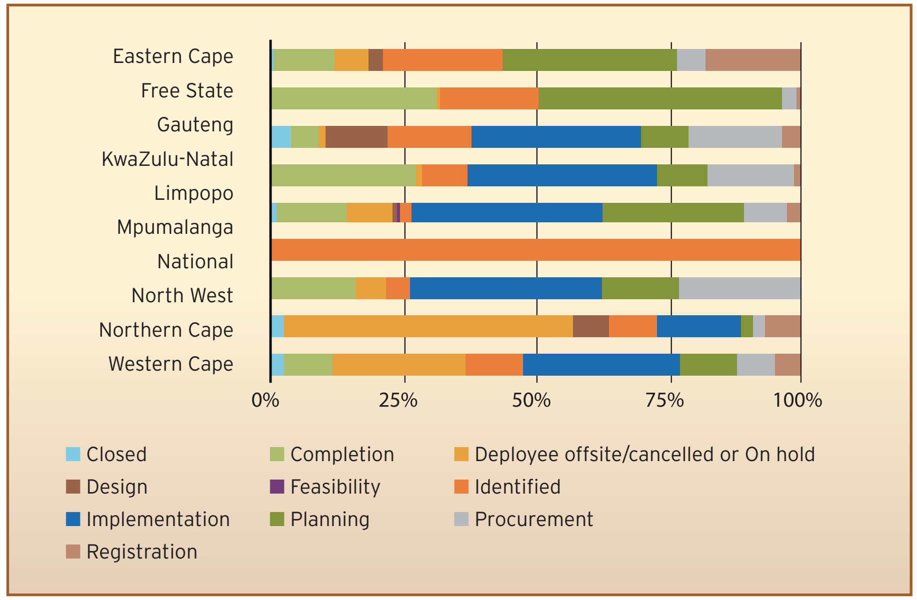
Siyenza Manje portfolio

In line with its mandate to accelerate the implementation of capital expenditure projects, most of the projects in the Siyenza Manje portfolio involve technical or physical infrastructure, followed by financial, institutional development and planning interventions as shown in the first figure. Several initiatives include both technical and non-technical aspects, such as community consultation processes, and are shown as "unspecified" in the figure. The composition of the portfolio is consistent with the proportionate split of deployees in the technical, finance and planning fields.



Types of projects per province, 31 March 2008

The next figure shows the sectoral distribution of the 1 605 technical projects in the Siyenza Manje portfolio (up from 471 a year ago); about 40% of these are at the execution stage. Water and sanitation account for 859 projects, followed by roads and storm water with 248 projects. This is in line with the national priority of accelerating delivery in these sectors.



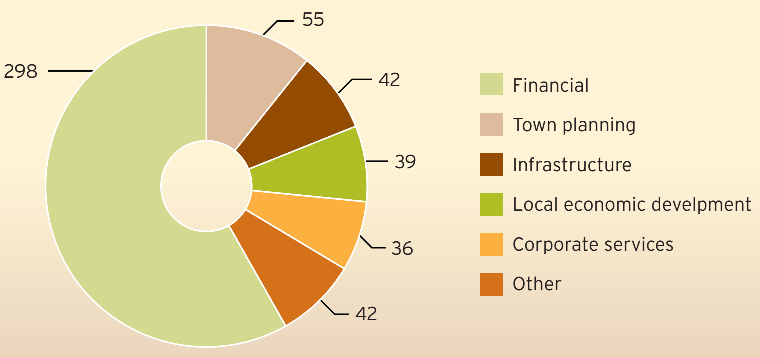
Distribution of technical/infrastructure projects per sector, 31 March 2008

The third figure shows the capacity building initiatives managed by the deployees. Of the 512 initiatives managed by the financial and planning experts, 298 provided finance-related assistance such as the development of financial systems, asset registers, valuation rolls, financial statements, quarterly reports and training. The second largest type was planning interventions such as township establishment plans, the revision of IDPs, and sector and master plans.

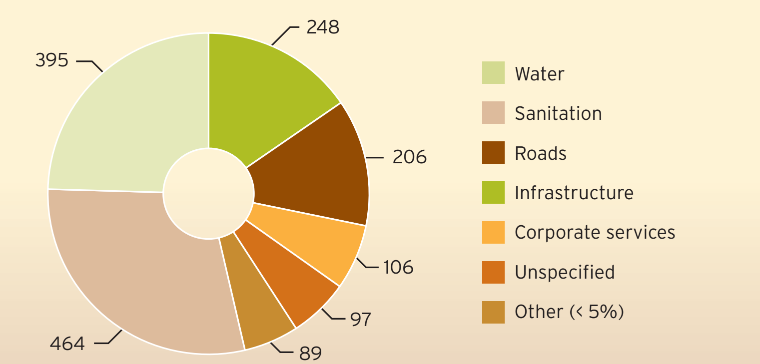
The final figure summarises the distribution of technical projects per stage of the project cycle, which gives some indication of the types of bottlenecks that municipalities are experiencing. For example, the Northern Cape has many projects with procurement bottlenecks; this led to the reassignment of experts to other provinces with more pressing needs. During the year, the backlog in projects awaiting registration was reduced significantly, highlighting the positive impact of Siyenza Manje deployments to the regional offices of the Departments of Provincial and Local Government and of Water Affairs and Forestry. Similarly, projects on hold were reduced from an average of 10% to 5%, while the proportion of projects in implementation increased from 37% to 40% as more projects moved from procurement to execution. About 40%

