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Abbreviations

AERC	African Economic Research Consortium	IMF	International Monetary Fund
AfDB	African Development Bank	IOD	Institute of Directors in Southern Africa
APDF	Africa Project Development Facility	JAI	Joint Africa Institute
AU	African Union	JBIC	Japanese Bank for International Cooperation
CCBG	Committee of Central Bank Governors of SADC	JICA	Japanese International Cooperation Agency
CD	Centre for the Development of Enterprise	KfW	Kreditanstalt Für Wiederaufbau, Germany
CISNA	Committee on Insurance, Securities and Non banking Financial Authorities of SADC	MDB	Multilateral Development Bank
COMFI	Committee of Ministers responsible for Finance and Investment of SADC	MEFM	Macroeconomic and Financial Management Institute of East and Southern Africa
DANIDA	Danish International Development Agency	MOU	Memorandum of Understanding
DBSA	Development Bank of Southern Africa	NEPAD	New Partnership for Africa's Development
DFI	Development Finance Institution	ND	National Development Corporation of Tanzania
DFRC	Development Finance Resource Centre	ODA	Official Development Assistance
DKK	Danish Kronar	PFI	Private Financing of Infrastructure
ECA	Economic Commission for Africa (see also UNECA)	PPDF	Project Preparation and Development Fund
EU	European Union	PPIAF	Public Private Infrastructure Advisory Facility
FANR	Food, Agriculture and Natural Resources Directorate of SADC	PPI	Private Provision of Infrastructure
FDI	Foreign Direct Investment	PPPs	Public-Private Partnerships
FISCU	Finance and Investment Sector Coordinating Unit	RDBs	Regional Development Banks
FIRST	Financial Sector Reform and Strengthening Initiative	RISDP	Regional Indicative Strategic Development Plan
GDP	Gross Domestic Product	SADC	Southern African Development Community
GIBS	Gordon Institute for Business Sciences	SDIs	Spatial Development Initiatives
ICM	Integrated Committee of Ministers of SADC	SMEs	Small and Medium Scale Enterprises
IDC	Industrial Development Corporation of South Africa	SSA	Sub-Saharan Africa
IFC	International Finance Corporation	STO	Senior Treasury Officials of SADC
IFIs	International Financial Institutions	TA	Technical Assistance
		TIFI	Trade, Industry, Finance and Investment Directorate of SADC
		TNC	Trans-National Corporation
		WITS	Wits University Business School
		WTO	World Trade Organisation

Mission Statement & Vision

Vision

“To be the centre of excellence, aimed at catalyzing the SADC DFI Network Members’ collective efforts to be at the cutting edge of financial services delivery in the priority areas set by the RISDP.”

Mission

“To be a lean virtual organization providing capacity building and policy research and advice to the DFI Network and SADC governments in support of financial and operational effectiveness and efficiency so as to enhance their contribution to economic growth and development in the SADC region.”

Governance Structure

Shareholders

SADC-DFI Network Members.

Chairman of the Board of Trustees

Dr Vincent Mhlanga,
Managing Director, Swaziland Development
Finance Corporation, Swaziland.

Board of Trustees

Seven members, appointed for two-year terms.

Chief Executive Officer

Mr Stuart Kufeni



Mandate

The SADC – DFRC is a subsidiary institution of SADC. It is collectively ‘owned’ by the SADC-Development Finance Institutions whose membership presently stands at twenty-four. Initially established under the Memorandum of Agreement of May 2002, with the ratification of the SADC Finance and Investment Protocol, the DFI Network and its DFRC become full protocol-based SADC Institutions. Through technical and capacity building support, as well as policy research and advisory services, the DFRC’s mandate is to promote the effective mobilisation of resources by the financial sector, in particular the DFIs, for investment in key areas with the potential to stimulate growth, generate employment and alleviate poverty, in line with the objectives of SADC under the Regional Indicative Strategic Development Plan (RISDP).

Focal Sectors

The DFRC has identified the following areas in its Five-Year Strategic Business Plan (2004/5 – 8/9) as key sectors to effectively deliver on its mandate:

- Institutional strengthening through capacity building;
- Financial sector strengthening and reforms and capital markets development;
- SME Development; and
- Infrastructure Development

The DFRC’s activities in these focal areas support other sectoral efforts under the SADC RISDP aimed at achieving the region’s goal of regional integration. They are therefore complementary of and in line with the NEPAD/AU strategy for Africa.

Approach

The DFRC is a lean organisation manned by a small highly qualified group of staff. Cognisant of this and to achieve its mandate, it has adopted a collaborative approach in all its areas of strategic focus which involves utilisation of strategic partners with the support of development partners. The Centre, thus, primarily operates as facilitator, coordinator and catalyst to the DFI Network and regional governments.

Financing of Activities

The administrative budget of the DFRC is funded through contributions by DFI Network members on the basis of an agreed formula. Activities in line with the Centre’s work programmes in the areas of research and advisory services, SMEs, Infrastructure Development and Capacity Building are funded from donor sources. Overtime, the DFRC is expected to strengthen its capacity to generate own resources and reduce dependency on member contributions and donor support.

Board Of Trustees

The Board of Trustees provides strategic leadership and oversight to the DFRC and ensures good corporate governance. It approves all policies of the DFRC and ensures sound financial management of the institution. The Board interacts directly with the DFI Network and with the policy levels of SADC Governments.

Board Members



CHAIRMAN

Dr Vincent Mhlanga

Managing Director
Swaziland Development Finance Corporation
ACEA, MBA, PhD
Trustee since May 2006
Chairman since September 2006

DEPUTY CHAIRMAN

Mr Oaitse M. Ramasedi

Chief Executive Officer
National Development Bank, Botswana
FCMA, MA, BCom, ABIB
Trustee since March 2003
Deputy Chair since September 2006



Mr William A Mlaki

Managing Director
Tanzania Investment Bank
MSc Business Management – ADL, USA
BA (Economics and Management)
Trustee since November 2007

Ambassador

Leonard N lipumbu

Chief Executive Officer
Agribank of Namibia
Master's Degree in International Services
(MIS), American University, DC. USA
BBA (Economics and Financial
Management)
International School of Business
(Institu Superieus de Gestion - ISG), Paris,
France
Trustee since November 2007



Mr Peete Molapo

Chief Executive Officer
Lesotho National Development Corporation
MA (Economics)
Trustee since November 2007

Mr Admassu Tadesse

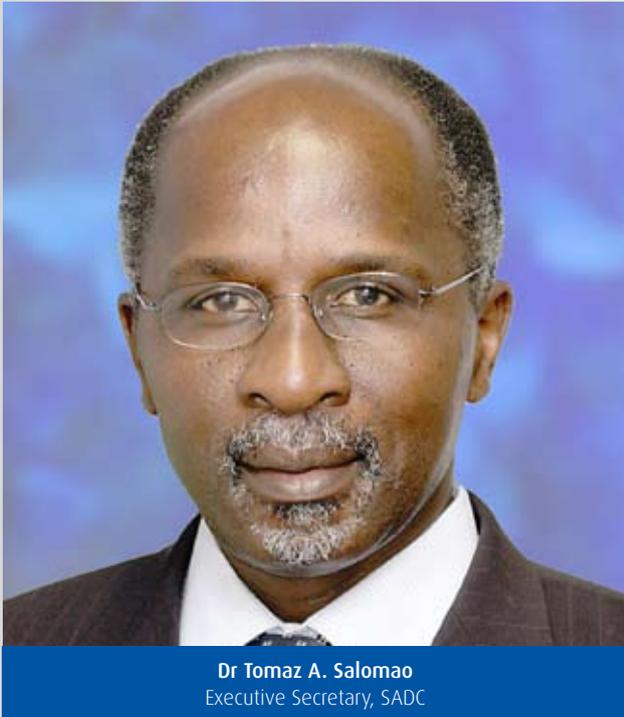
Executive Manager:
International Operations
Development Bank of
Southern Africa
Trustee since November 2007
MBA, MSc, BA



Mr David Nuyoma

Chief Executive Officer
Development Bank of Namibia
MA, Industrial Development, University of
East Anglia, Norwich, UK
Trustee since November 2006

SADC Executive Secretary's Foreword



Dr Tomaz A. Salomao
Executive Secretary, SADC

It is with pleasure that I take this opportunity to deliver the foreword for the 2007/2008 Annual Report of the SADC Development Finance Resource Centre (DFRC).

More than four years have passed since the DFRC was established by the SADC Network of Development Finance Institutions (DFIs) to act as the secretariat of the Network and to provide capacity building, policy research and advisory services to members of the Network. Thus the overriding objective of the DFRC is the enhancement of the capacity of DFIs to provide finance to catalyse the development process in the SADC region.

This is consistent with the philosophy of SADC, the Treaty and the Regional Indicative Strategic Development Plan (RISDP) which attaches special importance to the role of DFIs in the overall development agenda of SADC. This recognition is exemplified through the establishment and operation of the sub-committee on development finance, comprising DFIs and senior government officials, as a special committee of the SADC Committee of Ministers of Finance and Investment (COMFI). It is this organ that articulates the

agenda for development finance to build a strong regional development finance system through stronger institutions, functioning capital and financial markets and stronger relationships with the international development finance system.

I am pleased to recognize that in the ensuing few years of operation, the DFRC has made tremendous strides in fulfilling its mandate and that the financial support of international cooperating partners has improved overtime. Training programmes in corporate governance for board members of DFIs, Investment Appraisal and Project Management for business and investment analysts have been held. Consultancy and advisory work has also been undertaken for national governments for the establishment of new and the restructuring of existing DFIs. Specific work has also been undertaken on behalf of the SADC Secretariat for the establishment of the Project Preparation and Development Fund, an integral part of the emerging development finance system in the region.

