DBSA LAUNCHES NEW STRATEGY TARGETING R91BN LOAN BOOK BY 2017

1. BACKGROUND

Since 1994 the Development Bank of Southern Africa (DBSA) has sought to transform itself into a development finance institution that leads and champions regional economic infrastructure integration and development. As such, the Bank has consistently striven to promote economic development and growth, human resources development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects in South Africa and the wider Southern Africa region. Hence, the DBSA has grown its disbursements from R3.7 billion in 2006 to around R8 billion in 2011/12. This is equivalent to a compounded annual growth rate of 22% over the 2006 to 2011 financial years.

Nevertheless, the infrastructure development needs within South Africa and the Continent remain extensive whilst institutional weaknesses and inadequate planning capabilities, combined with difficulties in accessing infrastructure finance, have spurred a widening gap between infrastructure needs and infrastructure delivery. Consequently, in June 2012 the DBSA Board – in consultation with the Shareholder – initiated a process to review the Bank’s strategy in order to better focus the Bank’ activities to enhance its development impact, improve the efficiency of its operations and to increase the scale of the DBSA’s activities in order to expand the Bank’s developmental reach.

2. A NEW STRATEGY FOR DBSA

Hence, on 22nd November 2012, the DBSA Board adopted a new strategy for the Bank, the key elements of which are as follows:
2.1 DBSA Aims to Double its Loan Book by 2017 to Expand its Developmental Reach

The DBSA’s development assets are projected to grow from R47.1 billion in 2011/12 to R91 billion by 2016/17 with annual disbursements increasing from the current levels of around R9 billion to around R19 billion by 2016/17.

2.2 DBSA will maintain its presence in the Metropolitan Market whilst seeking to significantly increase its activities in medium and low capacity municipalities, SOEs, PPPs and the rest of the continent.

- Metros
  - Within the context of growing urbanisation, well-functioning cities are critical to South Africa’s economic growth as well as the socio-economic development of an increasing number of our country’s population. DBSA aims to maintain a steady presence in the metropolitan market growing its asset base from around R10bn in 2012 to R15bn in 2017. The DBSA and the National Treasury have also agreed to partner in the implementation of the Cities Support Programme, targeted at accelerating key infrastructure programmes in the areas of public transport, human settlements and green infrastructure, initially focused on the 8 metros. As such the DBSA will provide project management support, as well as establishing and managing a Project Preparation and Innovation Fund to incentivise municipalities to more effectively utilise available intergovernmental grants to drive delivery and development.

- Medium Capacity Municipalities
  - With regard to accelerating infrastructure delivery in medium capacity municipalities, DBSA anticipates being able to increase its lending to this market segment by between R200 million and R400 million per annum, equivalent to a 30% to 50% increase at current (2012) lending levels.

- Low Capacity Municipalities
DBSA’s role in low capacity municipalities will focus less on developmental lending and more on acting as a developmental catalyst. To this end, the DBSA has been asked by the Presidential Infrastructure Co-ordinating Council (PICC) to lead a National Integrated Municipal Infrastructure Programme targeted at accelerating infrastructure delivery within 23 priority districts. Whilst the modalities of this programme are still being finalised, DBSA is set to play an overall programme management role as well as managing a Project Preparation Unit to drive better project planning and execution in these poverty stricken districts, thus increasing living standards over time.

- State Owned Enterprises
  - In terms of SOEs, DBSA has a critical role to play in providing longer-term financing solutions that enable SOEs to better structure their long-term assets and liabilities, thus lengthening their cost curves and ameliorating hikes in administrative prices. Hence, the Bank intends to increase its disbursements in this market to around R27bn by 2017. For larger SOEs, the DBSA shall focus on offering project finance solutions as well as helping to plug funding gaps on priority infrastructure projects not funded by commercial lenders, whilst focusing on both corporate and project finance for the rest of the SOE market.

- Public-Private Partnerships
  - PPP deals have historically been driven by government with limited opportunity for proactiveness by the DBSA. A key opportunity has been identified for the DBSA to participate more aggressively in new PPPs and explore opportunities for stronger origination by:
    - Improving advance knowledge of upcoming PPPs based on the good networks already built in the public and private sector space.
    - Working with departments to unblock the PPP pipeline e.g. providing project management support for the appointment of transaction advisors and helping to structure deals whilst potentially participating as a lead arranger.
  - Currently the Bank anticipates increasing its lending in this market to R3.5bn due to historical trends in the market but this is likely to increase as a proper pipeline becomes established.
Financing Beyond South Africa

- Regional integration is critical to South Africa’s growth and development as well as the overall development of the continent. Hence, in this market segment, DBSA intends to increase its disbursements to around R20bn by 2017, expanding beyond SADC and focusing on seeking commercially viable projects in priority sectors such as energy, transport and bulk water as well as on fast-tracking priority projects within key corridors to improve connectivity and trade.

2.3 A More Focused Approach to Investing in Private Sector Intermediaries

The private sector plays an important role in infrastructure development through its various capital expansion programmes and the DBSA will, where appropriate, continue to partner with the private sector in this regard, using both debt and equity. Whilst DBSA currently holds debt and equity investments across a broad range of sectors, going forward the Bank will focus its investments on the priority sectors of energy, transport, water and ICT. The DBSA will also be significantly enhancing its capabilities and risk management processes related to both debt and equity holdings as well as developing clearer criteria for undertaking investments through third-party intermediaries.