Operations overview (continued)

of projects (457) were at execution stage and 281 were completed. Siyenza Manje provided institutional capacity building to municipalities so as to strengthen in-house capacity for managing planning, finances and infrastructure projects. Support included the preparation of financial statements and reports, plans for the implementation of service delivery budgets, integrated development and master planning, the formalisation of informal settlements and land-use management systems.



National distribution of non-technical initiatives per sector, 31 March 2008



National distribution of technical/infrastructure projects per sector, 31 March 2008

MIG/CAPEX financial reporting

During the year, deployees managed an infrastructure budget valued at R5,3 billion, of which R4,2 billion was from the MIG allocation and the balance from sources such as municipal budgets and loans. The deployment programme facilitated a total expenditure of R2,57 billion of this budget. The balance will be spent during 2008/09, as the multi-year infrastructure projects are funded over the period of the Medium-Term Expenditure Framework (MTEF) for 2007–10 and their implementation spans the whole of this period.

Grant funding portfolio

The DBSA Development Fund approved R49,3 million towards capacity building during the year under review, against R20,4 million in the previous year. Disbursements reached R59,8 million against the target of R50 million. The undisbursed portfolio has been committed for disbursement based on a predetermined multi-year disbursement schedule.

Agencies

During the year, the Agencies Unit signed Memoranda of Understanding with a number of partners. The African World Heritage Fund initiative aims at assisting heritage conservation efforts in African countries, while the Renewable Energy Market Transformation project funded by the World Bank and the Department of Minerals and Energy promotes renewable energy through private and public sector partnerships. Through the National Sustainable Housing Facility, the DBSA and DANIDA established a mechanism for coordinating access to carbon finance and other financing sources for sustainable energy interventions in low-income housing. As a partner to the World Economic Forum, the DBSA supports a pilot project, the Energy Poverty Action Management Unit, to reduce energy poverty by developing innovative and replicable projects. In recognition of the sound institutional support provided by the Bank, six Memoranda of Understanding were renewed: Regional Spatial Development Initiative, Global Alliance for Improved Nutrition, Southern Africa Trust, Municipal Finance Management Technical Assistance Programme, Consolidated Management Technical Programme and the Anti-Corruption Monitoring and Evaluation project. The additional and renewed contracts increased funds under management by R75 million.

In 2007/08, the DBSA received management fees amounting to R11,2 million (2006/07: R7,2 million) for a total of 24 agencies (2006/07: 30). The remaining agencies are currently under renegotiation and renewal. Of the 24 agency programmes, five support environment, agriculture and conservation, three support health, two support transport, another two support energy, and the balance focus on development policy and research.

The Unit continued to strengthen systems and internal controls; for example, it reviewed human resources plans and systems for the Spatial Development Initiative and African Peer Review Mechanism, established new financial management systems for NEPAD, and developed budgets and new disbursement systems for the African World Heritage Fund.

Vulindlela Academy

The DBSA Vulindlela Academy had three high-level strategic objectives for the year: to accelerate capacity building and training provided to external delegates; to mobilise funding for capacity building in local government; and to consolidate the Academy's role as a training provider for development finance and local government skills. The Academy succeeded in training 2 676 external delegates (against a target of 2 000) and mobilised R5 million from LGSETA to undertake the Municipal Executive Leadership Development Course (target: R3,7 million). It also reviewed its strategy to include long-term accredited courses to complement the targeted short courses for the local government sector.

Sustainable Communities and other initiatives

The Development Fund embarked on a number of important interventions through the Sustainable Communities initiative. The pilot programme focused primarily on planning processes that closely involved local communities:

- In Grabouw, planning was completed on various projects and a development charter finalised during the year. The DBSA supports projects such as housing development; a training centre in partnership with public, private and non-governmental organisations; and an HIV/AIDS clinic.
- At the Phalaborwa pilot site, several projects moved into implementation, involving integrated housing, community participation in agricultural production, the development of a tourism precinct, and the construction of a sports complex. The Fund assisted the municipality in applying for and securing R94 million for key infrastructure and planning projects from the Neighbourhood Development Partnership Grant. The Fund is now supporting the design and implementation of these projects.
- In Elliotdale, the DBSA has approved R2,4 million over a 30-month period for sustainable rural housing models and the implementation of these models in two villages, in support of the seven-year, R252 million Breaking New Ground housing project. The DBSA contributed R1,7 million to fund the process of formulating a development charter and building an Integrated Sustainable Development plan.
- In King Sabata Dalindyebo Local Municipality, the DBSA is supporting the Breaking New Ground project to construct low-cost housing. The Bank's involvement with this R1,053 billion initiative includes assisting with the compilation and submission of the business plan and active project management for design and implementation. The first phase of 1 500 housing units on 50 hectares is now at the detailed design stage. The Bank also provided capacity and institutional development through a Siyenza Manje deployment. The deployee drafted the successful application for the R56 million Neighbourhood Development Partnership Grant and is actively managing its implementation in support of the municipality.