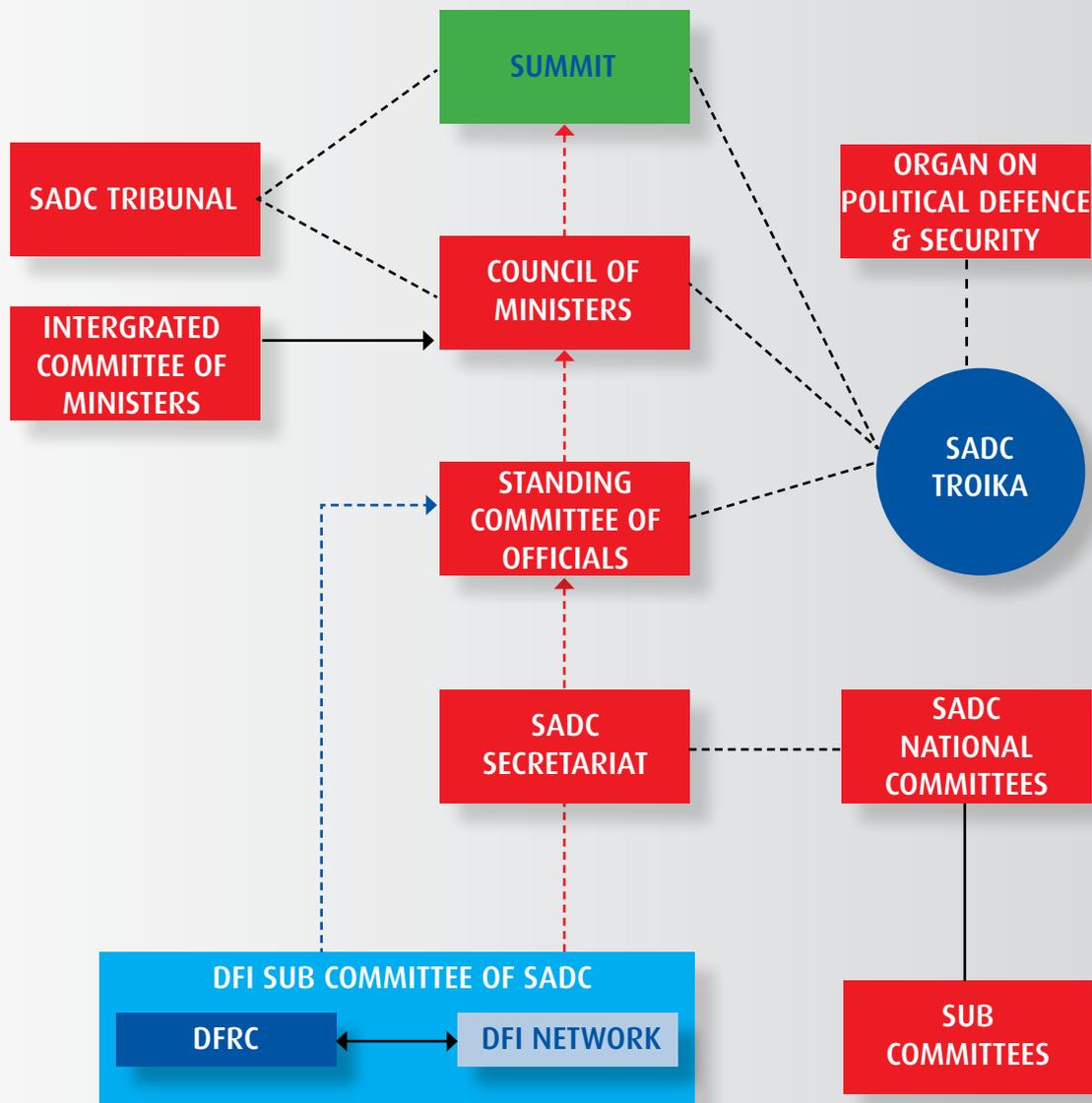
Most of these activities have been undertaken in concert with regional development banks, credible international training institutions and other internationally recognized experts in various areas with support and funding from bilateral and multilateral agencies. All these partnerships have been built up over the past few years enabling the DFRC to remain a small lean and flexible institution.

From the activities undertaken so far, and the plans for the future, I am confident that the DFRC will continue to play a significant role in strengthening the development finance system in SADC, and enable national DFIs play an important catalytic role in the development processes of their countries and the region at large.

I am therefore pleased to commend this report to you.

Dr Tomaz A. Salomao
Executive Secretary, SADC

The DFRC & SADC Structures



Brief on DFRC - SADC relationship

Reporting Structures: DFI Sub-Committee, DFRC & SADC

The DFI Sub-Committee, comprising all national DFIs in SADC member countries is a sub-committee of the Senior Treasury Officials (STO) of SADC, and reports through them to the SADC Committee of Ministers responsible for Finance and Investment (COMFI). The latter is a permanent committee of the Integrated Committee of Ministers (ICM) which reports to the SADC Council of Ministers. Besides the Committee of Senior Treasury Officials, COMFI is also supported by the Committee of Central Bank Governors (CCBG).

The DFIs, through the DFRC, enjoy a functional relationship with the SADC Secretariat. Their main interface is through the Directorate for Trade, Industry, Finance and Investment (TIFI). However, operational links exist with the Infrastructure and Services (IS) and Food, Agriculture and Natural Resources (FANR) directorates. The diagram above illustrates these relationships.

Chairman's Report

Introduction

I am happy to report that 2007/08 has been a year of achievement for the DFI Network and its DFRC notwithstanding the daunting challenges which developing economies, the SADC region no exception, continue to face. The DFRC performed solidly, delivering value for stakeholders, partners and not to mention the regional community at large. Our level of stakeholder engagement has continued to grow as evidenced by the increased level of participation by international cooperating partners (ICPs) and the enhanced support of the SADC Secretariat of the DFRC's activities.

As this Annual Report details, the DFRC responded effectively in addressing the needs of Network members in line with its mandate and guided by the developmental goals under the SADC Regional Indicative Strategic Development Plan (RISDP). Although the Network's programmes have evolved in the intervening years, supporting equitable and sustainable development in a practical way still underpins all our programming at the DFRC. Though improving, donor support for programmes has lagged behind and this led to a revision of the work programmes for the year under review, as demonstrated in our programme results.

Staff Changes

In November 2007 we welcomed Stuart Kufeni as our new Chief Executive Officer. He replaced Dr Rosalind H Thomas who resigned from the DFRC on May 31st, 2007. Mr Kufeni previously held the position of Programme Manager for Policy Research and Advisory Services at the DFRC and for the period June to October 2007 he was Acting CEO. Besides development finance, Mr Kufeni brings to the position extensive financial sector, research and macroeconomic management experience having worked for the Reserve Bank of Zimbabwe at senior levels for more than twenty years prior to joining the DFRC.

The Board is confident that Mr Kufeni will champion the mandate of the DFRC and the DFI Network in capacitating and making DFIs effective agents of development crucial



Dr Vincent Mhlanga
Chairman

to the attainment of the SADC goals of sustained economic development, employment generation and poverty eradication under the SADC RISDP and the Millennium Development Goals (MDGs).

Stakeholder Relationships

Since his appointment as CEO, Mr Kufeni has made concerted efforts to strengthen relationships between the SADC-DFRC and key stakeholders, in particular the SADC Secretariat and International Cooperating Partners (ICPs).

In discussions with the Secretariat, matters regarding the DFRC's activities in support of the SADC common development agenda and the Secretariat's support of the fundraising efforts of the DFRC were given considerable attention. I am pleased that the Secretariat not only gave its unequivocal undertaking to support the DFRC but facilitated the DFRC's approaches to donors to raise resources for its programmes. This strengthened relationship between the DFRC and the Secretariat was instrumental in the DFRC being able to mobilize funding from old and new sources. I reported last year of the coming to an end of a three-year

Chairman's Report

continued

funding agreement with DANIDA and the commencement of discussions with DANIDA and other donors for new resources. I am pleased to report that following the termination of the DANIDA Funding Agreement, a new two-year Funding Agreement between DANIDA and the SADC-DFRC for US\$810,913 was signed on the 10th December 2007. Pursuant to this, an amount of US\$399,775 was disbursed on the 18th December 2007 for the financial year 2007/8 while the balance of US\$411,138 is earmarked for 2008/9.

Thanks to continued DANIDA support, a number of projects under Capacity Building and SME Development Programmes have been funded using the resources. These programmes support the core activities of our member DFIs.

During the year, the DFRC also received support of various levels from other development partners, notably the African Development Bank (AfDB), the African Capacity Building Foundation (ACBF), the Global Corporate Governance Forum (GCGF) and the Public-Private Infrastructural Advisory Facility (PPIAF). Our big members in the DFI Network, IDC South Africa and DBSA continued to offer their unwavering

support both financial and through technical assistance to some of the DFRC's activities such as the inaugural DFI CEO's Roundtable. The DFRC and the Network are indeed indebted to the bigger DFIs, who have had to shoulder a significant share of the DFRC's administrative budget. Their commitment to the spirit of regional integration is appreciated by all members.

Financial Performance

The DFRC's accounts have once again been unqualified. Following a loss of US\$97,700 in the previous year, it is encouraging to report a positive turnaround performance in the results for financial year ended 31st March 2008. The DFRC has recorded an overall surplus of US\$833,600. This is largely attributed to advances from donors and a significant saving in operating costs. In the year 2007/08, restructuring and cost-reduction initiatives were implemented to reduce operating costs and the risks of cost overruns that were experienced in the previous year.

A further contributory factor to the turnaround is the fee income generated during the course of the year from consultancy and training activities of the DFRC which





amounted to US\$89,600. These income generating activities are in line with the Financial Sustainability Strategy recommendations adopted by the Board in November 2007, with the objective of increasing other revenue sources and eventually reduce recourse to member DFI contributions for the administrative budget of the DFRC. It is anticipated that this revenue source will grow overtime with the support of DFIs and other stakeholders.

In view of the good financial performance of the centre despite the challenges it faces, the Board would like to commend the DFRC management team and staff for their contribution and a job well done.

Programmes Achievements

With regard to operations, we have made consistent progress on a number of fronts. During the year the DFRC advanced many of its major planned projects in the areas of strategic focus, namely Policy Research & Advisory Services, Capacity Building, Infrastructure and SME Development.

Under Policy Research & Advisory Services we succeeded to mobilise resources for the launch of our research project on "DFI Credit Rating Methodology". We expect the project to start early in 2008/09. The benefits of credit rating to DFIs, especially when complemented by an enabling policy and

regulatory environment, are quite immense particularly in accessing international capital markets. We therefore anticipate the majority of our members to participate.

Of significance in the year was also the award to the DFRC of a World Bank – sponsored consultancy contract by the government of Malawi for a feasibility study for the establishment of a development fund for small and medium enterprises. The project was successfully executed and it proved to be clear testimony of the DFRC's capabilities in this specialized area.

Our Capacity Building programmes benefited the most from resources secured from ICPS. Notable activities included courses in Corporate Governance, Investment Appraisal and Project Management, among others. And for the first time training in Investment Appraisal and Risk Analysis was conducted for SADC government officials beginning with the National and Provincial Treasuries staff for the Government of South Africa. We expect more of such training and I would like to encourage other SADC governments and state owned enterprises to consider the DFRC for their training requirements.

In the area of Infrastructure Development, the project

Chairman's Report

continued

on "Advanced Quantitative Appraisal of Public Private Partnerships" for which funding was approved by PPIAF, went to tender at the close of the year. It is our hope that this project will be implemented in the coming year 2008/09.

The SME Programme focused equally on strengthening DFIs' delivery capacities both at the strategic level and operational level. In this year the programme began to rollout projects aimed at strengthening SMEs at the business level. Three key projects were launched in the year in support of SMEs, Mentoring of SMEs, Business Confidence Indices in the various member states and SME Standards and Trade Facilitation under the SADC/UNIDO "Industrial Upgrading and Modernization Programme (IUMP)". The SADC/UNIDO programme is a region wide initiative that we expect our DFIs to participate in and benefit from through improved SME businesses.

Governance

Following adoption by the DFI Network of a new system of appointments to the Board in November 2007, the Board was delighted to welcome as new members of the DFRC Board of Trustees, Mr Peete Molapo-Chief Executive Officer for Lesotho National Development Corporation, Ambassador Leonard N lipumbu, Chief Executive Officer of Agribank of Namibia, Mr William A Mlaki, Managing Director of Tanzania Investment Bank and Mr Admassu Tadesse, Executive Manager of the Development Bank of Southern Africa. The new members attended their first board meeting in February 2008.