2.4 Expanding the DBSA's Role in Infrastructure Delivery

To date, DBSA has been playing a relatively small, ad hoc role in managing infrastructure on a stop-gap basis. However, the Bank has an opportunity to use its wide ranging experience within the infrastructure space as well as its intellectual and human capital to help improve the quality and pace of infrastructure delivery. Going forward, therefore, the DBSA intends to partner with key national departments to build a centre of excellence in infrastructure delivery based on embedding best practice as well as norms and standards to drive more efficient and cost-effective delivery. This shall be done through the establishment of dedicated programme management teams to manage the planning, design and delivery of projects in priority sectors and provinces, to complement existing government initiatives. To this end, discussions are currently underway with the National Treasury as well as the National Departments of Health and Education regarding the modalities of this programme.
2.5 Continued Support for the Jobs Fund and Green Fund

The Green Fund memorandum of agreement (MOA) was signed with the Department of Environmental Affairs (DEA) and DBSA during April 2012, tasking DBSA to oversee the management of the fund and committing R800 million over the next three years to help shape government’s environmental agenda and facilitate the co-ordination of sustainable development solutions.

The R9 billion Jobs Fund was announced by the President during the State of the Nation Address on 10 February 2011 and aims to create 150,000 sustainable jobs. The Minister of Finance has entrusted the DBSA with the responsibility to establish and manage the Jobs Fund and the programme was officially launched on 7 June 2011. Originally set to run over a five-year period, the agreement with DBSA has now been expanded to seven years. Going forward, the Bank in partnership with National Treasury shall be reviewing the strategy and operating model of the Jobs Fund to enhance its efficacy and impact.

2.6 DBSA to Increase its Role in Project Preparation

Project preparation, including scoping, pre-feasibility and feasibility work, plays an important role in the building of a bankable project pipeline for DBSA and other relevant parties to support key infrastructure priorities. Hence, the DBSA is currently in discussions with the National Treasury regarding the establishment of a ring-fenced project preparation fund or funds to support project development in a number of priority areas or programmes e.g. PPPs, key regional projects, the Cities Support Programme and SIP 6.

3. GOING FORWARD: DBSA’S SHORT TO MEDIUM-TERM OUTLOOK

DBSA’s growth projection is aggressive, particularly within the context of a difficult operating environment. To succeed, it will require significant investments in project preparation to build the requisite project pipelines as well as building a strong capital base to increase the Bank’s price competitiveness and ability to offer concessional finance where required. Hence, in partnership with the National Treasury, the Bank shall be changing its funding
model to align with that of international DFIs, blending finance raised from the capital markets with fiscal transfers to capitalise growth.

Furthermore, the DBSA shall be improving its financial management processes and reviewing its internal cost efficiencies to enhance the Bank’s long-term financial sustainability. This shall include cleaning-up the Bank’s existing loan book to guard against potential impairment shocks as well as rolling-out a new equity management strategy focused on improving positive returns generated from the Bank’s equity portfolio. This shall also involve reviewing other non-financing activities currently undertaken by the Bank in order to focus on its most critical core activities, as well as reviewing the Bank’s cost models and recovery mechanism for non-financing development activities to ensure that all direct and indirect costs are fully recovered.

Hence, whilst the DBSA’s financial position remains sound and the quality of its loan book remains strong, with steady growth in approvals, commitments and disbursements, it is envisaged that impairment charges and unrealized re-evaluation losses from past investments will continue to have a negative impact on profitability for the 2012/13 financial year, with the Bank returning to profitability in 2013/14 and maintaining a strong growth trajectory thereafter.

In addition, in order to take forward this new strategy, DBSA will need to significantly realign its operating model and its skills and competency profile as well as improving internal operational efficiencies. This restructuring process may result in some staff movements across the organization in the immediate term. However, it is envisaged that a new management team will be in place by January 2013 and the overall organizational restructuring process finalized by March 2013. Recent reports in the Business Day stating that DBSA intends to retrench more than 400 staff are incorrect. We are currently in the early stages of consulting with our staff regarding the restructuring of the Bank and any staff implications thereto will not be known until these consultations are complete.

The Development Bank of South Africa has a critical role to play in advancing infrastructure development to improve people’s lives and promote growth. “With this new strategy, we are confident that the Bank will be able to improve the scale of its development impact and its contribution to bridging the infrastructure gap to enhance the prosperity and well-being of
people in South Africa and the continent” said Mr Patrick Dlamini, CEO of DBSA. “Hence,”
he added, “..whilst our strategy is bold and we may experience a few challenges along the
way, I am confident that the path that we have chosen will position the Bank as a pioneer in
development”.

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Notes for Editors

"About Development Bank of Southern Africa”
The Development Bank is a leading Development Finance Institution (DFI) in Africa South of
the Sahara, playing the roles of Financier, Advisor, Partner, Implementer and
Integrator. The Bank maximizes its contribution to sustainable development in the region by
mobilising financial, knowledge and human resources to support Government and other
development role-players in improving the quality of life of people in the region through
funding infrastructure projects; accelerating the sustainable reduction of poverty and
inequity; and promoting broad-based economic growth and regional economic integration.”