Other DBSA initiatives made considerable progress during the year:

- At Riemvasmaak, the Bank is providing project management and approved financial assistance (grant and loan finance) for the design and implementation of agricultural projects to develop community-owned hoodia farms. All the farms are on restitution land, in line with the Bank's agreement with the Department of Land Affairs.
- In support of the skills development initiative, the DBSA is co-funding skills training centres in Grabouw and Midrand with a private sector company. The Bank's contribution is R8 million. The first groups of graduates are already working on various construction sites around the country.
- The DBSA supports the 2010 FIFA World Cup by providing fund management monitoring and reporting on the construction of the stadia. In addition, it funds technical experts to assist the Department of Sport and the 2010 Steering Committee.

The year ahead

Going forward, Siyenza Manje will consolidate its assistance to municipalities already on the programme and expand its support to all the water service authorities and to other selected poorly resourced municipalities. Further, Siyenza Manje will improve reporting for effective programme management and strengthen stakeholder engagement through the Siyenza Manje National Working Committee.

Operations overview (continued)

Since the review of the DBSA's corporate strategy, the Agencies Unit has re-examined its internal and external challenges and mapped out opportunities. In the year ahead, it will start to execute key strategic objectives and operational shifts to support the DBSA corporate strategy, the impact of which will become apparent over the next three years.

The Vulindlela Academy will continue to implement its programmes, including the introduction of new products and further partnerships to assist in the delivery of training. It will also increase training support for the Sustainable Communities and Siyenza Manje deployment areas. The Academy will continue to raise funding from other sources to extend its outreach and increase its contribution to capacity development in the region.

In 2008/09, the Fund will focus on integrating the operations of the new Divisions. The aim will be to ensure that the Divisions reinforce each other in their support for municipalities to deliver effectively on the five key performance areas of the local government strategic agenda: service delivery, institutional transformation, financial viability, local economic development and good governance.

Corporate governance

The DBSA Development Fund's commitment to the principles of good corporate governance, as espoused in the King II Report and the Protocol on Corporate Governance for the Public Sector, accords with that of its controlling entity, the DBSA. The Development Fund's corporate governance framework, with the exception of the Board of Directors, is shared with the DBSA. The Directors of the Fund subscribe to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have been adhered to in all significant respects in discharging their fiduciary duties during the year.

Organisational repositioning

The structure and constitution of the DBSA Development Fund have been amended to enlarge the scope of its activities. Alongside the Siyenza Manje programme, the Fund has incorporated several initiatives formerly run by the DBSA, including the Sustainable Communities programme, the Agencies, the Vulindlela Academy, and the project management and national initiative support functions. The capacity of the Development Fund has been augmented accordingly and the Bank has also increased its allocation of funds.

The Bank paid particular attention to the legal and governance ramifications of the restructuring. After extensive consultation with the Corporate Secretariat and legal practitioners, the DBSA is satisfied that it has followed best practice in carrying out the restructuring.

Board of Directors

According to the Articles of Association of the Fund, the DBSA may nominate and appoint all the Directors of the Fund and remove or substitute them from time to time. The Board of the Fund comprises ten members, of whom nine are non-executive.

The Board reports to the shareholder through annual and interim reports, and through regular meetings between the Chairman of the Board, the Chief Executive Officer of the DBSA and the Minister of Finance. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Fund is a member of the DBSA Board and reports on significant resolutions of the Fund's Board at each meeting of the DBSA Board.

Board Committees

Section 77 of the Public Finance Management Act, No. 1 of 1999, recommends that an entity and its subsidiary share an Audit Committee and related systems if this is cost effective. Accordingly, the DBSA Development Fund Board directs and controls the operations of the Fund through the Board Committees that it shares with the DBSA. Each Board Committee has a distinct mandate and terms of reference. Further details on the committee structure and governance system are given in the corporate governance report on pages 66 to 71 of the DBSA Annual Report.

Corporate Secretary

All Directors have access to the advice and services of the DBSA Corporate Secretary. In terms of the DBSA Act, No. 13 of 1997, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

Board composition and record of attendance, 2007/08

Five Board meetings were held during the year and the attendance of individual members is reflected in the table below.