I would like to thank my fellow Board members for their commitment and the guidance they provided to management and staff throughout the year. I also want to take this opportunity to extend sincere gratitude in my personal capacity as Chairman and on behalf of the Board to the following members who left the Board in November this year for their invaluable support and guidance over the past years to the Network and the DFRC: Mr Benyram Chooramun, Managing Director of Development Bank of Mauritius; and Mr Alan Mukoki, Chief Executive Officer,

Land and Agricultural Bank of South Africa.

We wish them the best and look forward to their continued participation and support within the DFI Network.

Outlook

Looking ahead, global trends such as high food prices and the ever rising crude oil price present challenges to developing economies and our region in particular. These present additional challenges to our DFIs already grappling with problems of long term resource mobilisation from both domestic and international financial markets. DFIs invariably have a role to play in mitigating these adverse trends through activities in their various sectors of operation be it agriculture, SMEs or infrastructure to mention some.

I am confident that as key development agents we will rise to the occasion and make our contribution to the regional development agenda and uplift the living standards of our people. Under the circumstances, it is crucial that the DFRC remains and continues to be supportive of DFI needs for institutional strengthening and access to financing resources for investment.

The DFRC will in the next financial year begin work on the new Five Year Strategic Business Plan to replace the current one which comes to an end in March 2009. To be effective in executing its mandate and at the same time remain relevant to the DFI Network and the region, it is crucial that the DFRC take cognisance of these evolving global trends in its Business Plan.

I have no doubt that the DFRC is poised to consolidate its operations and grow further next year and indeed the coming years. With the support of the Board, the SADC Secretariat, international cooperating partners and other key stakeholders, this is attainable for the DFRC.

Dr Vincent Mhlanga
Chairman

Management & Organisational **Structure**



Mr Stuart Kufeni

Chief Executive Officer

Status: Regional contract

Area of Expertise: Banking and macroeconomics

Academic qualifications: MA Economics (University of Manchester), BSC (HONS) Economics (U. Zim)

Mr Kufeni was previously employed by the Reserve Bank of Zimbabwe for 24 years. He left the position of Director, Financial Markets Department and joined the SADC - DFRC, in November 2004 as Program Manager, Policy Research and Advisory Services. He previously held the position of Director, Economic Research and Policy Department, with the Bank.



Mr Joseph William Nyamunda **Programmer Manager** **SME Development**

Status: Technical Advisory on secondment

Area of Expertise: SME and Micro Finance

Academic qualifications: MSc Economics, BSc (HONS) Economics

Mr Nyamunda is on secondment to the SADC-DFRC since November 2004 from Small Enterprises Development Corporation (SEDCO), Zimbabwe, where he was the Chief Executive Officer. He has over 20 years experience working on SMEs.



Ms Vero Kgakge **Manager, Finance and** **Administration**

Status: Regional contract

Area of Expertise: Finance & Administration

Academic qualifications: B. Com (Accounting), University of Botswana

Ms Kgakge joined the SADC-DFRC in September 2003, coming from the Finance Division of the SADC Secretariat. She was involved in the establishment of the institution including, developing and maintaining the finance and administration systems, policies and procedures.



Dr Herrick Chota Mpuku **Programme Manager** **Capacity Building**

Status: Regional contract

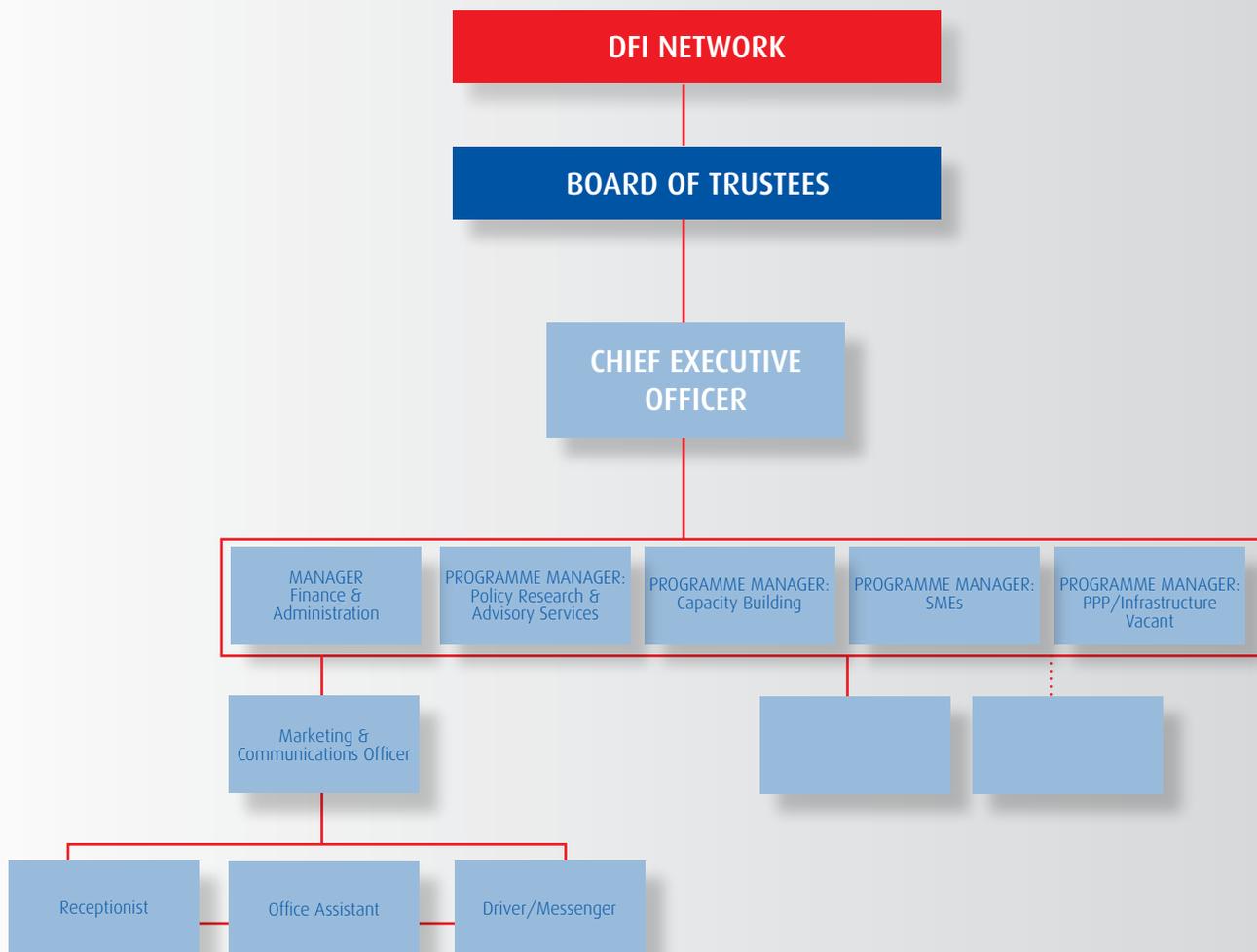
Area of Expertise: Human Resources Development, International Development Economics

Academic qualifications: PhD, MBA (Economics & Corporate Planning) MSc. Development Economics, BBA & Fellow, ICM.

Dr Mpuku joined the SADC-DFRC in October 2004, from the USAID Mission in Zambia, where he served as a Programme Economist. Prior to this he served in the Zambia public service and academia.

CAPTION + STAFF PHOTO

Organogram



Chief Executive Officer's Report



Stuart Kufeni
Chief Executive Officer

Introduction:

Over the past year, the DFRC experienced an increase in its core activity areas, particularly Capacity Building, SME Development and Advisory Services, thanks to the financial support from a larger pool of International Cooperating Partners (ICPs) and the growing stakeholder appreciation of the role of DFRC and the DFI Network within SADC. Activities in the fourth area, Infrastructure, which have been without a Programme Manager for the duration of the year, however slowed down in the period under review. Lack of committed project resources partially accounted for this trend in Infrastructure.

The improving ICP support to a significant extent, is a reflection of the support that the DFRC is enjoying from the mother institution, the SADC Secretariat, particularly the Trade, Investment, Finance and Industry (TIFI) Directorate.

TIFI's assistance in setting up meetings with ICPs and reaffirming support for DFRC programmes proved invaluable to the resource mobilisation efforts of the DFRC.

Partly the result of enhanced programme activities, fee income generated from workshops as well as consultancy services improved significantly. This development, coupled with some expenditure cutting measures and increased advances from ICPs, saw the DFRC reverse accumulated losses of the previous year to register a surplus. In line with its Financial Sustainability Strategy, income generating activities remain a priority for the DFRC as it moves forward in the future with the objective of reducing recourse to member contributions and in the long term also provide financial support towards its projects.

The review of the Five-Year Business Plan scheduled for 2008/9 is not only timely at this juncture in the brief history of the DFRC but will also serve to consolidate the positive developments of past years while taking on board new challenges as it charts the way forward for the Centre and the DFI Network within the context of the SADC developmental goals.

Strategic Review

The current five year Strategic Business Plan, the first for the DFRC, comes to an end in March 2009. Work on the next Business Plan which will cover the period 2009/10 – 2013/14 will take place during the course of 2008/9 with the objective of having it approved by the DFRC Board of Trustees and endorsed by the DFI Network at their respective meetings in November 2008.

While the Centre has implemented the current plan satisfactorily, delivery on programmes in the focal areas – Capacity Building, SME Development, Policy Research and Advisory Services and Infrastructure delivery – has lagged behind primarily due to low donor funding. Besides putting in place measures to address this shortcoming, the new Business Plan will also revisit the DFRC's mandate with the objective of refocusing activities of the Centre

Chief Executive Officer's Report

on those areas which stakeholders, foremost the DFI Network members, view as crucial to their effectiveness as development agents within the purview of the regional integration goals.

In this regard, it becomes imperative that lessons from the just ending Business Plan are analysed closely to inform the new plan. In addition, to ensure continued relevancy of the DFRC, the plan will be preceded by a needs assessment of key stakeholders, which apart from the DFIs, will include donors and SADC national governments. Further, findings and recommendation of past evaluation reports of the DFRC by donors such as DANIDA and SIDA would also be considered.