Name	**Number of meetings**
Prof Brian Figaji (Chairperson)	5/5
Dr Iraj Abedian	5/5
Mr Paul Baloyi	5/5
Mr Andrew Boraine	1/5
Mr Nick Christodoulou	5/5
Ms Nomboniso Gasa	3/5
Mr JB Magwaza[1]	1/5
Mr Gwede Mantashe[2]	3/4
Ms Malijeng Ngqaleni[3]	2/2
Ms Jeanette Nhlapo[4]	1/2
Mr Madoda Vilakazi	5/5
Prof Eddie Webster[5]	2/2

1. *Resigned from the Board on 9 July 2008.*
2. *Resigned from the Board on 12 January 2008.*
3. *Appointed as non-executive Director on 15 November 2007.*
4. *Resigned as executive Director on 31 July 2007.*
5. *Appointed as non-executive Director on 18 October 2007.*

Risk management

The DBSA Development Fund is a section 21 company of the Development Bank of Southern Africa and subscribes to the corporate risk management frameworks and governance and compliance processes described in the DBSA Annual Report.

In managing its risks, the DBSA Development Fund utilises the DBSA's risk management systems, procedures and internal controls. To assist in managing the risks associated with the Siyenza Manje programme, the Fund has implemented a system with built-in controls to ensure effective project management. The Fund is exposed to various types of risk, in addition to those covered in the DBSA Annual Report, and these are discussed below.

Development impact

There is a risk that the Fund's support to municipalities will not have the anticipated development impact. Significant progress has been made in minimising this risk by implementing mitigation controls, such as ongoing strategic reviews, and engaging stakeholders on the implementation of projects.

Institutional risk

The lack of appropriate skills and capacity, both among clients and within the Fund itself, is a key risk. This is being addressed by imparting skills through the joint efforts of the Siyenza Manje staff and the deployment programmes of the South African Institution of Civil Engineering and the South African Institute of Chartered Accountants. This provides for the mentoring of municipal employees, effective and appropriate political lobbying, and the deployment and mentoring of young professionals. In addition to these measures, the Fund will use Vulindlela and external service providers to bridge skills gaps, and their activities will be managed and monitored to mitigate the associated risks.

Reputational risk

Failures will harm the image of both the Fund and the DBSA. As a countermeasure, the risk management function of the Bank also oversees the Fund's operations, to ensure that the Fund adheres to best practice and the principles of good governance in all respects.

During the year under review, the risk exposures of the Fund have been identified, assessed and mitigated, and there is no evidence of any significant breakdown in the systems of internal control and management of the Fund's risk exposures.

Annual financial statements

Contents

DBSA Development Fund

Directors' responsibility for financial reporting

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

In preparing the financial statements:

- The Companies Act, No. 61 of 1973, as amended, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adopted.

In order to fulfil this responsibility and to enable the Directors to meet their financial reporting responsibilities:

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

The shared Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls, and auditing and financial reporting matters. The external auditors have unrestricted access to the Audit Committee.

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

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

The annual financial statements that appear on pages 26 to 39 were approved by the Board of Directors on 4 June 2008 and signed on its behalf by:

Brian Figaji

Chairman of the Board

Paul Cambo Baloyi

Chief Executive Officer

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2008.

The Audit Committee members and attendance are reflected on page 70 in the corporate governance statement of the DBSA Annual Report.

Audit Committee responsibility

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

s51(1)(a)(ii) of the PFMA states the following:

(a) The accounting authority must ensure that the public entity has and maintains:

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

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

The effectiveness of internal control

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

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

The quality of in-year management and monthly and quarterly reports submitted in terms of the Public Finance Management Act

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

Evaluation of financial statements

The Audit Committee has:

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

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

D Konar

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Chairman of the Audit Committee

Report of the independent auditors to the Minister of Finance

Report on the financial statements

We have audited the financial statements of the DBSA Development Fund, which comprise the balance sheet at 31 March 2008, and the income statement, the statement of changes in funding reserve and the cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 26 to 39.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (No. 1 of 1999) and the Companies Act of South Africa (No. 61 of 1973). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund at 31 March 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act and by the Companies Act of South Africa.

Gobodo Inc.

Registered Auditor

Per **Loganathan Govender**

Chartered Accountant (SA)

Registered Auditor

Director

5 August 2008

1st Floor, Block B Empire Park

55 Empire Road

Parktown

Johannesburg

Directors' report

The Directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the DBSA Development Fund for the year ended 31 March 2008. The report reviews the performance of the DBSA Development Fund and reflects significant progress with the Siyenza Manje programme in the second year of its implementation.

The Directors of the Development Fund subscribe to the principles of good corporate governance. With the exception of its Board, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. Further details on the Fund's corporate governance structures and practices are provided on page 19 of this Annual Report.

The functions of the Fund and nature of the business

The DBSA Development Fund was registered on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance by mobilising and deploying technical resources and providing grant funding to address human, institutional and financial constraints on rural and urban development, thereby promoting efficient and effective service delivery and local economic development. The Fund provides the following products and services:

- Mobilisation and deployment of municipal expertise
- Grant funding for targeted capacity building
- Development facilitation

Mobilisation and deployment of municipal expertise

The DBSA Development Fund provides hands-on support primarily to municipalities but also to selected service delivery departments. The Development Fund's flagship intervention is the Siyenza Manje programme, which assists municipalities with implementing infrastructure projects as part of the national drive to accelerate the delivery of basic services to communities. At the heart of the initiative is the deployment of skilled expertise to municipalities, particularly in the areas of engineering and technical services, as well as project and financial or treasury management. These experts are twinned with technical officials within the municipalities to promote the transfer of skills for planning and implementing infrastructure projects. To ensure sustainability, young professionals are also assigned to these experts to be mentored and coached, with the objective of retaining them within the municipalities. The Siyenza Manje programme aims to leave a legacy not only of completed projects but also of capable officials within the technical, finance and planning departments of targeted municipalities, who will be able to operate and maintain the assets once the deployment programme has been completed. To strengthen these aspects, the Fund in partnership with the North West provincial government is piloting an artisan deployment programme, which will be rolled out to other provinces with partners if it proves successful. The Fund realises, however, that technical experts cannot turn around municipalities without supporting policies and proper financial management and town planning practices. For this reason, the Fund has also expanded the teams of expert deployees to cover these areas of need in municipalities.

Grant funding for targeted capacity building

Before the implementation of the Siyenza Manje programme, the DBSA Development Fund had a key role in channelling technical assistance grant funding to municipalities, backed by a recapitalisation grant from the DBSA. This role has been integrated into Siyenza Manje, as part of the drive to prioritise support for interventions that will ensure the long-term sustainability of the municipalities. These interventions include the development of master plans, service delivery budget implementation plans, revenue enhancement and critical municipal management systems for operations and maintenance. Funding is also still channelled to needy municipalities that are not necessarily supported through the Siyenza Manje programme.

Development facilitation

In close collaboration with the DBSA and other stakeholders, the Fund continues to provide municipalities and service delivery organisations with capacity building, development knowledge, technical support and expertise.

Objectives

The Fund uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2007/08 were set in terms of five broad strategic goals:

- Co-deliver social and economic infrastructure, with a focus on identified sectors
- Build human and institutional capacity, with a focus on municipalities
- Promote broad-based economic growth, job creation, regional integration and prosperity
- Engender internal financial sustainability
- Improve organisational capability

The Board approved the 2007/08 objectives on 8 March 2007, and the BSC was used as the basis for the performance management of all staff.

The following table summarises the Fund's performance against its high-level strategic objectives and targets for the year ended 31 March 2008.

High-level performance in 2007/08

Balanced Scorecard perspective: Development impact

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure, with a focus on identified sectors	Provide technical assistance grants, guarantees, expertise, project implementation and project management services for our clients' social and economic infrastructure projects	Total rand value of new grant approvals	R50 million	R49,3 million
		Total rand value of new grant disbursements	R50 million	R59,8 million
		MIG and other infrastructure grants expenditure	R2 billion	R2,57 billion
		Number of projects completed	200	281
		Number of households with access to water	150 000	271 667
		Number of households with access to sanitation	115 000	132 921
		Total rand value of loan investment projects identified for South Africa Operations	R1 billion	R4,1 billion
Build human and institutional capacity, with a focus on municipalities	Provide development grants, project management and project implementation expertise, planning, financial management and asset management expertise, training, mentoring, coaching and skills transfer to enhance our clients' institutional capacity	Number of institutions/municipalities that benefit from the Fund's institutional capacity building initiatives	60	155
		Number of people trained on the job – finance	120	143
		Number of people trained on the job – technical	120	338
		Number of finance and infrastructure management systems developed	30	68
		Number of municipal policies developed and implemented	30	Developed – 283 Implemented – 29

Balanced Scorecard perspective: Business processes

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Promote broad-based economic growth, job creation, regional integration and prosperity	Provide technical assistance grants, guarantees and expertise to previously disadvantaged groups to accelerate their participation in the mainstream economy	Percentage expenditure of contracts awarded to broad-based BEE service providers	55%	73,4%
		Number of jobs created	10 000	13 203

Balanced Scorecard perspective: Financial sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender internal financial sustainability	Secure financial sustainability by managing capacity building funds	Total rand value of grant funding leveraged from other sources/partners	R12 million	R57,8 million
	Reduce non-performing grants	40% or less of total number of grants non-performing (dormant for longer than 24 months)	40%	10%
	Apply financial management, administration, planning, policies, governance and systems that collectively ensure ongoing financial sustainability	Adherence to financial management and governance systems and structures of the Bank	100%	100%