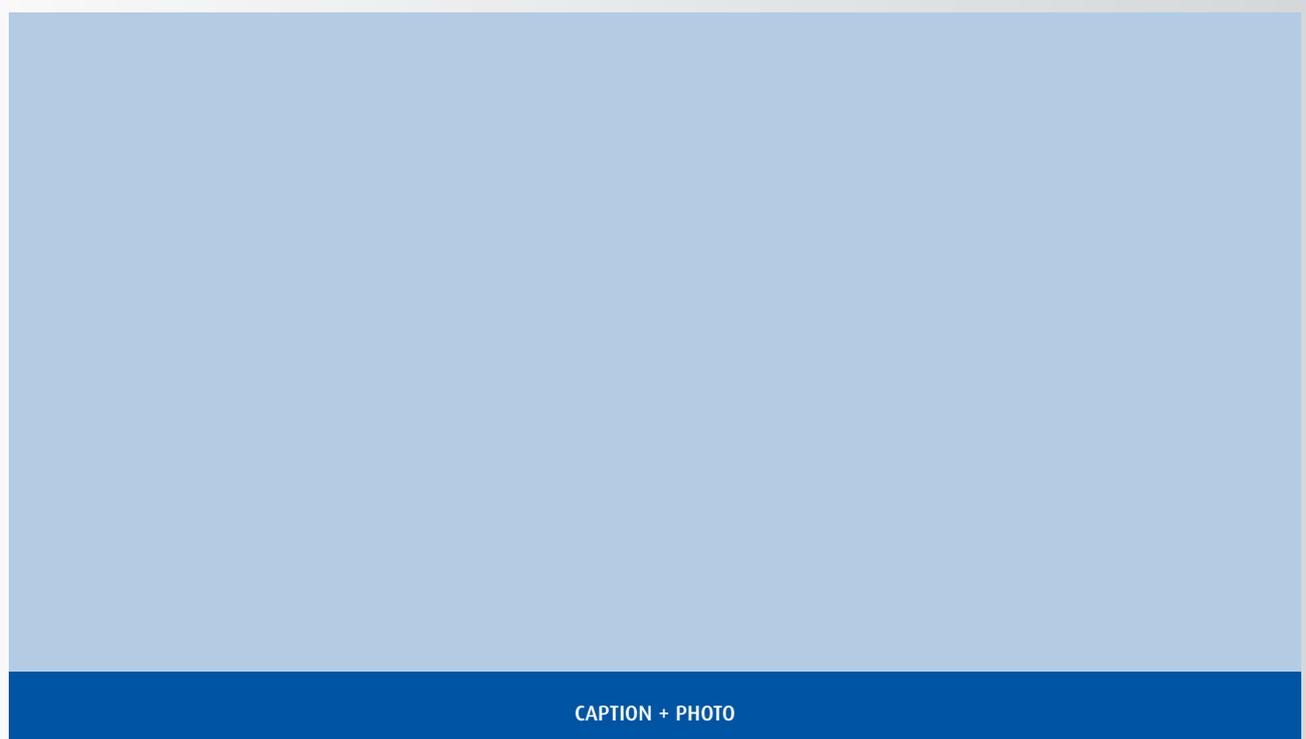
Consultants will be engaged to assist management to formulate the new plan and funds will be required for this purpose. In this respect, we are pleased that the Canadian International Development Agency (CIDA) has approved our request for funding as part of its institutional strengthening interventions in the region. Their support is greatly appreciated.

Donor Support

During the year the DFRC witnessed an increase in donor support with new (ICPs) committing resources to the programmes of the DFRC. Several factors account for this favourable development besides the payoff for concerted efforts by the DFRC management over the past years for donor support. These include, interventions by the SADC Secretariat as a result of improved relations with the DFRC and growing appreciation of the activities of the DFRC and the SADC DFI Network in the region by various stakeholders.

Since commencing project activities three years ago, the Danish Agency for International Development (DANIDA) has been the main pillar of support, providing the bulk of financial resources for the DFRC's programmes. In November 2007, the DFRC successfully negotiated a further two year contract with DANIDA for US\$810,000 for the period 2007/8 to 2008/9 the previous one having terminated on 31st March 2007.

It is pleasing to observe that the DFRC has also begun to



CAPTION + PHOTO

Chief Executive Officer's Report

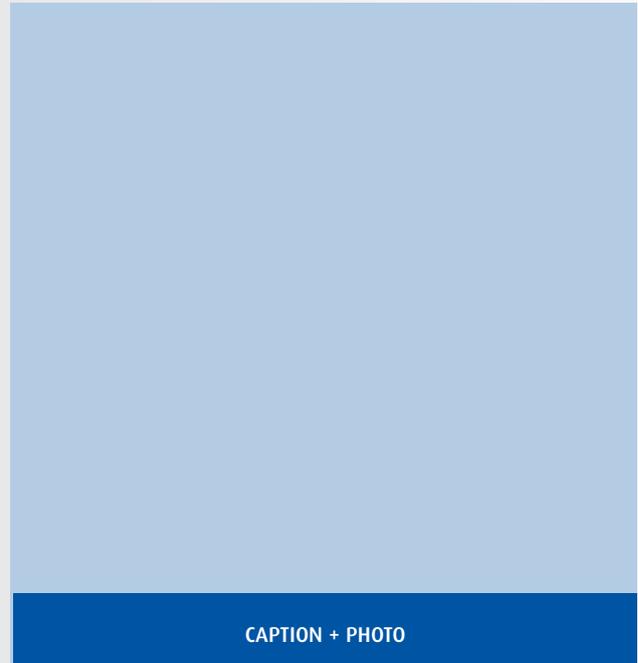
benefit from the support of other donors, among these the African Development Bank (US\$169 000,00), the African Capacity Building Foundation (US\$48 000,00), the Public-Private Partnership Investment Advisory Facility (PPIAF), a World Bank subsidiary (US\$223,500) and the Global Corporate Governance Forum (US\$190,000).

This support has seen DFRC commence the project on 'Credit Rating Methodology for African DFIs' and will soon embark on the 'SME – Big Business Linkages and Case Study' focusing on the Mozambique Aluminium (Mozal I & II) Project. These projects are funded by the AfDB and PPIAF, respectively with DANIDA funds supporting primarily SME and Capacity Building projects.

With the implementation of the SADC Finance and Investment Protocol (FIP) expected at the beginning of 2009, the DFRC is expected to benefit from the European Union (EU) resources amounting to about Euro13 million that have been set aside for this purpose. The Annexure on the SADC DFI Network and its DFRC is one among thirteen annexures that constitute the FIP.

The ratification of the FIP by SADC member countries anticipated to be completed before the end of 2008, would not only avail resources from EU towards the Capacity Building and SME activities of the DFRC but would also bestow on the Network and the DFRC protocol-based legal status and thus dispense with the Memorandum of Agreement under which the Network was established.

The interventions of the Trade, Industry, Finance and Investment (TIFI) Directorate of the SADC Secretariat contributed significantly to the upturn in donor support for DFRC programmes. These took the form of invitations to attend meetings and presentations to such gatherings as the TIFI International Cooperating Partners (ICPs) cluster. TIFI has assured DFRC of continued support in its endeavours to raise funding for programmes and this improvement in relationship augurs well for a strong growth in the activities of the DFRC over time.



Staff Matters

Following the appointment of the DFRC CEO in November 2007, the position of Programme Manager, Policy Research and Advisory Services, fell vacant. At its meeting in November 2007, the DFRC Board of Trustees took a decision to temporarily suspend recruitment for the position until further review. The CEO who previously held the post was asked to carry the portfolio for the time being. At the same time, the departure of the former CEO in May 2007 also left the Infrastructure portfolio without a manager since the CEO, in addition to her duties was, responsible for that sector. These developments have left the two portfolios of Infrastructure and Policy Research and Advisory Services without substantive managers. Consequently some responsibilities for the two areas have been reassigned to the Programme Managers for Capacity Building and SME Development, respectively.

The new Business Plan is expected to address matters re regarding the DFRC staff compliment, taking into account identified core areas of activities and the resources (financial and non-financial) required to implement the Plan.

Chief Executive Officer's Report

Programmes Implementation

Performance on programmes during the year under review has been varied with Capacity Building continuing to account for the bulk of resources available taking 59% and Infrastructure slowing down significantly at the other end.

Programmes Funding Distribution (USD)

Activity Area	Amount	% of Total
Policy Research & Advisory Services	187 938	33.6%
Capacity Building	330 303	59.0%
SME Development	41 313	7.4%
Infrastructure Development	-	
Total	559 554	100%

Late disbursement of funds by donors resulted in most activities falling behind schedule. However, following the successful negotiations with DANIDA and the Global Corporate Governance Forum (GCGF), implementation of various programmes commenced towards the last half of the year.

With significant funding now in place, a higher level of programme implementation is expected in the coming year. In this regard, preparatory work has been completed for most of the major projects including Credit Rating of

DFIs, SME-Big Business Linkages and the SME Standards and Trade Facilitation Projects.

Looking Ahead

Various factors will be at play in determining the course that the DFRC will take in the coming years. Continuing financial support from ICPs will remain crucial and with the strengthening relationship with the SADC Secretariat, the DFRC is confident that this will cease to be an impediment. With funding issues addressed, the DFRC anticipates a higher level of operation on all key focal areas. Of importance however, is to ensure that the DFRC activities continue to contribute towards strengthening DFIs and the Network, and thereby position them favourably to deliver on their development mandates as well as weathering the effects of emerging global challenges such as the ever rising food and fuel prices and their impact on national economies.

In looking ahead, the guiding objective will be to ensure that the new Strategic Business Plan takes on board all these factors and that it provides a roadmap for the DFI Network and its DFRC with renewed dynamism as they play their part in promoting the attainment of the regional goals of sustained economic development, employment creation and poverty alleviation.

Stuart Kufeni
Chief Executive Officer

Programme Reports

Policy Research and Advisory Services



Introduction

The year 2007/08 saw the DFRC notch up a few successes including the launch of its first research project on DFI Credit Rating Methodology while consolidating its DFI Data Base. At the same time, advisory services activities culminated in the award to the DFRC of a World Bank – sponsored consultancy contract by the Government of Malawi for the establishment of a development fund.

Activities

Credit Rating of Development Finance Institutions:

In March 2008 the DFRC successfully raised an amount of US\$223,500 in grant funding from the Public-Private Investment Advisory Facility (PPIAF), a subsidiary of the World Bank, to finance the project on Credit Rating Methodology for African Development Finance Institutions. These funds augment the amount of US\$48,000 previously approved by the African Capacity Building Foundation

(ACBF) in November 2006. This brought total resources available for the project to US\$271,500, albeit lower than budgeted for but sufficient to commence the project. Three DFIs will be involved at this stage and it is anticipated that with time resources would be secured to rate more DFIs.

The benefits of credit rating to DFIs, especially when complemented by an enabling policy and regulatory environment, are quite immense particularly in accessing international capital markets. Thus, the Credit Rating project has among its objectives the following:

- To help creditworthy DFIs access finance for critically needed infrastructure investment;
- To assist governments monitor DFI performance and target assistance strategies;
- To provide an objective basis on which individual DFIs and their support networks can set internal reform agendas; and
- To develop and test a credit rating methodology tailored specifically to African DFIs.

The project has the following two major components:

1. A conceptual approach to DFI credit ratings:

The approach which draws on previous work done on the subject both in Africa and in other developing regions in the world, among other areas, includes the following activities:

- A review and evaluation of current methodologies of credit rating;
- An investigation of the extent to which these methodologies have been applied in Africa, at country and institutional levels;
- An evaluation of the experiences of the African countries with country and financial institutions ratings;
- An assessment of ways in which DFI ratings can be made “developmental” in the sense of highlighting priority reforms needed in order

Programme Reports

Policy Research and Advisory Services

for the rated entity to achieve investment grade status;

- Recommendations regarding the most appropriate approach to rating African DFIs, highlighting relevant components and consistent data sources;
- Benchmarking the recommended approach to existing methodologies for consistency and comparison purposes; and
- Consultation with key stakeholders to ensure wide support for the rating methodology chosen.

2. Shadow credit assessment and diagnostics:

This phase involves the shadow rating of a select number of DFIs in order to facilitate the understanding of the creditworthiness of DFIs. The key components include:

- An on-site dialogue and review process with participating DFIs as well as an assessment of the local financial market and regulatory framework to arrive at a credit assessment score of the individual DFIs.
- Preparation of diagnostic credit assessment reports that contextualize the assessment score by identifying key strengths and weaknesses and the potential to access local or international finance.

The diagnostic reports on the three selected DFIs, without divulging or breaching confidentiality will form the basis for the evaluation of current rating methodologies under phase one above. In the event that the credit assessment score is favourable, the onus is incumbent on the DFI to go public or not.

Pursuant to the completion of phases (1) and (2) above, a workshop will be held to discuss the results of the credit assessment reports. The workshop will assemble relevant key stakeholders including banks or other financial institutions, national and regional government officials and DFIs to review the comparative analysis of the credit ratings produced and the proposed rating methodology.

The workshop will also be used, in a discussion with local financial institutions, to demonstrate the link between the credit analysis and possible transactions. Lessons learned in this process, together with the actual data and information generated, will also feed into national efforts to more effectively monitor the activities of DFIs.

The study will be a collaborative effort between the SADC-DFRC (representing the SADC DFI Network) and the following partner institutions:

- The SADC Committee of Central Bank Governors (CCBG) Secretariat in Johannesburg, South Africa;
- The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), Harare, Zimbabwe;
- The Trade, Industry, Finance and Investment (TIFI) Directorate at the SADC Secretariat in Gaborone, Botswana; and
- The Association of African Development Finance Institutions (AADFI).

The proposed rating methodology, once endorsed by the various policy-making structures of SADC at sub-regional level and AADFI at the continental level, the next stage would be that of implementation.

Project to Establish a Development Fund in Malawi

In February 2007, the DFRC was requested by the Government of Malawi to tender for a contract to undertake a World Bank funded consultancy for the establishment of a development fund for small medium enterprises (SMEs). The Fund was intended to replace the Malawi Development Corporation which was undergoing liquidation. In June 2007 the DFRC was awarded the contract.

The project which was expected to last for up to six months encompassed the following key activities:

- Confirm the target market and assess its size;
- Identify the needed financial products;

Programme Reports

Policy Research and Advisory Services

- Develop an indicative investment pipeline;
- Define the structure, governance and ownership of the new institution;
- Identify the exact procedures for establishing the institution – Action Plan;
- Identify potential shareholders including local financial institutions;
- Based on the above, determine the likely initial capitalization of the entity;
- Identify the leading fund manager(s), or procedures to select the leading fund manager(s) who will be responsible for the entity's establishment;
- Identify the required Business Support Services (BSS) to complement the new intermediary as well as recommend additional measures designed to improve the business environment to the government; and
- Develop Risk Management Guidelines for the new entity.

In mid-July the DFRC commenced work on the project with a team of four consultants with wide ranging experience in setting up and managing equity funds and financial sector specialists. The project was completed in November and the Final Report was submitted to the Government of Malawi in the last week of December 2007 for implementation.

Tender for the Tanzania Investment Bank Restructuring Project

In June 2007, as part of its Second Generation Financial Sector Reforms which include the establishment of a development finance system, the Government of Tanzania

requested expressions of interest (REIs) for 'Consultancy Services on the Transformation of the Tanzania Investment Bank (TIB) into a Development Finance Institution'. The DFRC in association with a DFC, a Barcelona based consultancy firm, submitted REI and the partnership was among seven bidders short listed to submit requests for proposals (RFPs). The DFRC/DFC subsequently submitted its RFP in November 2007 but was only ranked second in the final selection. The bid by the DFRC had it been successful would have consolidated previous advisory work of the DFRC on TIB particularly in the areas of organisational and governance structures.

SME-Big Business Linkages Study and Case Study

The DFRC secured the amount of US\$169 000 from the African Development Bank towards funding this project which also encompasses a case study of the Mozambique Aluminium Project (Mozal Phases I and II). In the absence of a substantive Programme Manager for Policy Research and Advisory Services, implementation of the project has been assigned to the Programme Manager for SMEs.

DFI Data Base

Through the contracting of interns, the DFRC has managed over the past year to build a data base for member DFIs using published financial statements primarily from annual report. Data collected is for the period 2000 to 2006 and updates continue for 2007. Some data gaps still exist and it is anticipated that once these gaps are closed consolidated data could be made available to stakeholders through a statistical report in the near future.



Programme Reports

Capacity Building

Introduction

The year under review was marked by a downturn in activities on account of declines in donor funding during the period. Funding arrangements with international cooperating partners were at various phases of consideration, and had not matured.

Fortunately, some success was achieved towards the end of the year, and significant resources were secured for the programmes in corporate governance, investment appraisal, project management among others from initial cooperating partners.

The DFRC was also to extend its operations to non-DFI actors, with new programmes being initiated with the South African National Treasury and other government departments. It is hoped that this arrangement will continue into the future, and that similar services will be extended to other SADC governments, non-SADC development finance institutions and the private sector with an interest in development finance.

It is anticipated that the number of programmes will increase in the coming year as the financial and technical partnerships are fully and effectively utilized.

Activities

Training Programmes

*(a) Corporate Governance Development Programme
– Pilot Workshops, Roll- Out*

The Corporate Governance Development Programme (Phase I) was completed with the holding of two pilot workshops for directors and trainers in Corporate Governance and Director Skills Development between 19th – 28th September 2007.

This follows preparatory work undertaken by consultants appointed by the Global Forum for Corporate Governance. The consultants carried out a survey amongst the member DFIs and other stakeholders to assess the specific needs of such a programme, and the development of a tailor-made programme for the SADC DFIs.

The draft curriculum was used as a guide in both workshops, using resource persons drawn from across the region for presentation of the material. The workshops were attended by participants from across the DFI Network with 22 directors and senior management attending the Director Skills Programme for Directors, and 25 DFI company secretaries, consultants and other professionals attending the Director Skills Training of Trainers Programme.

Further to this, and following discussions with the Global Forum for Corporate Governance, the DFRC has secured a grant of US\$120,000 from the Global Forum for Corporate Governance to roll out its Corporate Governance Capacity Building Programme using the newly-piloted DFI-specific director skills development programme.

The DFRC will supplement this grant with existing donor resources to run the planned programmes which include the orientation of trainers, monitoring and evaluation (baseline study) and training implementation for the year 2008/2009.

It is expected that the roll-out will commence in May 2008. DFIs are invited to support this programme through providing data for the baseline study, and the participation of their board members in the training programme.

*(b) Investment Appraisal and Risk Analysis for SADC
government officials (South African National Treasury)*

Following submissions to the National Treasury, earlier in the year, the DFRC has entered into a standing arrangement to provide training in Investment Appraisal and Risk Analysis to the National Treasury of South Africa, as well as other sector and provincial governments.

Programme Reports

Capacity Building

Accordingly, the DFRC in collaboration with the Queens University (John Deutsch International Executive Programmes) organized a training session on Investment Appraisal and Risk Analysis for senior and mid-level government officials of the South African government. These officials were drawn from the National Treasury, the Provincial Treasuries, Departments of Trade and Industry and other government departments. Member DFIs from South Africa and Botswana also participated in the programme to strengthen cross-fertilisation of ideas and interaction between the DFIs and government officials involved in infrastructure projects. The workshop was held at the Eskom Leadership Development Centre in Midrand, South Africa with a total participation of 38. Our evaluation and that of Queens University showed that the programme was well received. The financial out-turn of the project reveals that this project was able to recover costs and achieve a modest surplus.

Module II of this programme on Economic and Distributive Analysis was planned for 7th – 8th April 2008 in Midrand, South Africa.

It is anticipated that further programmes for the National and Provincial Treasuries will be run on an annual basis, and that these will be extended to other SADC governments, where such skills may also be required.

These programmes will be run on a full cost recovery basis. Some of our DFIs are expected to participate on the programmes to share experiences with government officials, but will be billed at a concessionary rate.

The programmes are part of our continuing collaboration with Queens University's John Deutsch International Executive Programmes on Investment Appraisal and Risk Analysis Training.

(c) Project Management Course

A course on Project Management was held from 31st March -11th April 2008 at Birchwood/ OR Tambo Conference Centre, and was facilitated by the Queens University (John Deutsche International Executive Programmes). Twenty six (26) participants from member DFIs attended the programme. A further programme on Project Management is planned for later in the year.

Programme Reports

Capacity Building



Placements

Joint Africa Institute, Tunisia: Finance and Business Support Services for SMEs

The DFRC secured space for DFI network members of staff to participate in the training programme for Finance and Business Support Services for SMEs. This is a one week programme whose purpose is to share existing knowledge and best practices for supporting small and medium enterprises (SMEs) with growth potential in Africa. The seminar aims to discuss and enhance a framework for supporting enterprise growth, in order to more effectively address the issue of the 'missing middle' in Africa.

Three participants from Swaziland (2) and Zambia (1) were accepted on the programme which ran from 29th October to 2nd November 2007.

Other Activities

(a) Human Resource Development Forum, April, 2007

The SADC-DFRC convened the second Human Resources Development Forum of the SADC-DFIs in Gaborone, Botswana. The conference was attended by 23 participants from member DFIs of the Network and was held at Gaborone International Convention Centre in Gaborone. The key issues discussed and resolved included the following:

- Election of steering committee for the Forum; members from Botswana Development Corporation, Development Bank of Southern Africa, Infrastructure Development Bank of Zimbabwe, Development Bank of Namibia and Development Bank of Zambia. Mr Simon Meti from BDC, Botswana was elected Chairman;

Programme Reports

Capacity Building

- The Forum resolved to update its Training Needs Analysis for the SADC DFIs. It was resolved that the DBSA would prepare a template and assist in driving the process towards completion. It was anticipated that this process would be completed in time for the planning process of the SADC DFRC for the year 2008/9.

The Forum agreed to meet on a regular basis under the guidance of the steering committee to address matters of common interest particularly the immediate issue of the Training Needs Analysis for the DFIs.

The DFRC is grateful for financial and moral support of the Botswana Development Corporation, National Development Bank and the Citizen Entrepreneurial Development Agency of Botswana, without which this Forum would not have been possible. The DFRC also recognizes the support extended by the Development Bank of Southern Africa in sponsoring some resource persons for the programme.

Future Programme Activities

The year under review witnessed a lower level of activity principally because of a marked decline in donor funding as applications for new and renewed funding partnerships were under consideration.