Directors' report (continued)

Balanced Scorecard perspective: Learning and growth

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Improve organisational capability	Apply human capacity planning, administration policies and systems that collectively ensure appropriate levels of competent, motivated and empowered staff to achieve strategic objective	Improve staff capacity through provision of training and shared learning	100%	60%

Directorate and Secretariat

Details of the Directors' service contracts are as follows:

Name	Position	From
Prof. B Figaji	Non-executive Director Chairperson	24 November 2005 21 February 2006
Mr P Baloyi	Chief Executive Officer and Managing Director	1 July 2006
Dr I Abedian	Non-executive Director	21 December 2001
Mr A Boraine	Non-executive Director	24 November 2005
Mr N Christodoulou	Non-executive Director	22 August 2002
Ms N Gasa	Non-executive Director	1 August 2003
Mrs M Ngqaleni	Non-executive Director	15 November 2007
Mr M Vilakazi	Non-executive Director	20 November 2001
Prof. E Webster	Non-executive Director	18 October 2007
Mr JB Magwaza	Non-executive Director	26 October 2004 – 9 July 2008
Mr Mantashe	Executive Director	1 July 2006 – 12 January 2008
Ms J Nhlapo	Executive Director	22 February 2006 – 31 July 2007

The Directors are pleased that the Development Fund achieved most of its strategic objectives for 2007/08. The Fund has now completed the second year of implementing the Siyenza Manje programme and will accelerate its deployment initiative in the year ahead. It has also increased its overall capacity building support during the financial year.

The following sections provide a "triple bottom line" review of the main activities of the Fund in terms of the three pillars of sustainable development:

- Financial
- Environmental
- Social

Financial

The DBSA established the Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided the Fund with a total of R632 million for its capacity building and development initiatives. The Bank is committed to capitalising the Fund periodically for continued operations. It is also committed to providing continued management support for the Fund's financial, accounting and governance systems.

The financial results of the Fund are disclosed fully on pages 26 to 39. The financial highlights for the year under review are:

- Capacity building grants of R59,8 million were disbursed (2006/07: R67,3 million). The marginal decrease was in line with expected disbursements.
- Siyenza Manje costs grew substantially to R121,3 million (2006/07: R42,2 million) as a result of increased deployment of experts and young professionals in municipalities.
- Operating expenditure grew marginally to R6,6 million (2006/07: R5,8 million) with the balance of the costs reflected as part of the Siyenza Manje programme.

The DBSA and the National Treasury provided financial support for Siyenza Manje, and both have committed to provide funding for the duration of the programme. The National Treasury provided R168 million during the year under review and will provide a total of R749 million over the initial three-year cycle.

Environmental

The DBSA Development Fund pays particular attention to the environmental impact of its operations. Although it does not set separate objectives for environmental impact, the Fund's appraisal framework includes a module on the environmental impact of all the projects that it supports. In addition, Siyenza Manje deployees play a key role in ensuring that municipalities adhere to environmental management legislation in the service delivery objectives. They are also required to transfer skills to officials that enable them to plan and implement projects in an environmentally responsible manner.

Social

The Fund's capacity building support to municipalities is in line with government's five-year local government strategic agenda. The Project Consolidate programme identified 136 local municipalities that required priority hands-on support to accelerate service delivery and overcome poverty. In support of the objectives of Project Consolidate and national government, the DBSA Development Fund set a target of assisting 60 municipalities in 2007/08, but exceeded this target significantly by reaching 155. A total of 281 infrastructure projects were completed during the year under review. Through these projects, the Fund created more than 13 000 jobs, while more than 450 municipal officials received on-the-job training in the financial and technical fields. This will help municipalities to improve service delivery to communities in the long term.

Balance sheet

at 31 March 2008

in rands	Notes	**2008**	2007
Assets			
Current assets			
Accounts receivable	2	**102 041 128**	214 824 780
Cash and cash equivalents	3	**101 528 331**	–
Total assets		**203 569 459**	214 824 780
Funds and liabilities			
Funds			
Funding reserve		**104 289 558**	209 938 393
Current liabilities			
Cash and cash equivalents	3	**–**	230 849
Accounts payable	4	**10 532 927**	4 655 538
Deferred income	5	**88 746 974**	–
Total funds and liabilities		**203 569 459**	214 824 780

Income statement

for the year ended 31 March 2008

in rands	Notes	2008	2007
Gross funding deficit		**(99 184 803)**	(116 148 336)
Capacity building grants disbursed and development facilitation costs	6	**(62 787 857)**	(73 992 438)
DBSA contribution from funding reserve		**(36 396 946)**	(42 155 898)
National Treasury contribution recognised	5 & 7	**84 926 208**	–
Siyenza Manje costs	7	**(121 323 154)**	(42 155 898)
Interest received		**147 492**	97 371
Operating expenses		**(6 611 524)**	(5 774 396)
General and administration expenses	8.1	**(6 344 846)**	(3 185 126)
Staff costs	8.2	**(266 678)**	(2 589 270)
Deficit for the year		**(105 648 835)**	(121 825 361)
Transfer from funding reserve		**105 648 835**	121 825 361
		–	–

Statement of changes in funding reserve

for the year ended 31 March 2008

in rands	
Balance at 1 April 2006	331 763 754
Transfer from funding reserve	(121 825 361)
Balance at 31 March 2007	209 938 393
Transfer from funding reserve	**(105 648 835)**
Balance at 31 March 2008	**104 289 558**

Statement of cash flows

for the year ended 31 March 2008

in rands	Notes	2008	2007
Cash flows from operating activities	9	**96 828 756**	(2 192 069)
Cash receipts		**281 673 902**	118 511 271
Cash payments		**(184 845 146)**	(120 703 340)
Interest received		**4 930 424**	97 371
– Interest received: current account		**147 492**	97 371
– Interest received: Siyenza Manje included in deferred income		**4 782 932**	–
Movement in cash and cash equivalents		**101 759 180**	(2 094 698)
Cash and cash equivalents at the beginning of the year		**(230 849)**	1 863 849
Cash and cash equivalents at the end of the year	3	**101 528 331**	(230 849)

Notes to the financial statements

for the year ended 31 March 2008

1. Accounting policies

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretation adopted by the International Accounting Standards Board (IASB).

1.2 Basis of preparation

The financial statements are presented in South African rand and are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1.3 Financial instruments

1.3.1 Classification

Management determines the appropriate classification of financial assets and financial liabilities on initial recognition.

1.3.2 Accounts receivable

Accounts receivable are stated at amortised cost.

1.3.3 Cash and cash equivalents

Cash and cash equivalents comprise cash and money market instruments. These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

1.3.4 Trade and other payables

Trade and other payables are stated at amortised cost.

Provisions

A provision is recognised in the balance sheet when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligations.

1.4 Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to expenses. Grants received from National Treasury are recognised to the extent that they have been expended on Siyenza Manje, and any unexpended funds related to the project are recognised as deferred income in the balance sheet.

1.5 Grants disbursed

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

1.6 Development facilitation costs

Costs incurred in respect of projects under investigation and projects that have been approved but not implemented are charged to development facilitation costs.

in rands	2008	2007
2. Accounts receivable		
Interest receivable	**977 752**	6 005
Current account	**6 315**	6 005
Call account – Siyenza Manje deferred income	**971 437**	–
South African Revenue Services – VAT	**1 832 655**	–
Staff advances: Siyenza Manje	**610 105**	369 373
Staff debtors	**188**	–
Prepayments	**2 673 850**	–
Development Bank of Southern Africa	**95 946 578**	214 449 402
	102 041 128	214 824 780
3. Cash and cash equivalents		
Current account	**(401 959)**	(230 849)
Call account	**101 930 290**	–
	101 528 331	(230 849)
4. Accounts payable		
Development Bank of Southern Africa	**3 832 474**	920 519
Leave pay and bonus provision	**6 676 737**	3 681 302
Accrued expenses	**23 716**	53 717
	10 532 927	4 655 538
5. Deferred income		
Funds received from National Treasury	**168 890 250**	–
Plus: interest on bank call account	**4 782 932**	–
Less: National Treasury portion recognised	**(84 926 208)**	–
	88 746 974	–
6. Capacity building grants disbursed and development facilitation costs		
Capacity building grants disbursed	**59 845 826**	67 348 735
Development facilitation costs	**2 942 031**	6 643 703
	62 787 857	73 992 438

Notes to the financial statements (continued)

for the year ended 31 March 2008

in rands	2008	2007
7. Siyenza Manje costs		
Administration costs	**777 574**	260 577
Audit fees	**214 604**	–
Chief Operating Officer (refer to 8.2.3)	**1 089 444**	–
Consulting fees	**17 902 996**	351 491
Communication costs	**1 276 910**	459 485
Data processing	**198 436**	109 093
Membership fees	**10 022**	–
Non-executive Directors' emoluments (refer to 8.2.1)	**370 224**	–
Public relations activities	**43 243**	138 525
Remuneration	**84 276 142**	34 248 715
Subsistence and travel	**13 981 439**	6 343 981
Training	**1 182 120**	244 031
	121 323 154	42 155 898
Made up as follows:		
– Development Bank of Southern Africa	**36 396 946**	42 155 898
– National Treasury	**84 926 208**	–
8. Operating expenses		
8.1 General and administration expenses		
General and administration expenses comprise:		
Audit fees	**53 651**	130 074
Management fees	**5 793 182**	2 424 832
Other operating costs	**498 013**	630 220
	6 344 846	3 185 126

Management fees are paid to the Development Bank of Southern Africa Limited for administration services rendered to the Fund.