The DFRC therefore embarked on a period of consultation with various strategic partners on how to implement its Capacity Building programme. These institutions include the Queens University, the Global Forum for Corporate Governance, the African Development Bank, and the Gordon Institute of Business Studies. New relationships are being cultivated with other institutions and consultancy organizations to secure high level, high quality training which is relevant to the needs of the Development Finance Institutions.

The Danish International Development Agency recently confirmed funding for two years 2007-2009, which will be used to run a substantial number of programmes with a variety of technical partners.

The DFRC therefore anticipates that a substantially higher level of activity will be achieved in 2008/9 on account of additional resources secured by DANIDA, GCGF and other supporting institutions, as well as the extended technical partnerships. With the heightened level of activity becoming a permanent feature of the institution, the DFRC will be reviewing in the coming year how best to cope with the changing circumstances and continue to meet the expectations of the DFIs.

Programme Reports

Small & Medium Enterprises Development

Introduction

The DFRC continued in the year to support the DFI Network members and SADC member states through its SME Development Programme by essentially, first working with the DFIs to improve their internal capacity to provide financial and business development services (BDS) to SMEs and secondly, through interventions at the business enterprise level to improve the viability of SMEs. The DFRC's objective remains that of assisting the DFIs to build a sustainable SME portfolio and at the national level to support the development of a vibrant SME sector in the region. The region enjoys vast natural resources that if properly managed and exploited to optimum potential, should help the SADC in addressing the problems of underdevelopment, poverty and gender inequities that beset invariably all the member states.

To a large extent the programme has begun to rollout projects that will benefit SMEs in the region. At the enterprise level the programmes launched early in the year are the SME Mentoring programme, the Industrial

Upgrading and Modernization Programme that focuses on standards enhancement and trade facilitation which could not commence as initially anticipated due to funding constraints. A new project on developing SME Business Confidence Indices was started towards the end of the year in collaboration with Africagrowth Institute based in Cape Town, South Africa.

Activities

Support to DFIs' SME Programmes

Focus continued to concentrate on strengthening the capacity of DFIs in their SME activities through:

- Supporting management at the strategic level to improve on business planning, policy formulation and best practice in SME financing and business development;
- Assisting with capacity building of staff targeted at SME Loan officers in liaison with Capacity Building.



Programme Reports

Small & Medium Enterprises Development

Strategic Level Support

Journey to Excellence Training and Mentorship

This project is under implementation using the "Journey to Excellence" (J2Ex) model that was developed jointly with SAFRI (Southern Africa Initiative of German Business) HRD Project of Germany. The model is designed to develop and maintain increased competitiveness and sustainability of DFIs.

Following announcement of the programme for the year 2007/08 to the DFIs, agreement was reached between the DFRC and DFIs in Botswana (the Citizen Entrepreneurial Development Agency-CEDA) and Namibia (the Development Bank of Namibia, National Housing Enterprise and Agribank Namibia) for the programme to be launched in their respective countries. Workshops for Namibia were conducted with the three DFIs during the year, starting with DBN and followed by a joint workshop for Agribank and NHE.

Mentoring started in the first quarter of 2008 for two DFIs in Namibia, namely the Development Bank of Namibia and Agribank in March 2008. National Housing Enterprise (NHE) could not be covered as they had a Management retreat during the same week the mentoring was supposed to take place. NHE will be covered in the mentoring sessions for the year 2008/09.

Plans to replicate the mentoring programme in the other member states are underway, with marketing visits to DFIs in Botswana and Zimbabwe scheduled for the first Quarter of 2008/09. It is anticipated to have programmes running concurrently in three member states in this year 2008.

Technical Assistance to the Basotho Enterprise Development Corporation (BEDCO)

Following on the training in the Journey to Excellence to BEDCO management in 2007 a comprehensive TA

package was discussed during the year and agreed with the management. The package covers supporting BEDCO in the four areas;

1. BEDCO Strategic Plan development and periodic review.
2. SME Linkages Project activities.
3. Lesotho SMME Business Confidence Indices
4. Corporate Governance training

A "work plan" for providing the TA during the course of the year 2008/09 is under development in liaison with the BEDCO management.

Capacity Building

SME Loan Officers' Training

Building up on the training on Project Appraisal to SME Loan Officers in the previous year, a workshop titled "Re-enforcing the loan Decision" was conducted with the sponsorship of JICA and the DBSA at the DBSA Vulindlela Academy from October 15 to 26, 2007. The training was part of a 5-year Capacity Building Programme in SME and Infrastructure Development that was jointly developed between the DFRC and DBSA. Participation at the workshop was very high and it included staff from DFIs that are non-SADC DFI Network members from Angola and some also came from DFIs that are outside SADC countries such as Rwanda, Sudan and the PTA/COMESA Bank. An evaluation of the training will be undertaken jointly between the DFRC and the Vulindlela Academy.

Projects benefiting SMEs at the Enterprise Level

Two project proposals were completed during the period and the projects are now ready for the DFRC to engage potential partners (both member DFIs and other

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Small & Medium Enterprises Development

Development Partners) for funding and implementation. The two projects focus on SME Mentoring and “Standards” for SMEs involved in agribusiness, specifically horticulture. These projects are;

(a) SME Training and Mentoring

Following a very high profile launch of the Excellence Initiative in Namibia on 26th February 2007 at an event hosted by the 3 Namibian DFIs, a three - day workshop was held for DFI clients, suppliers and partners on March 14th-16th, at Heja Game Lodge outside of Windhoek. A total of 15 participants attended the workshop.

on the understanding that the DFIs would bring in their clients and suppliers at the next stage of training, after the training of the DFIs. This stage of the training (training of clients and suppliers) has now dovetailed wonderfully with DFRC sponsorship of the programme.

Helping DFI clients become more successful is not only in the interest of the DFIs but in the interest of the economies of member states as well. The same is true with regard to training of existing and potential suppliers and partners of the DFIs. Best practice confirms that actively promoting the development of suppliers and business partners is at the core of many companies’ competitive advantage worldwide.



The approach that was used for the workshop was not only in line with SAFRI’s work in other countries but was at the core of the reasoning when the SADC-DFRC and SAFRI agreed to partner on the programme. SAFRI’s mandate is to work with SMEs, which includes clients of the DFIs as well as DFIs’ service providers. SAFRI’s support was leveraged

(b) Industrial Upgrading and Modernization: SME Standards and Trade Facilitation

Building on the work initiated in the year 2006/07, the project focuses on SME competitiveness through increased productivity, product quality and value addition. The project has been adopted by the SADC Secretariat into a broader

Programme Reports

Small & Medium Enterprises Development

regional programme supported by UNIDO- the Industrial Upgrading and Modernization Programme (IUMP). Whereas the initial DFRC initiative focused on upgrading of SMEs standards throughout the product value chain from production and input supply to product packaging, distribution and marketing in the horticulture industry, the UNIDO/SADC programme is anchored on the African Productive Capacity Initiative (APCI) as the model for sustainable industrial development on the continent. This is based on a sub-regional approach and implemented in close collaboration with the private sector. The overall objectives are:

- promoting regional integration
- export development and diversification
- building productive capacity in priority sectors identified for each sub-region; and
- promoting an effective private sector participation and partnership with the public sector

Within the SADC region the programme will help in enhancing the competitiveness of industrial products and related services in the region as well as the global market place.

A workshop of stakeholders from SADC Member States was held in Johannesburg, South Africa over 3 days starting from 31st March 2008 to validate the IUMP. The workshop, facilitated by the SADC Secretariat, considered the draft programme prepared by UNIDO and made recommendations on the way forward by way of an Action Plan. The meeting validated the draft IUMP presented, subject to some observations and recommendations made thereof. An Action Plan was also recommended that should see mobilization of requisite resources and commencement of the "pilot" phase in the year 2008/09.

SME-Big Business Linkages and Case Study

A project proposal was developed and submitted to the African Development Bank (AfDB) for funding following which funding was duly approved by AfDB. The project will cost approximately US\$200 000 with \$175 000 expected

to come from the AfDB.

The first tranche of funds was made available for the implementation of the project towards the end of the year. The DFRC assisted with the Request for Proposals (RFP) to engage project consultants and duly forwarded these to AfDB. The project is expected to commence in early 2008/09.

The project will be carried out in conjunction with the Programme Manager for Policy Research & Advisory Services as it involves support for case study development in respect of understanding what interventions are necessary to foster sustainable linkages between Foreign Direct Investment (FDI) in Spatial Development Initiatives (SDIs) and Development Corridors and the local economy through targeted SME activities. Case studies will be developed looking specifically at the experiences of among others, the IFC and GAPI (Mozambique) in the Maputo Development Corridor in fostering SME activities around the Mozal I and II investment activities.

SME Business Confidence Indices

The SADC-DFRC in partnership with Africagrowth Institute and other stakeholders agreed during the course of the year to develop business confidence indices for the SMEs for the SADC countries that will help draw attention to investors' perceptions and opinions regarding business trends in the SADC region. Growth in most of the African economies is underpinned by the growth and expansion of the SME sector but very little is known about the performance and sentiments expressed by the SME sector in these economies. Measuring the degree of confidence in this sector is one way of revealing performance and assessing business environment impact on SMEs. The Business Confidence Index for the SME sector can be helpful in this regard because:

- It quantifies qualitative business environment variables considered as key drivers in the economy;
- provides information about the SME sector;

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Small & Medium Enterprises Development

- Tracks and monitors SME sector;
- By focusing on the SME sector, this index differs from similar surveys in that other surveys tend to focus mainly on large businesses;
- Short term predictive indicator by small business owners, policymakers, researchers, analysts, banks and investors.

The index captures information on the trends in some key business indicators such as;

1. Employment;
2. Financial situation;
3. New orders/contracts;
4. Stock levels;
5. Demand for services and
6. Selling price.

It is expected that the index will be of significance to the DFIs and member state governments as it will;

- Serve as a useful forecasting tool to assist key stakeholders make informed decisions and to develop strategic plans that will ensure success in the SME sector;
- In addition, policymakers are provided on a regular basis with clearer insight on business trends and performance in the SME sector;
- Assist in the identification of the main issues and challenges affecting small business development in the region and therefore inform on the development of effective SME support tools.

Following the presentation of the SME Business Indices to the DFI Network members at the DFI Subcommittee meeting in Maputo in November 2007, agreement was reached with member DFIs in Lesotho to implement the project. LNDC will be leading the project in Lesotho and it is hoped the project will commence in the second Quarter of 2008. Africagrowth Institute is already working with IDC South Africa on the project for South Africa.



Future Programme Activities

The SME Development Programme will seek to consolidate on the projects that are already under implementation, anchored on a collaborative approach to optimize on available resources and utilizing the valuable experience of Development Partners. Emphasis though will be placed on interventions that are aimed at improving SME portfolios of DFIs through activities that support SMEs' productivity, profitability and therefore SMEs' sustainability.

Notwithstanding the emphasis on activities that support SMEs at the enterprise level, the project on "Survey of DFI Network members' and SADC member states' SME Support programmes" will be resumed in the coming year following the availability of funds for this activity. SMEs in the SADC region continue to be confronted by the challenges of limited access to finance, low capacity utilization and a poor if not 'non conducive' business environment. For analysis purposes and the need for a logical framework for developing effective SME support programmes, the survey is a critical tool for the DFRC and the DFI Network.