in rands				2008	2007

8. Operating expenses *(continued)*

8.2 Staff costs

in rands	2008	2007
Secretaries	**–**	667 590
Training	**174 122**	51 278
Non-executive Directors' emoluments (refer to 8.2.1)	**92 556**	510 390
Executive Director's emoluments (refer to 8.2.2)	**–**	–
Chief Operating Officer (refer to 8.2.3)	**–**	1 360 012
	266 678	2 589 270

8.2.1 Non-executive Directors' emoluments

	Salaries/fees	Subsistence and travel	Attendance fees	Total	Total
Dr I Abedian	–	180	37 500	**37 680**	22 680
Mr A Boraine	–	–	7 500	**7 500**	7 500
Mr N Christodoulou	–	19 710	37 500	**57 210**	30 000
Prof BD Figaji	240 000	–	37 500	**277 500**	270 000
Ms N Gasa	–	210	22 500	**22 710**	7 710
Mr JB Magwaza	–	–	7 500	**7 500**	150 000
Mr M Vilakazi	–	–	37 500	**37 500**	22 500
Prof EC Webster	–	180	15 000	**15 180**	–
	240 000	20 280	202 500	**462 780**	510 390
Made up as follows:					
– Siyenza Manje	192 000	16 224	162 000	370 224	
– Capacity building	48 000	4 056	40 500	92 556	

8.2.2 Other executive Directors

J Nhlapo's tenure effectively ended on 31 July 2007.
G Mantashe's tenure effectively ended on 12 January 2008.
Executive Directors do not receive Directors' emoluments.

Notes to the financial statements (continued)

for the year ended 31 March 2008

in rands	2008	2007
8. Operating expenses *(continued)*		
8.2.3 Chief Operating Officer		
Basic salary	**526 781**	687 460
Medical aid, group life and provident fund contributions	**100 930**	169 852
Other allowances and benefits	**121 733**	77 700
Performance incentives	**340 000**	425 000
	1 089 444	1 360 012

In view of the reorganised functional structure and responsibilities as from 1 October 2006, the total salary of the COO is apportioned between the DBSA and the Development Fund at a ratio of 15% to 85% respectively. In the previous year, the Development Fund's portion of the COO's costs was allocated to Capacity building, but in the current year it is allocated fully to Siyenza Manje. J Nhlapo resigned as COO on 31 July 2007 and P Kibuuka was appointed to the position on 1 October 2007.

in rands	2008	2007
9. Reconciliation of net funding deficit to cash flows from operating activities		
Deficit for the year	**(105 648 835)**	(121 825 361)
Interest received – current account	**(147 492)**	(97 371)
Interest received – deferred interest	**(4 782 932)**	–
Deficit before working capital changes	**(110 579 259)**	(121 922 732)
Movement in funds receivable	**112 783 652**	118 511 271
Movement in accounts payable	**5 877 389**	1 219 392
Movement in deferred income	**88 746 974**	–
	96 828 756	(2 192 069)
10. Approvals and commitments		
Grant approvals for the period	**49 300 000**	20 400 000
Total outstanding grant commitments at end of period	**102 300 000**	139 311 846
Contractual commitments entered into with the Siyenza Manje project	**302 000 000**	–
Due in one year	**157 000 000**	–
Thereafter	**145 000 000**	–

in rands	2008	2007
11. Taxation		
The DBSA Development Fund is exempt from income tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.		
12. Related party		
Development Bank of Southern Africa		
Transactions		
Management fees paid	**5 793 182**	2 424 832
Balances		
Outstanding balance due from the DBSA	**95 946 578**	213 528 883

The DBSA has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

13. Retirement benefits and post-retirement medical benefits

The liabilities for employees who are currently employed by the Bank and contracted to the DBSA Development Fund are fully disclosed in the financial statements. The staff employed on the Siyenza Manje programme are contracted to the Fund on an annual basis, and therefore no liability exists for retirement benefits and post-retirement medical benefits.

14. Financial risk management

Market risk

Risk that fair value or future cash flows of a financial instrument will fluctuate due to variations in financial market prices. This risk does not apply to the Development Fund as the funds receivable are in the form of grants from the DBSA and deferred income from National Treasury, which eliminates the possibility of fluctuations in future cash flows.

Credit risk

Risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Trade receivables are related to transactions with the Development Bank of Southern Africa. It is therefore unlikely that the Development Fund will suffer any loss due to non-payment.

Liquidity risk

Liquidity risk arises on financial liabilities if the Development Fund is unable to convert its financial assets into cash to settle its financial obligations. Proper risk management requires that sufficient investments in cash and marketable securities are maintained and that funding is available from an adequate amount of committed credit facilities. The Development Fund has significant available cash resources, and in addition, has the financial backing of the Development Bank of Southern Africa should the need arise.

DBSA Development Fund

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Home page	www.dbsadevfund.org

DBSA

DBSA Development Fund