Programme Reports

Infrastructure Development

Introduction

The year under review was a process of transition for this section of the DFRC, with the departure of the Manager (who was also the DFRC CEO) during the year. The Programme was temporary assigned to the Capacity Building Manager for the continuation of the programmes. The key programmes related to conclusion and implementation of agreements concluded, and expanding the involvement of the DFRC in African and regional debates in infrastructure and public private partnerships.

Activities

Advanced Quantitative Appraisal of Public Private Partnerships

The project on Quantitative Appraisal of PPPs which was approved by PPIAF for the DFRC and DBSA has now proceeded to tender. Four eligible bidders were earlier identified to partake in a selective tender process. The

DFRC will participate in the evaluation of the bids, after the tenders have been opened.

The project is being managed by the World Bank office in South Africa. The evaluation process and award of contract is expected to be complete by June 2008.

Investment Appraisal and Risk Analysis – Special Funding

The DFRC has submitted a request to the Infrastructure Project Preparation Fund of NEPAD based at the African Development Bank for a multi-year financial assistance programme. This will enable the DFRC to run programmes on Investment Appraisal and Risk Analysis and to sponsor staff for the associated advance Training of Trainers Programmes.

Other Activities

(a) NEPAD Infrastructure Project Preparatory Fund Special Fund, Oversight Committee, December 2007.



Programme Reports

Infrastructure Development

The DFRC attended the meeting of the Oversight Committee of the NEPAD/IPPF held in Tunisia in December 2007 at the African Development Bank. These meetings are held biannually, the last one having been held in Lusaka, Zambia. The purpose of the Fund is to provide resources for the conduct of pre-feasibility and feasibility studies to ensure the bankability of projects supported by NEPAD and other regional agencies.

The DFRC will continue to participate in the work of the NEPAD/IPPF with a view to keeping up to date with the developments in infrastructure financing in Africa, and to determine how the DFRC can support these initiatives through research and training in relevant areas.

(b) Capacity Building Mapping Study

The DFRC participated in the Capacity Building Mapping Study undertaken by the Infrastructure Consortium for Africa. The study was meant to identify the capacity building needs of the regional economic communities and regional agencies, and to link these with potential service providers in the region. The DFRC gave an account of its experiences in providing training services to Development Finance

Institutions, and indicated how this could be extended to others interested in similar training. The DFRC is reflected in the report as one of the few potential service providers.

(c) NEPAD/IPPF Meeting for Regional Agencies, Cape Town, 26th-27th March 2008

The DFRC attended a Capacity Building workshop for the African Power Pools and regional agencies (corridors) on Capacity Building. The objective of the workshop was to develop a profile of the capacity building requirements of the specialized agencies. The agencies presented their experiences and needs in Capacity Building in their respective areas. The PPIAF and the DBSA, as funders of capacity building, presented an account of their activities, while the SADC-DFRC, as a potential service provider, presented its experiences and plans on capacity building. Subsequent to the meeting, the AfDB/NEPAD office is compiling a composite schedule of the capacity building needs of those institutions as a follow-on to the workshop. The DFRC awaits the results of this survey and the proposed way forward by the NEPAD office.

Financial Statements

for the year ended 31 March 2008



Financial Statements

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General Information Statement

for the year ended 31 March 2008

Activities

The Southern African Development Community - Development Finance Resource Centre is a capacity building centre for the SADC Development Finance Institutions supporting them in their pursuit of good corporate governance, operational effectiveness and efficiency so as to enhance their contribution to economic growth and development. It is a centre of excellence supporting the objectives of the Southern African Development Community Development Finance Institutions Network.

Number of employees

As at 31 March 2008 the Centre had 8 employees
(2007: 8 employees)

Subsequent events

The trustees are not aware of any matter or circumstance arising since the end of the financial year, not dealt with in the report or financial statements that would significantly affect the operations of the Institution or the results of its operations.

Trustees

Members of the Board of Trustees are:

Vincent Mhlanga	Chairman
Oaitse Ramasedi	Vice-Chairman
David Nuyoma	(appointed 16/11/07)
Peete Molapo	(appointed 16/11/07)
William Mlaki	(appointed 16/11/07)
Leonard lipumbu	(appointed 16/11/07)
Admassu Tadesse	(appointed 16/11/07)
Benyram Chooramun	(retired 16/11/07)
Alan Mukoki	(retired 16/11/07)

Registered Address

Plot 50676
BIFM/Fairground Office Park
Gaborone

Bankers

Standard Chartered Bank of Botswana Limited
PO Box 496
Gaborone

Auditors

KPMG
PO Box 1519
Gaborone

Trustees' Responsibility Statement

for the year ended 31 March 2008

The organisation's trustees are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 31 March 2008, and the income statement, the statement of changes in funds and 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 in accordance with International Financial Reporting Standards.

The trustees' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these 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.

The trustees' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The trustees have made an assessment of the organisation's ability to continue as a going concern and have no reason to believe the organisation will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements:

The annual financial statements were approved by the trustees on 28 April 2008 and are signed on their behalf by:

Board Chairman

Trustee

Independent Auditor's Report

to the trustees of Southern African Development Community
– Development Finance Resource Centre

Report on the Financial Statements

We have audited the accompanying financial statements of Southern African Development Community – Development Finance Resource Centre, set out on pages 37 to 50, which comprise the balance sheet as at 31 March 2008, and the income statement, statement of changes in funds and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' Responsibility for the Financial Statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 Southern African Development Community – Development Finance Resource Centre as of 31 March 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Supplementary Schedule

The supplementary schedule set out on pages 51 to 52 does not form part of the financial statements and is presented as additional information. We have not audited this schedule and accordingly we do not express an opinion on it.

KPMG
Certified Public Accountants
Gaborone

Income Statement

for the year ended 31 March 2008

US \$	Note	2008	2007
Members contributions		990 930	979 781
Donor funds		746 158	753 766
Total revenue		1 737 088	1 733 547
Other income		126 030	30 004
Expenditure			
Staff costs		(502 781)	(421 947)
Program expenses		(230 885)	(996 986)
Administration and operating costs		(295 794)	(442 338)
Surplus/(deficit) for the year	1	833 658	(97 720)

Statement of Changes in Funds

for the year ended 31 March 2008

US \$

	Accumulated surplus
Balance at 1 April 2006	146 844
Deficit for the year	<u>(97 720)</u>
Balance at 31 March 2007	49 124
Surplus for the year	<u>833 658</u>
Balance at 31 March 2008	<u><u>882 782</u></u>

Balance Sheet

at 31 March 2008

US \$	Note	2008	2007
Assets			
Non current assets			
Plant and equipment	2	85 313	113 885
Current assets			
Trade and other receivables	3	443 060	120 702
Cash and cash equivalents		770 448	67 344
		1 213 508	188 046
Total assets		1 298 821	301 931
Funds and liabilities			
Accumulated surplus		882 782	49 124
Non-current liabilities			
Finance lease obligation	4	3 538	9 508
Operating lease accrual	5	20 013	18 397
		23 551	27 905
Current liabilities			
Trade and other payables	6	387 973	218 339
Short term portion of operating lease accrual	5	2 073	-
Short term portion of finance lease obligation	4	2 442	6 563
		392 488	224 902
Total funds and liabilities		1 298 821	301 931

Cash Flow Statement

for the year ended 31 March 2008

US \$

Operating activities

Members' contributions	668 572	927 145
Donor funds	746 158	753 766
Cash paid to suppliers and employees	(823 117)	(1 862 391)
Sundry receipts	126 030	20 159

Cash generated from/(utilised) in operating activities

717 643	(161 321)
----------------	------------------

Investing activities

Proceeds on disposal of furniture and fittings	-	2 550
Acquisition of plant and equipment	(4 448)	(12 918)

Cash utilised in investing activities

(4 448)	(10 368)
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Financing activities

Capital repayments made on finance lease obligation	(10 091)	(4 630)
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Increase/(decrease) in cash and cash equivalents	703 104	(176 319)
Cash and cash equivalents at beginning of year	67 344	243 663

Cash and cash equivalents at end of year

770 448	67 344
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Cash and cash equivalents comprise:

Petty cash	49	-
Bank balances - current accounts	16 774	19 994
Bank balances - call accounts	753 625	47 350

770 448	67 344
----------------	---------------

Significant accounting policies

for the year ended 31 March 2008

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Basis of preparation

The financial statements are stated in US Dollars denoted by US\$, which is also the functional currency.

The financial statements are prepared on the historical cost basis, except for financial instruments which are disclosed at fair value. The financial statements incorporate the following accounting policies which are consistent with those applied in the previous year.

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.

No significant judgements with regards to the application of IFRSs were made in the compilation of these financial statements.

Reporting currency and currency translation

All transactions have been translated into US Dollars at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities at the balance sheet date have been translated into US Dollars at the foreign exchange rate ruling at that date.

Any foreign exchange differences are dealt with in the income statement in the year in which the difference arises. Non monetary assets and liabilities denominated in currencies other than US Dollars which are stated at historical cost, are translated to US Dollars at the foreign exchange rate ruling at the date of the transaction.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the entity at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment in value. Depreciation is provided on the straight line method at the following rates, which are designed to reduce the cost of the assets to residual values at the end of their useful lives.

Significant accounting policies

(continued)

for the year ended 31 March 2008

- **Computer equipment** 33.33% per annum
- **Furniture and fittings** 15% per annum
- **Office equipment** 15% per annum
- **Motor vehicle** 25% per annum

The useful life, depreciation method and residual value are reassessed on an annual basis and any change therein is treated as a change in accounting estimate.

Gains and losses on disposal of plant and equipment items are determined by comparing proceeds with the carrying amount and included in the income statement.

Recognition and de-recognition of assets and liabilities

The entity recognises an asset when it obtains control of a resource as a result of past events and future economic benefits are expected to flow to the entity. The entity derecognises a financial asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. A financial liability is derecognised when it is legally extinguished.

Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of assets is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely

independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

When an impairment loss subsequently reverses the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

Operating leases

Leases, which merely confer the right to the use of an asset, are treated as operating leases. Payments made under such operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Taxation

No provision for taxation is required as the entity is exempt from taxation in terms of the second schedule of the Income Tax Act (Chapter 52:01).

Interest received

Interest received is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the company.

Interest paid

Interest paid is recognised for all interest-bearing financial instruments on an accrual basis, using the effective yield method on the original settlement amount.

Significant accounting policies

(continued)

for the year ended 31 March 2008

Revenue recognition

Revenue comprises the invoiced value for services rendered net of rebates and discounts.

Revenue is recognised in the income statement for services rendered when the following conditions have been satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the company;
- The stage of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Donor income

Donor income credited to the income statement when these amounts are received and banked. Donor income for future use is recorded as a liability on receipt. Costs are expensed against the liability when these costs are incurred.

Employee benefits

The entity does not have a retirement benefit scheme of its own. Provision is made for severance and gratuity benefit obligations to its present employees, as required under Botswana Employment Act. Severance benefits are not considered to be a retirement benefit plan as the benefits are payable on completion of each 60 month period of continuous employment or on termination of employment after a continuous employment period of 60 months. Employee entitlements to annual leave, bonuses, medical aid, housing benefits and severance benefits are recognised when they accrue to employees and an accrual is made for the estimated liability as a result of services rendered by the employee up to the balance sheet date.

Financial instruments

Financial assets

The entity's principal financial assets comprise of the following:

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Trade and other receivables

Trade and other receivables, which generally have 30 to 90 days terms are recognised and carried at original invoice amount less impairment charges. Impairment charges are recognised when collection of the full amount is no longer probable. Impairment charges are written off as incurred.

Financial liabilities

The entity's principal financial liabilities comprise of the following:

Trade and other payables

Trade and other payables are normally settled on 30 to 90 day terms and are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

Finance lease obligation

Finance lease obligations are initially recognised at cost, being the fair value of the consideration received and include acquisition charges associated with the borrowing/loan.

After initial recognition, all finance lease obligations, other than liabilities held for trading, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement.

Significant accounting policies

(continued)

for the year ended 31 March 2008

For liabilities carried at amortised cost (which are not part of hedging relationship), any gain or loss is recognised in the income statement when the liability is derecognised or impaired, as well as through the amortisation process.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are included in the income statement in the period in which the change arises.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the entity has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

New standards and interpretations not yet adopted

- IAS 1 Presentation of Financial Statements (amended)
- The amendments to IAS 1, which become mandatory for the entity's 2009 financial statements, will require additional disclosures with respect to entity's financial instruments.
- IFRS 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8, which becomes mandatory for the entity's 2009 financial statements, is not expected to have any impact on the financial statements of the entity.
- IFRIC 12 Service Concession Arrangements. This

interpretation addresses disclosures and accounting transactions with regards to private contractors entering into service concessions with the public sector for the construction and maintenance of public sector infrastructure. IFRIC 12, which becomes mandatory for the entity's 2009 financial statements, is not expected to have any impact on the financial statements of the entity.

- IFRIC 13 Customer Loyalty Programmes. This interpretation addresses disclosures and accounting transactions with regards to award credits granted under customer loyalty programmes. IFRIC 13, which becomes mandatory for the entity's 2009 financial statements, is not expected to have any impact on the financial statements of the entity.
- IFRIC 14 The Defined Benefit Asset, Minimum Funding Requirements and Their Interaction. This interpretation addresses disclosures and accounting transactions in respect of post-employment defined benefits and other long-term defined benefits granted to employees. IFRIC 14, which becomes mandatory for the entity's 2009 financial statements, is not expected to have any impact on the financial statements of the entity.
- IAS 23 Borrowing costs (amended) – Under the revised IAS 23, entities will no longer be allowed to expense the interest paid with regards to qualifying assets. The amendments to IAS 23, which become mandatory for the entity's 2009 financial statements, is not expected to have any impact on the financial statements of the entity.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

US \$	2008	2007
1. Surplus/(deficit) for the year		
Surplus/(deficit) for the year is stated after taking into account the following:		
Audit fees		
- current year	6 328	-
- prior year over provision	-	(2 684)
Board costs	20 843	18 856
Bad debts	8 144	40 930
Depreciation	33 020	36 536
Foreign exchange (gain)/loss	(34 578)	(27 984)
Loss on scrapping of furniture and fittings	-	10 944
Staff costs	502 781	421 947
Rent - cash payments	93 601	92 384
Rent - operating lease accrual	3 689	17 134
Profit on disposal of furniture and fittings	-	(979)

2. Plant and equipment

	Motor vehicle	Computer equipment	Office equipment	Furniture & fittings	Total
Cost					
Balance at beginning of year	26 310	43 115	17 134	103 297	189 856
Additions	-	3 674	774	-	4 448
Balance at end of year	26 310	46 789	17 908	103 297	194 304
Depreciation					
Balance at beginning of year	7 605	30 728	3 400	34 238	75 971
Charge for the year	3 801	9 059	2 590	17 570	33 020
Balance at end of year	11 406	39 787	5 990	51 808	108 991
Net book value					
At 31 March 2007	18 705	12 387	13 734	69 059	113 885
At 31 March 2008	14 904	7 002	11 918	51 489	85 313

A motor vehicle with a book value of US\$14 904 (2007: US\$18 705) is encumbered as per note 4.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

US \$	2008	2007		
3. Trade and other receivables				
Members' contributions	79 644	99 785		
Other receivables	363 416	20 917		
	<u>443 060</u>	<u>120 702</u>		
4. Finance lease obligation				
Finance lease obligation with Wesbank	5 980	16 071		
Less: short term portion transferred to current liabilities	(2 442)	(6 563)		
	<u>3 538</u>	<u>9 508</u>		
<p>The finance lease obligation is secured by a motor vehicle with a book value of US\$14 904 (2007: US\$18 705) per note 2. The lease obligation bears interest at the prime lending rate plus 1% and is repayable in 48 monthly instalments of US\$547 each, starting on 18 May 2005.</p> <p>The lease obligation is repayable as follows:</p>				
Payable within one year	2 442	6 563		
Payable within two to five years	3 538	9 508		
	<u>5 980</u>	<u>16 071</u>		
5. Operating lease accrual				
Year end	31 March	31 March	31 March	31 March
	2007	2008	2009	2010
Long term accrual	18 397	20 013	10 000	-
Short term accrual	-	2 073	10 013	10 000
	<u>18 397</u>	<u>22 086</u>	<u>20 013</u>	<u>10 000</u>
6. Trade and other payables				
Trade payables	367 994	212 615		
Member overpayment	-	2 232		
Payroll accruals	19 979	3 492		
	<u>387 973</u>	<u>218 339</u>		

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

7. Related party transactions

Member Development Finance Institutions are the related parties to the Centre and transactions relate to the annual contributions and rechargeable expenses.

8. Lease commitments

Future minimum lease payments under non-cancellable lease relating to premises are as follows:

Cash payments

	31 March 2007	31 March 2008	31 March 2009	31 March 2010
Cash payments within one year	79 037	79 405	87 346	61 987
Cash payments after one year	241 487	149 333	61 987	-
Total future cash payments	320 524	228 738	149 333	61 987
Less: lease accrual (note 5)	(18 397)	(22 086)	(20 013)	(10 000)
Future operating lease	302 127	206 652	129 320	51 987

9. Financial instruments

Transactions in financial instruments result in the entity assuming financial risks. These include market risk, credit risk, foreign currency risk and liquidity risk. Each of these financial risks is described below, together with a summary of the way in which the entity manages these risks.

Market risk

Market risk can be described as the risk of a change in the fair value of a financial instrument brought about by changes in interest rates.

Interest rate risk

Fluctuation in interest rates impact on the value of short-term cash investments, giving rise to price risk. Other than ensuring optimum money market rates for deposits, the entity does not make use of financial instruments to manage this risk. Due to the short-term nature of the entity's fixed interest investments, the risk is not significant.

The entity is exposed to interest rate risk through the finance lease obligation payable. The finance lease obligation payable at year-end was US\$5 980 (2007: US\$16 071). Refer note 4 for the terms and conditions relating this long term borrowing.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

9. Financial instruments (continued)

Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the entity is exposed to credit risk are:

- amounts due from trade and other receivables, and
- investments in cash and cash equivalents.

The entity limits the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or groups of counterparties. At the balance sheet date the entity had no significant concentration of credit risk.

Exposure to third parties is monitored as part of the credit control process.

Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash equivalents are placed with financial institutions registered in Botswana. Banks in Botswana are not rated but each of the banks concerned are subsidiaries of major South African or United Kingdom registered institutions.

The entity is exposed to credit risk on cash and cash equivalents held at commercial banks. The total exposure in cash and cash equivalents held at commercial banks at year-end was US\$770 399 (2007: US\$67 344).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2007	2006
Trade receivables	79 644	99 785
Other receivables	363 416	20 917
Cash and cash equivalents	770 448	67 344
	<hr/>	<hr/>
	1 213 508	188 046
	<hr/> <hr/>	<hr/> <hr/>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was

Malawi	-	87 100
Namibia	-	7 852
South Africa	67 420	-
Swaziland	-	4 833
Zambia	12 224	-
Zimbabwe	79 644	99 785
	<hr/> <hr/>	<hr/> <hr/>

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

US \$	2008	2007
9. Financial instruments (continued)		
Credit risk		
The aging of trade receivables at the reporting date was:		
12 months	67 420	99 785
24 months	12 224	-
Older than 24 months	-	-
	79 644	99 785

Foreign currency risk

The entity is exposed to foreign currency risk for transactions that are denominated in a currency other than US\$. The company does not take cover on foreign currency as it regards the US\$ as a stable currency. The net assets of the company at year-end by currency are:

	Assets	Liabilities	Equity
2008			
US Dollar	820 299	340 298	882 782
Botswana Pula	43 646	54 058	-
Euro	413 786	-	-
South African Rand	21 090	21 683	-
	1 298 821	416 039	882 782
2007			
US Dollar	225 410	77 991	49 124
Botswana Pula	40 912	77 397	-
Euro	35 609	35 247	-
South African Rand	-	62 172	-
	301 931	252 807	49 124

Liquidity risk

The entity is exposed to daily operational payments, payment of trade payable balances and finance lease obligations. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The entity set limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

9. Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying Amount	Due within 12 months	Due within 2 to 4 years
Trade payables	367 994	367 994	-
Other payables	19 979	19 979	-
Operating lease accrual	22 086	2 073	20 013
Finance lease obligation	5 980	2 442	3 538
	<u>416 039</u>	<u>392 488</u>	<u>23 551</u>
2007			
Trade payables	212 615	212 615	-
Other payables	5 724	5 724	-
Operating lease accrual	18 397	-	18 397
Finance lease obligation	16 071	6 563	9 508
	<u>252 807</u>	<u>224 902</u>	<u>27 905</u>

SADC DRFC Network Members

ANGOLA

None

BOTSWANA

Botswana Development Corporation
Citizen Entrepreneurial Development Agency
National Development Bank

LESOTHO

Basotho Enterprises Development Corporation
Lesotho National Development Corporation

MALAWI

None

MAURITIUS

Development Bank of Mauritius

MOZAMBIQUE

Small Investment Promotion Company – GAPI SARL

NAMIBIA

Agricultural Bank of Namibia
Development Bank of Namibia
National Housing Enterprise

SOUTH AFRICA

Development Bank of Southern Africa
Industrial Development Corporation
Land and Agricultural Bank

SWAZILAND

Swaziland Development and Savings Bank
Swaziland Development Finance Corporation
Swaziland Industrial Development Company

TANZANIA

National Development Corporation
Tanzania Investment Bank
Small Industries Development Organisation

ZAMBIA

Development Bank of Zambia

ZIMBABWE

Agricultural Development Bank of Zimbabwe
Industrial Development Corporation
Infrastructure Development Bank of Zimbabwe
Small Enterprises Development Corporation

